

## Dairy outlook

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However, a better basis for judgment should be the increased net worth and net cash income.

While the major increase in net worth (\$153,462) does not represent a corresponding increase in current income, it does represent a "savings account." Although this is not an account with a high liquidity, it does represent an account that can be drawn on for retirement.

The net cash income which represents cash flow increased by 135 percent over the 12-year period. Cash flow determines the ability of a business to meet day-to-day financial commitments.

Although the debt load (\$93,655) for the farms summarized in 1978 was almost three times the amount in 1967, it was 30 percent of total assets in 1978 compared to a 33 percent ratio for 1967.

If the amount of interest paid (\$6905) in 1978 was added to the net cash income (\$27,750), the resulting \$34,655 would represent the amount for family living and personal obligations, debt retirement and interest, such other things as new investment and interest, and such other things as new investments and savings.

If the total debt load was financed over 10 years at 11 percent interest it would require about 46 percent of the \$34,655; over 15 years, 38 percent, and over 20 years, 34 percent.

With reasonable financial management the indicated net cash income appears adequate to keep Pennsylvania dairy farms viable.

Although the general price level of farm products has a major effect on farm income, the individual dairyman can do little to determine the price he receives for milk.

Therefore, the most productive way of obtaining

higher income comes from a dairyman managing factors which affect the cost of production.

Three major factors are size of business, milk sold per cow, and labor productivity (milk sold per man). These factors are interrelated. For example, the dairy farm business summaries over the years have shown that farms with larger quantities of milk sold per man were the larger farms with more cows and producing more milk per cow.

For Pennsylvania dairy farms, the higher incomes are obtained when 450-500,000 pounds of milk are sold per man.

Large size alone does not guarantee the higher incomes. The effect on incomes of an increasing rate of milk production per cow when herds were grouped by size.

In each grouping by size, the farmers with high production (13,000 pounds and more milk sold per cow) averaged higher family labor and management incomes than any of the next larger-sized groups in the low and mid-production levels.

The 40-59 cow, 60-79 cow, and 80 and more cow herds averaged 53, 59, and 65 percent more cows, respectively, than their next lower-sized group.

Therefore, obtaining higher production per cow can be more profitable for some dairymen than increasing herd size

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"You may ask why your wife's share of jointly held property is included in your estate. There is a simple reason for this: federal tax laws provide for a deduction called the marital deduction which is equal to \$250,000 or 50 percent of your adjusted gross estate, whichever is larger, points out Frederick A. Hughes, Extension farm management specialist at Penn State.

This deduction automatically takes your wife's share of jointly held property out of the estate for tax purposes. Federal estate taxes are calculated on a graduated scale on your

net estate after subtracting all the debts of the estate.

The graduated estate starts at 18 percent on the first \$10,000 that is taxable and increases to 70 percent on estates in excess of \$5 million.

"Each taxpayer receives a tax credit against his estate tax bill. This credit will be \$42,000 in 1980, and \$47,000 in 1981," Hughes explains.

The Penn State specialist notes that the tax bill on a \$500,000 estate of a husband and wife is severe if property is all jointly owned. The reason for this is that it is all included in the husband's estate at his death and since it is jointly owned, it passes to the wife and will be taxed in her estate.

"There are many ways to reduce taxes but it does take planning which is no easy proposition," Hughes says.

If you have an estate problem, get a competent individual to assist in planning, not only to save taxes but to protect the heirs.

During the Middle Ages a person's social class could be seen by whether he sat above or below the salt at a table.



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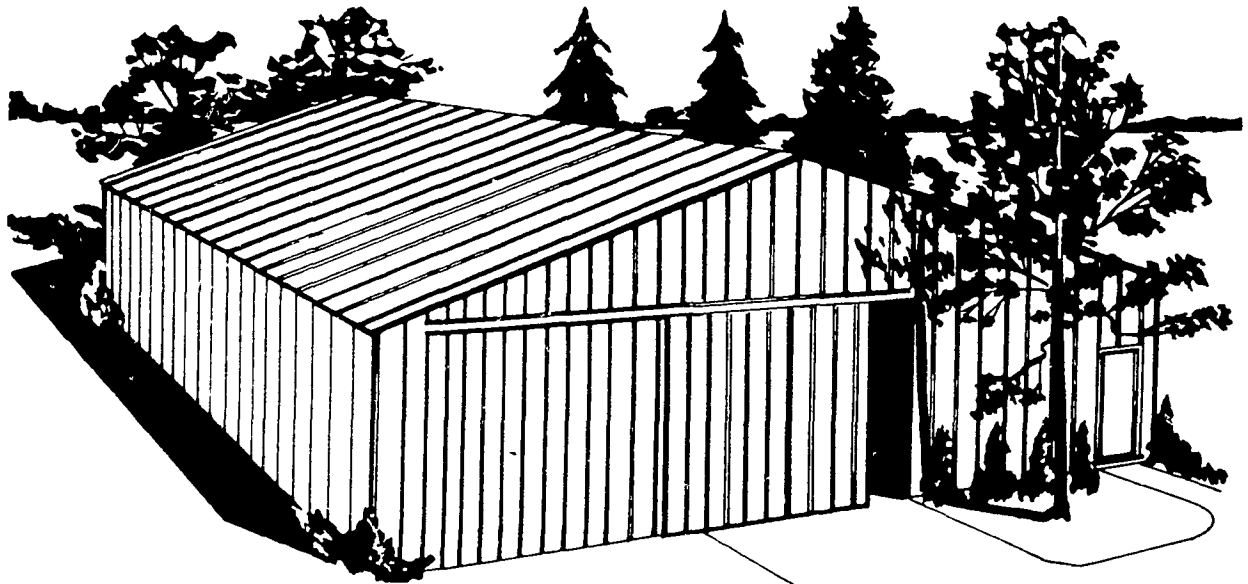
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