



# The Dairy Business

By  
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## Whole herd sellout?

Many dairymen are trying to decide whether this would be a good time to throw in the towel, hang up the boots, and quit while they are still ahead. If you are simply intending to stay in the business of milking cows, you can ignore the trauma of making the

decision. But if you are in that group who are contemplating the advantage or disadvantage of selling out, the pencil work has already begun.

The complexity of such a decision is enormous, but must not be treated lightly. Just selling out in normal times is a heavy enough responsibility, but the consequences of participation in the "Milk Production Termination Program" requires the assembly of lots of facts, and a complete analysis of the ultimate impact on you and your family.

The problem surrounds the BID price for your base amount of milk. There must be a clear understanding of what the base period is, and the penalties and restrictions resulting from the decision to bid. Every case has its own set of variables that must be built into the complex formula, so that it is hard to propose a hypothetical solution to guide an

individual. The bids could range from \$5 a hundred pounds to \$50. And five dollars might be high for you, and fifty dollars could be too low for your neighbor.

The restrictions on the use of a farm and facilities, as well as on the retiring farmer, are substantial. Clearance and cooperation must be obtained from all creditors, lenders, and landlords or prospective buyers. The impact of those restrictions on the family must be considered.

Alternatives to dairying for the next five years or more must be confirmed, or at least sought seriously. Cash cropping, or livestock enterprises other than dairy, will be common. Will they be profitable enough to provide a decent living for the family? Off-farm work may be more desirable, either full-time or as a supplement to farm work. A bid must have a built in buffer for simply surviving.

Debt load is a major consideration. Obligations must be satisfied, either by liquidating the debts or arranging for a satisfactory method of continuing payment. Lenders must be consulted and an understanding reached between lender and borrower. If the debts are low, it should be easy to arrange. Heavy debts will be tougher to negotiate, especially if the debt to asset ratio is close. The bid would have to be very high to cover it.

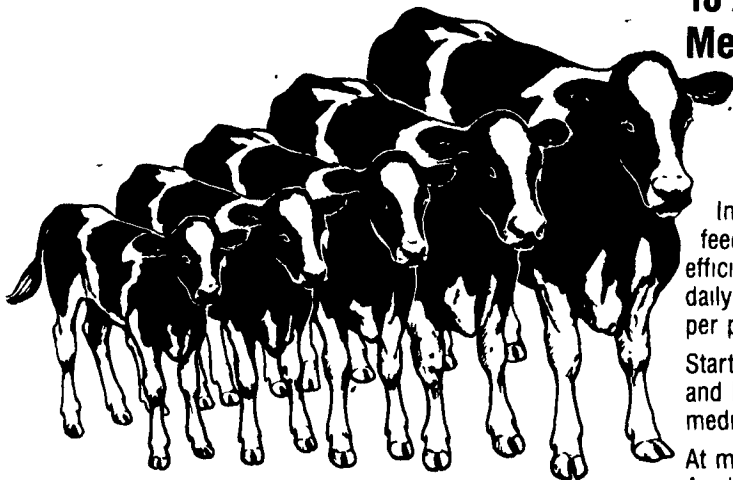
Another major consideration is the TAX CONSEQUENCES of a whole herd sellout. Most dairy farmers have enough tax write-off to keep income taxes to a minimum in their ordinary operations. They are not accustomed to paying heavy annual income taxes, and are not thoroughly acquainted with the difference between ordinary income, and a large, lump sum that would accrue from a sell out. Even if a large portion of it must go directly to creditors, there is still a heavy tax liability according to law. It must still be paid, and should be included in the bid price necessary for participation in the program.

Before submitting a bid, you should consult a Professional Tax Expert and the tax consequences carefully computed. The unaccustomed shock of a substantial tax bill on top of the drastic change in life style could be devastating.

Under some circumstances, a well calculated and acceptable bid could be a substantial incentive for participating in the program, and provide a safe and smooth way to ease out of the business. Some will do it, and laugh all the way to the bank. But they will be the ones who did their homework beforehand, and didn't wait for surprises.

Your County Extension office is equipped to help with the figures. A well thought out Computer program has been developed to handle them. But it is up to you to supply the proper data, and to check it for accuracy. Then trust the figures, and act accordingly.

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## Meeting set in

### Schuylkill County

SCHUYLKILL HAVEN - The Schuylkill County Cooperative Extension Service, in cooperation with several agri-business companies, has planned a very interesting and educational program to provide up-to-date information on crop and farm management practices. The program will be held from 9 a.m. to 3 p.m. Thursday, March 6 in the Student/Community Activity Center, Penn State Schuylkill Campus, Rt. 61, Schuylkill Haven.

Dr. Douglas Beegle, Penn State Agronomy Specialist; will discuss Nitrogen Fertilizer Management and Importance of Corn Starter Fertilizers; Dr. Joseph McGahen, Penn State Agronomy Specialist, will discuss Corn Production - Back to Basics and The Affect of Corn Planting Dates; Dr. Dennis Calvin, Penn State Extension Entomologist will discuss Corn Insect Pests; the 1985 Farm Bill will be presented by Terry Stehr, USDA, ASCS Office; and J. Allan Shoener, County Agent - Agriculture will discuss Hedging as a Marketing Tool.

Attendance at this clinic will qualify you for recertification of your pesticide applicators license. Reservations are required by Thursday, February 27, 1986. For your reservation contact the Schuylkill County Extension Service, P.O. box 250, Schuylkill Haven, PA 17972 or phone (717) 385-3431.

For further information contact J. Allan Shoener, County Agent - Agriculture at the Schuylkill County Extension Office