Here're tips on handling depreciation, tax credit

LANCASTER — Depreciation and investment tax credits aren't something a farmer can work out when he purchases a farm and then forget.

Both can save a farmer many dollars in the ongoing operation of his farm.

Items of equipment which are purchased and put into use or service before the end of a given tax year usually qualify for depreciation and investment tax credit.

Tangible personal equipment which has a useful life of at least seven years—and most farm equipment does—is eligible for the full amount of investment tax credit.

According to Certified Public Accountant Steven M. Hoffman, manager of the Harrisburg office of Peat, Marwick, Mitchell and Company, that amount is 10 percent.

Investment tax credit is a direct offset to a farmer's tax liability. So this can be a significant feature in tax planing as well as in purchasing equipment.

Ten percent of the cost of the equipment can be recovered shortly after the purchase and initial use of the machinery through the investment tax credit's reduced payments.

The investment tax credit also can be taken on tangible property other than a building or structure when that property is used for farming activity.

The Revenue Act of 1978, the latest major piece of tax legislation, clarified what a tangible piece of farm property could be by including single-purpose livestock or horticultural facilities as eligible for the investment tax credit, Hoffman said.

So, a unitary hog, poultry, cattle-raising, feeding facility, or greenhouse is now eligible for the investment tax credit even though they may or may not have the characteristics of a building.

It is important to know that when Congress passed that legislation its provisions were made retroactive to 1975

If a farmer has one of these structures, exclusively used for agricultural or horticultural purposes, he can file an amended return for those years that still are open under the statute of limitations and obtain an investment tax credit

That could amount to a significant number of dollars, Hoffman said

Investment tax credit is specifically adaptable to farmers' livestock as well as structures

Livestock can qualify for the investment tax credit if the animal is used for dairy, draft, breeding, or sporting purposes

Fences, used in conjunction with raising livestock, also can qualify for the tax credit

Paved barnyards to keep livestock out of the mud, or to provide easy access for trucks to load livestock, can qualify for the investment tax credit

"Most people would think either of those cases would represent a pretty fixed cost," he admitted. But it is another area where a farmer may be able to recover some tax dollars.

Water wells, to provide water for raising poultry and livestock, also can qualify for the investment tax credit.

Storage facilities which are used to store commodities before they are used, also qualify. If the facilities are used in a farming activity, such as raising livestock, they qualify for purposes of the investment tax credit regardless whether they are permanent or temporary facilities, he said.

For example typical storage facilities on a farm which would qualify for investment tax credit include gas storage tanks, grain bins, corn cribs, and silos.

Even though some seem to be buildings, they should qualify for investment tax credit, he said.

There is a limit to the amount of used property a farmer can declare to claim investment tax credit in any one year.

That limit is $100,000.

If a farmer acquires more than $100,000 worth of property in one year he can only take $10,000, or 10 percent, in investment tax credit on that property.

Therefore, the timing of purchase of used property can be important.

If a farmer obtains $200,000 worth of used property in one year, the maximum amount of investment tax credit that can be taken would be $10,000.

But, Hoffman pointed out, if the purchase could be structured so that a portion were acquired late in December and the remainder were acquired the following year, the farmer could, in effect, double his tax break although it would have to be done over two years time.

The relative advantages and disadvantages may vary from farm to farm and even from year to year on a single operation.

In any case, it is best to check with a skilled farm tax accountant or the IRS before making depreciation or investment tax credit decisions which may be questioned. — CH

New overseas markets needed for U.S. soybeans

OCEAN CITY, Md. — Soybeans should continue to be one of the United State's best sellers abroad in the decade ahead. But it's going to take a vigorous marketing effort to expand sales, a U.S. Department of Agriculture marketing specialist told a gathering of over 1000 area farmers at the recent Delmarva Soybean Meeting in Ocean city, Md.

Kelly Harrison, general sales manager and associate administrator for the USDA's Foreign Agricultural Service said soybeans are now the nation's number one export crop, with overseas sales totaling over seven and a half billion dollars last year. That's nearly six times more than in 1970.

But to hold its own in the face of rising competition from producers in Brazil and Argentina over the next few years, the U S. is going to have to work harder than ever to develop new markets for its soybeans

Current U S soybean supplies are at an all-time high. In the absence of corresponding growth in domestic and foreign demand, there's likely to be a significant buildup in soybean stocks this year, Harrison said.

"With larger carryout stocks indicated, prices will be under considerable downward pressure," he warned "The projection now is for the season average price to producers to fall in the range of $5 75 to $6 50 a bushel "

Last year the average was $6 75

Domestic soybean crush is expected to be slightly higher than in 1978/79, but it won't come anywhere near using all the beans produced In fact, more than half the crop is exported each year

"Without exports," Harrison told the audience of soybean growers, you would have had no outlet for roughly 55 percent of your crop last year "

Soybean exports are currently projected at 815 million bushels for 1979/80. This is nearly 10 percent more than last season. Lower U.S. prices combined with further growth in meal and oil demand overseas are providing the impetus, he explained. However, increased competition from South American soybeans and meal following their March-May harvest will act to slow U.S. export movement in the last half of 1980.

Both Argentina and Brazil are expecting big crops. As a result, new-crop U.S. beans are likely to face heavy competition when they come onto world markets next fall.

"Export demand will be a crucial price-making factor for soybeans in the 1980's," predicted Harrison.

"Granted we anticipate world demand for soybeans will continue strong throughout the decade. However, charting the course of growth in U.S export sales in the 1980's may be more difficult than during the 1970's.

"Our more mature markets in developed countries seem to indicate a slower growth trend. And our sales success in developed foreign markets has led to increased competition from other soybean exporters such as Brazil and Argentina," he said

Thus, he continued, to maintain our foreign market sales growth in the years ahead, a larger share of our exports must go to emerging growth markets such as Korea and Mexico

"We need to be prepared to face — and counter — increasingly heavy competition for all soybean markets abroad," Harrison continued

Soybean exports don't just happen "It takes a lot of effort to develop the foreign market demand, to educate foreign processors and consumers on how to efficiently use soybeans and their products, to create the international trade policy circumstances which would permit and encourage export growth, and to provide the international market intelligence to give these efforts direction and scope."

The rapid growth in U.S agricultural export trade in recent years has made this trade crucial to the agricultural community, said Harrison.

"On a national average, the harvest from almost one-third of our cropland is sold to foreign countries every year . . . overseas markets permitted soybean producers to double output during the 1970's with no adverse price effect Output in 1979 reached the 62-million-ton level with a $14 billion farm value

"Export demand will continue to be a crucial price-making factor for soybeans in the 1980's — particularly in the current marketing year " Vigorous pursuit of foreign markets continues to be crucial to sales success, he concluded