Assess Your 2011 Tax Situation
By: Bart Peters

Fall Harvest is complete and cash grain prices have been at record highs. The euphoria of selling $7.00 corn on the heels of selling a great wheat crop at high prices could lead to a massive income tax bill this coming winter. Farmers planning on selling grain this fall at record prices should take a moment to review their taxable income and determine if they should be postponing sales until 2012. Managing the income tax situation will be very important this year and the following are some strategies to consider.

Bonus Depreciation. Under federal tax law, producers can take a 100% bonus depreciation deduction for NEW equipment and buildings up to a 20 year life. Under bonus depreciation rules, any item traded in on the acquisition of a new piece of equipment is also eligible for the bonus depreciation if the traded item has a remaining cost basis. Bonus depreciation also allows the producer an immediate write-off for capital investments such as tobacco barns, shops, and storage buildings, which are not eligible under the Section 179 election. There is no dollar limit to the amount of property that bonus depreciation can be used for. The deduction is scheduled to be reduced back to 50% for 2012. Kentucky tax law does not allow for bonus depreciation.
Section 179 Expense Election. Another generous tax item is the expense election of up to $500,000 of new and used equipment. If the amount of qualifying property is over $2 million, your election amount will phase out on a dollar-for-dollar basis. If an owned item is “traded-in”, only the cash trade difference counts towards the expense election and phase out amount, not the total value of the purchased item. This deduction is scheduled to revert back to a maximum of $125,000 in 2012. Kentucky tax law only allows for $25,000 with a $200,000 phase out. The Kentucky limits can result in a much higher than expected KY tax bill. However, these items are depreciated over time and will eventually result in lower KY tax liabilities.

Prepayment of 2012 expenses. Prices for dry fertilizer and liquid nitrogen are running about 50% higher than last year. With wheat prices remaining high and providing an incentive to grow more acres, it will not be hard to spend a substantial amount of money for the 2012 crop this fall. Producers should be diligent in pricing these inputs as these markets have been volatile as well. Seed companies will also offer several early discounts that producers should take advantage of this fall. The IRS limits prepay deductions to 50% of all other farm expenses during the tax year in which the expenses are prepaid. Producers must purchase specific items and quantities rather than simply making a pre-pay deposit.

Important reminder. Selling your grain or other products and having the company “hold your check” until the next year is NOT an acceptable practice. The IRS calls this “constructive receipt” and can count this as 2011 income unless you have a contract stating you cannot receive the money until next year. Make sure your contracts specify a pay date. Also be aware of this if you have grain on storage at a commercial facility.

Kentucky grain farmers are going to have a successful year in 2011. Good years require more careful tax planning and this is the time to start thinking about managing that tax burden.

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2010 Dairy Enterprise Results
By: Rush Midkiff & Lauren Omer

Enterprise studies were conducted on 29 farms in the Kentucky Farm Business Management (KFBM) program. In studying the data, it is evident that the size of Kentucky dairies has increased over the past couple of decades. In 2010, the average herd in the study had 191 cows compared to 147 cows in the 2008 study. In 1999, 28 farms were evaluated and the average herd had 132 cows. In 1996, the study contained 37 farms and had an average herd size of 118 cows. In 1981, 58 enterprises were studied that had an average of 93 cows per herd.

This enterprise analysis study examines the economic and production variables of Kentucky dairies. In comparing the 2010 farms against the 50 farms in the 2008 dairy enterprise analysis study, it is evident that the dairy industry in Kentucky has experienced changes in the past two years. Average herd size increased from 147 to 191 cows per farm. Total dairy farm returns for 2010 were $449 per cow less than in 2008. The price of milk accounted for most of this
decrease in returns. In 2008, the price of milk was $21.10 per cwt. In 2010, the price of milk was $19.05 per cwt. Milk per cow dropped from 18,467 pounds in 2008 to 18,163 pounds in 2010. However, total milk production per farm increased 28% from 2008 levels to 34,780 cwt.

Although total dairy returns were lower in 2010, the total costs were also lower. The total non-feed costs dropped from $2,354 per cow in 2008 to $1,797 per cow in 2010. That was a decrease of $557 per cow. This confirms that Kentucky dairies learned how to cut costs and continue operation. Feed costs dropped $39 per cow from 2008. Management Returns per cow were slightly improved with returns at -$118 in 2010, compared to -$265 in 2008.

Table 2 looks at size comparisons with economic and production variables between the herd sizes. Total dairy returns increased from $3,580 per cow for the smaller dairies to $3,907 for the dairies over 200 cows. However, the mid-sized group had total dairy returns of only $3,449 per cow. Although the returns for the mid-sized group were the lowest, this group experienced a lower total cost of production than the small group, and thus higher management returns over all costs. The total non-feed costs varied drastically across the different herd sizes, ranging from $2,344 per cow for the small dairies to $1,658 per cow for the large dairies. The non-cash costs incurred by the dairies, such as unpaid labor and depreciation, are spread across fewer cows for the smaller dairies and thus have a larger impact on the bottom line.

Table 2. Size Comparisons-Economic and Production Variables

When looking at the costs and returns of the different size groups of dairies, the advantages of the larger dairies are obvious. Management Returns per cow were over $1,000 higher for the large dairies compared to the small dairies. Management Returns for the dairies with 100 cows or less were -$889 per cow. Dairies with 100 to 199 cows had Management Returns per cow of -$284. Management Returns for dairies having more than 200 cows were $120 per cow.

In studying data on costs and returns, it becomes apparent that the larger dairies have captured some economies of scale and are separating themselves from the smaller dairies with cost efficiencies. The larger dairies are receiving slightly better production per cow and a slightly better price for their milk. When all of these factors are combined, it is evident that the larger dairies are positioning themselves to be more profitable in the future.

For more information, see the complete 2010 Dairy Enterprise Study on our website http://www.uky.edu/Ag/KFBM/pubs.php.
Welcome Amanda Jenkins

Amanda Jenkins was hired as an Area Farm Management Specialist serving the Lincoln Trail Farm Analysis Group, Inc. on May 23, 2011. Amanda is originally from Clarksville, Tennessee where her family owns a Feed Mill operation. Amanda received her Bachelor’s degree in Agricultural Business from Murray State University and her Master’s Degree in Agricultural Economics from the University of Tennessee. Before becoming part of the KFBM staff, Amanda was working for NASS and based in Michigan. After a somewhat lengthy search, the Lincoln Trail Association is very happy to welcome Amanda.

Upcoming KFBM Events:

- Nov. 21st - Purchase Farm Analysis Group Annual Meeting
- Nov. 28th – Pennyroyal Farm Analysis Group Annual Meeting
- Nov. 29th – Ohio Valley Farm Analysis Group Annual Meeting
- Dec. 6th - Owensboro Area Lenders’ Conference
- Dec. 7th - Purchase Area Lenders’ Conference
- Dec. 14th – Lincoln Trail Farm Analysis Group Annual Meeting
- Dec. 20th – State Association Board of Director’s Meeting - Lexington

Please start gathering information and preparing for Check-In.
In 1962, the average corn yield in the Ohio Valley was 76 bushels per acre, soybean yield was 29 bushels per acre, and the average return to management was $5,218 per farm. In that same year, Agriculture Extension Agents in Henderson, Union, and Daviess counties along with faculty members from the Agricultural Economics Department at the University of Kentucky, worked to form what is known today as the Ohio Valley Farm Analysis Group, Inc. Original membership to the group consisted of 80 forward-thinking farmers who were willing to open their books to their farm analysis field man. The cost to participate in the program back then was $100 per farm.

It is interesting to see how the farming operations in the area have transformed over the fifty-year period. Sole proprietorships have changed to partnerships and corporations. In 1962, the average farm size was 530 tillable acres compared to 1,865 tillable acres in 2010. Many farming operations have diversified from the primary grain crops to raise tobacco and poultry as well. As grain prices have increased, hog and beef enterprises have dwindled and are now very limited in number.

Fifty years later, corn yields averaged 135 bushels per acre, soybean yields were 40 bushels per acre and the average returns to management were $134,872. Over the years, the farm analysis program has expanded to include three other groups working with farm families from Lexington to Paducah. The Ohio Valley Farm Analysis Group, Inc., which covers the counties of Daviess, Hancock, Henderson, Hopkins, McLean, Ohio, Union, and Webster, is holding steady at 74 members covered by two specialists. Today, the average dues per farming operation are $1,300.

The basic goals of the program have not changed much over the years. Good recordkeeping is the number one focus. Although good records will not guarantee success, they are a key component for sound management decisions. The completed records give farmers detailed information about costs and returns based on their own data. The data can be evaluated based on one year, over multiple year trends, or it can even be used to compare operations of similar size and type.

A day of events has been planned for Tuesday, November 29 to celebrate the 50th Anniversary of the Ohio Valley Farm Analysis Group, Inc. Starting at 1:00 pm at the Daviess County Extension Office in Owensboro, there will be specialists from the University of Kentucky to present educational materials. These include Cory Walters, Grain Market Update; Kenny Burdine, Livestock Market Update; Greg Halich, 2012 Crop Budgets and Cash Rent Analysis; and Jennifer Hunter, Estate Planning Basics. We encourage anyone to attend, even if not currently a farm analysis cooperator. At 6:00 pm there will be a meeting for farm analysis members at Moonlite Bar-B-Q in Owensboro. Brent Gloy, Associate Professor in Agricultural Economics and Director for the Center for Commercial Agriculture from Purdue University will be the featured speaker. Also, farmer participants will be recognized for their 50 years of support to the farm analysis program and the University of Kentucky.