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Changes In Farm Facility Loan Program

The U.S. Department of Agriculture has announced major changes in its Farm Storage and Drying Equipment Loan Program which reflect a lessening of need for on-farm grain storage space.

The changes, effective December 13, are:

—Storage needs will be based on one year's production of eligible commodities instead of the present two years.

—Loans will no longer be available for oxgen-limiting and other silo-type structures or for equipment for use with such structures.

—Costs of materials and labor for concrete work or electrical wiring cannot be included in loans.

—The maximum loan or aggregate outstanding balance is reduced from $35,000 to $25,000.

—The interest rate is increased on loans from 46 cents (approximately five and one-half percent annually) per $100 or fraction thereof to 50 cents (six percent annually) per $100 or fraction thereof. This new rate reflects increased borrowing costs of money to Commodity Credit Corporation

USDA said the need for farm storage space has eased due to the record pace of construction of on-farm facilities during the past several years and because of the recent rapid increase in wheat and feed grain exports.

The changes are designed to maintain program activity at a level which will more closely reflect the current storage situation rather than the situation that has prevailed over the past several years, the Department explained. They should result in a reduction of federal government expenditures in fiscal year 1974, USDA officials added.

"The Department recognizes the value of having adequate on-farm storage and drying capacity," said Kenneth E. Frick, Administrator of USDA's Agricultural Stabilization and Conservation Service, which administers the program. "On-farm facilities are an important compliment to the concept of market-oriented commodity programs. However, the record pace of construction of on-farm facilities for the past several years plus the rapid increase in wheat and feed grain exports warrant some adjustment in program activity."

"The farm facility loan program has assisted many farmers in obtaining on-farm storage and drying facilities," Mr. Frick said. "Since the beginning of the program through the end of fiscal year 1972, approximately $640.9 million have been loaned to farmers through 356,650 loans; these loans included farm storage structures with storage capicity of almost 1 8 billion bushels."

"Fifty-seven percent of the total funds loaned and more than 49 percent of the total storage capacity built under the program have occurred since 1967. During fiscal year 1972, producers borrowed a record $120.3 million through 38,950 loans for storage structures and drying facilities with a storage capacity of approximately 251.2 million bushels."

"Activity during the current fiscal year is expected to exceed the record 1972 level."

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Flood Loan Money May Be Taxable

Many farmers have received disaster loans from Farmer's Home Administration and the Small Business Administration during the past several months.

The first $5,000 of these loans does not have to be paid back. However, many farmers are wondering if this money is taxable, according to associate Lancaster County agent Jay W. Irwin.

There are three situations relative to the tax status that need to be considered, Irwin explains

If the money was used to replace lost crops, feed or supplies, it must be reported as income. Therefore it will be taxed. However, the expenses incurred in purchasing feed or supplies will be deductible expenses, so the net effect on taxes will be zero.

If a person does not spend the $5,000 before the first of the year, there will be taxes due on the money. To avoid taxation, all necessary feed and supplies should be purchased before January 1, 1973.

The second situation involves replacement of personal items lost in the flood. These include such things as furniture, clothing, or other household items. The money received for replacement of these items is not taxable. However, casualty loss for tax purposes on personal items will be reduced by the amount of money spend for replacement.

So if you lost $7,000 worth of personal items and received $5,000 to replace them, there will only be a $2,000 casualty writeoff for tax purpose, minus the $100 standard deduction against all casualty losses

The third situation involves expenditures of loan money to replace depreciable capital items The depreciable base of new property will be reduced by the loan money that does not have to be paid back. For example, you lost a tractor with a $2,000 undepreciated value and purchased a new one for $8,000 The cost basis of the tractor for depreciation will be $10,000, less the $5,000 loan to be "forgiven" or a total of $5,000. It would also be possible to write the $2,000 off as a casualty loss and depreciate $3,000 on the new tractor

In the event you used the $5,000 loan money for something other than capital expenditures, you can add the undepreciated value of lost items to the cash paid for new items to determine the cost basis. Another alternative in this case would be to take a casualty loss on lost items and depreciate the cash paid for the new items.

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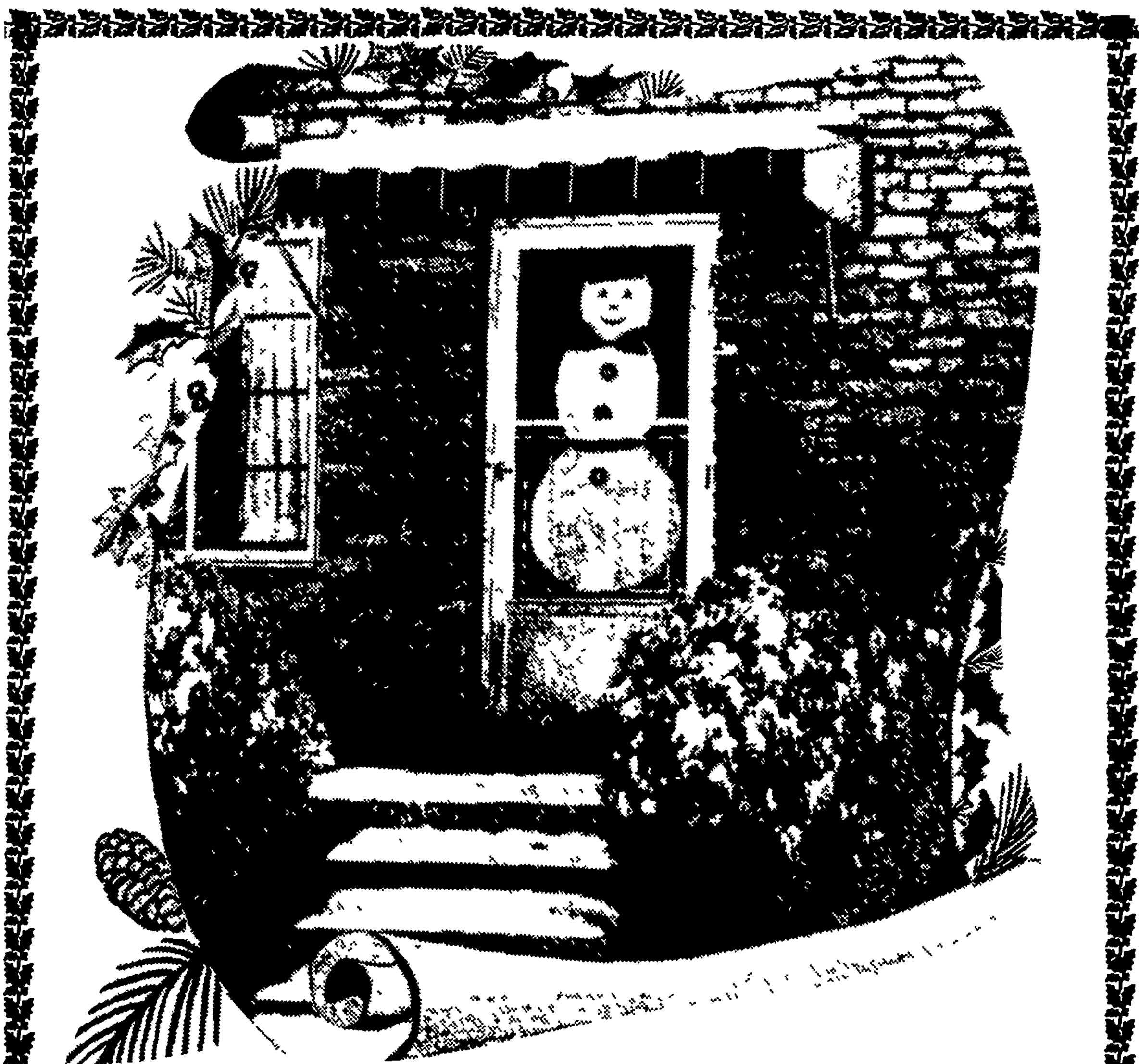

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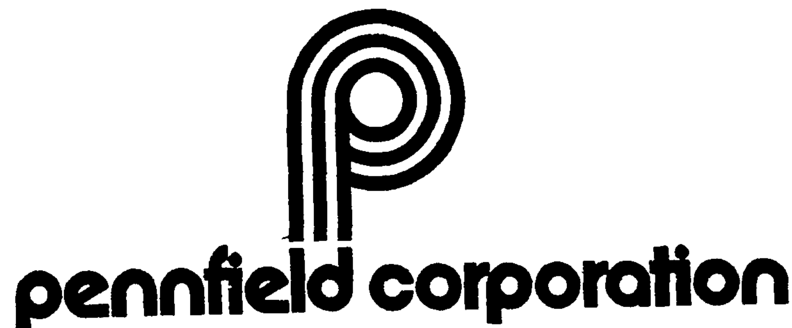

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