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Highlights of the Small Business Jobs Act of 2010
By: Rush Midkiff

Congress passed, and the President has signed, the Small Business Act of 2010. The bill has several familiar tax incentives for businesses. It extends first year bonus depreciation on new purchases thru the 2011 tax year. The first year bonus depreciation had expired at the end of 2009. There is no phase out of this deduction.

Code Sec 179 (accelerated depreciation for qualified purchases) has been expanded to $500,000 and the investment limit is $2 million dollars. For tax year 2010 this had been $250,000 with a phase out starting at $800,000. For every dollar a business spends over the phase out limit, one dollar is reduced for Code Sec. 179 property. For the new law, the complete phase out does not occur until $2.5 million of qualified property is purchased.

The new law also allows qualified real property to be eligible as Code Sec. 179 property. Final regulations have not been written, but could potentially allow machine shops and other farm buildings to be Code Sec. 179 qualified property.

The law also allows self-employed taxpayers to deduct their health insurance premium from their self employment income. Prior to this law, taxpayers used the deduction to decrease their income taxes only. This change will result in a decrease in the amount of self-employment tax paid as well.

The new law also removes cell phones from the listed property classification. This lifts the stiff...
requirements of use and limits on depreciation deductions that were previously in place. As more details of this law become known, more information on how it will benefit tax payers will be published.

2009 Crop Enterprise Analysis Shows a Strong Year
By: Suzy Martin

The year 2009 was a tremendous year for row crop producers in the Commonwealth. Despite scattered planting intervals and a very late harvest, yields were well above average for most crops. Based on Kentucky Farm Business Management (KFBM) data, yellow corn, full season soybeans and double crop soybeans averaged 180, 52 and 46 bushels per acre (bu/ac) respectively. Although not above the five-year or ten-year averages, wheat was a moderate 65 bu/ac for 2009. Furthermore, the prices received were above the five-year average. This combination of high yields and good prices resulted in positive returns to management for yellow corn, soybean and wheat/double crop soybean enterprises based on analysis done on 40 farms participating in the KFBM program.

The table on the following page summarizes a portion of that study. All returns and costs are accrual, meaning adjustments are made to estimate results specifically for the 2009 crop year. Gross returns include the value of new crop cash sales, the estimated value of the inventory, government payments, crop insurance and patronage received. Economic costs include operating expenses (accrual adjusted cash expenditures excluding interest), depreciation expense (sum of cost recovery of machinery and buildings using the Modified Accelerated Cost Recovery System (MACRS) straight-line method), unpaid labor charge (the opportunity cost of the producer’s time), and capital interest charge.

As shown in the table, all of the enterprises had positive returns to management during 2009. The exceptionally high yields for full season soybeans were the largest factor contributing to their management returns. It should also be noted that producers dealt with historically high fertilizer prices during the winter of 2008/2009. Fertilizer, as a percent of total economic costs, was 6% for full season soybeans, 25% for yellow corn and 16% for wheat/double crop soybeans.

Average Crop Revenue Election (ACRE) payments were not included in the analysis because they were not available at the time of the study. However, it has now been determined that Kentucky producers who enrolled in ACRE received $95.32 per operator acre for wheat. So, the returns shown below would understate the actual returns for producers who received this payment.

For more information on this or any other KFBM publication, go to http://www.uky.edu/Ag/KFBM/.

Returns and Costs per Operator Acre

<table>
<thead>
<tr>
<th></th>
<th>Yellow Corn</th>
<th>Full Season Soybeans</th>
<th>Wheat/Double Crop Soybeans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Returns</td>
<td>$750.99</td>
<td>$602.46</td>
<td>$876.50</td>
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<tr>
<td>Economic Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expense (Excluding Interest)</td>
<td>$498.04</td>
<td>$300.95</td>
<td>$580.32</td>
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<tr>
<td>Depreciation Expense</td>
<td>$52.48</td>
<td>$44.73</td>
<td>$92.87</td>
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<tr>
<td>Unpaid Labor Charge</td>
<td>$25.32</td>
<td>$25.48</td>
<td>$43.37</td>
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<tr>
<td>Capital Interest Charge</td>
<td>$61.57</td>
<td>$60.50</td>
<td>$118.33</td>
</tr>
<tr>
<td>Total Economic Costs</td>
<td>$637.41</td>
<td>$431.66</td>
<td>$834.89</td>
</tr>
<tr>
<td>Management Returns</td>
<td>$113.58</td>
<td>$170.80</td>
<td>$41.61</td>
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</tbody>
</table>
Grain Crop Market Update  
By: Cory Walters

Corn, Soybean, and Wheat prices experienced an unprecedented price rally from early July to the first week in November. 2010 December corn futures rallied a little over 50%, where 2011 January soybean and 2011 July wheat futures rallied about 40%.

The November World Agricultural Supply and Demand Estimates (WASDE) helps shed some light on reasons for the significant price increases. For corn, this year’s crop size was pegged at 12.54 billion bushels, down 4% from last year’s record production. Yields are expected to average 154.3 bushels per acre, down more than 6% from last year.

On the corn use side, feed and ethanol (currently experiencing very strong demand, up 5.3% over last year) are expected to increase while exports are expected decrease, for a total use of 13.43 billion bushels, up 2.6% from last year. Ending stocks are expected to come in at 827 million bushels, down an astounding 51% from the previous year.

For soybeans, crop size was decreased to 3.37 billion bushels (still a record size) from the October USDA crop and less than 1% more than 2009. Estimated yield was decreased by 0.5 bushels per acre over the October USDA crop report to an average of 43.9 bushels per acre. On the soybean consumptions side, total use was slightly increased to 3.35 billion bushels over the October report stemming from increases in exports (expected to be a record) and residual. Currently, China accounts for more than 60% of all U.S. exports. Smaller production coupled with a larger use number, ending stocks were decreased by 30% to 185 million bushels from the October USDA crop report.

For wheat, crop size was slightly decreased from the October USDA crop report to 2.21 billion bushels but down from last year’s crop. Exports, feed, seed, and food are all expected to be higher than last year. Overall, ending stocks are expected to decrease over last year by 13%.

World stocks are expected to decline a little over 11% from last year. U.S. winter wheat condition is 46% good to excellent, whereas this time last year 64% was rated good to excellent.

As we work our way into the winter, the production side of the balance sheet will become clear while the demand side will continue to be determined. Currently, new crop corn, soybean, and wheat futures prices have all rallied due to factors influencing supply and demand. Factors influencing current futures prices are value of U.S. dollar (low relative to historical standards and currently declining), crude oil (currently strengthening), index fund investment (currently strengthening or holding), speculator interest (currently very bullish), demand prospects (strong), cotton price (near record highs), and South American crop size (which is predicting a large soybean crop). With all of the uncertainty surrounding the market producers should expect high levels of price volatility. Price direction will be influenced as information enters and uncertainty exits the market.

Did You Hire New Employees This Year?  
By: Bart Peters

On March 18, 2010 President Obama signed the Hiring Incentives to Restore Employment (HIRE) Act. This bill provides tax benefits directly to employers who hire previously unemployed people. The two key benefits are:

1) payroll tax exemption of the employer’s share of Social Security taxes (6.2%) on wages paid to these workers after March 18, 2010 and
2) employer tax credit of up to $1000 per worker. You will still pay the 1.45% of Medicare tax on the employee. The exemption applies until year end.

To qualify the new employee must meet the following criteria: 1) hired anytime this year after February 3, and 2) must have been unemployed 60 days prior to starting work or worked fewer than 40 hours for someone else. The employee must complete IRS Form W-11, stating that he qualifies for this exemption. If the employee
remains employed for at least one year, then a $1000 tax credit for the employer will be available when filing the 2011 tax return.

A couple of other details to this: You must not have hired this person to replace someone else just to take advantage of this new law. In other words, if you are replacing someone they must have voluntarily quit or you fired them for cause. The other qualification is that they can’t be related to you. The IRS defines related to you as child, stepchild, parent, stepparent, nieces, nephews, aunt, uncle or in-law. Notice that “spouse” is not on the list. Corporations and Partnerships have a few additional rules about related employees.

It’s late in the year and if you have someone who does qualify, then in all likelihood you have overpaid your 943 (or 941) taxes this year. The 2010 943 form has new lines for this adjustment. Payroll tax liabilities will have to be refigured from the date of hire and refunds are likely this year. You can make this adjustment now if you want to.