Lancaster County Dairy Day, Day 1 -

Managing the farm as a business

BY MARTHA J. GEHRINGER

LANCASTER — Two goals that the new tax law proposals attempted to achieve are, tax simplification and creating adverse conditions for the hobby farmer. Goal number two has been accomplished, but it also adversely affects the "real" farmer.

Larry Jenkins, Farm Management Specialist, Penn State, reported these findings to the group at the annual Lancaster County Dairy Days, day one, March 4.

Presently two similar plans have been developed, one of which will be approved. These proposals come from the Reagan Administration and the House Ways and Means Committee.

Jenkins noted there are broad provisions which apply to everyone and provisions that are of greater concern to the farming community. He went on to explain that included in the broader grouping are plans to reduce the rate brackets from 14 to three or four.

There are also plans to reduce the number of exemptions and raise the deduction level a person can claim.

In the entire package Jenkins explained "There are four or five areas that I think are of particular concern to farmers." One of these areas is capital gains exclusion. This important source of savings, will be reduced from the current 60 percent exclusion level to a rate of 50 percent and will extend only to capital assets and land.

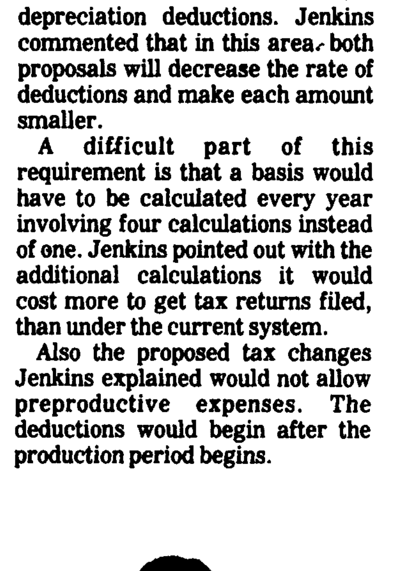
Gain from the sale of property used in the farm business will be taxed as ordinary income. These sales which will be fully taxed include the sale of cull animals.

Jenkins reported this could increase taxes, depending on the tax bracket of the individual, by as much as $1,000 yearly.

The second area of concern is the depreciation deductions. Jenkins commented that in this area, both proposals will decrease the rate of deductions and make each amount smaller.

A difficult part of this requirement is that a basis would have to be calculated every year involving four calculations instead of one. Jenkins pointed out with the additional calculations it would cost more to get tax returns filed, than under the current system.

Also the proposed tax changes Jenkins explained would not allow preproductive expenses. The deductions would begin after the production period begins.



Larry Jenkins explains the new tax law proposals.

These costs will have to be accumulated and placed in a separate account. This will then be depreciated once the animal has begun producing. This will significantly increase the expense and complexity of record keeping.

Under the current proposals, Jenkins also noted that investment tax credit will be eliminated. This was done to dispel any tax shelters hobby farmers may have been using. However, "real" farmers will be adversely effected.

Jenkins reported that the general effect of this proposal will be increasing federal taxes for all types of farms.

Currently the proposal is in the Senate Financing Committee. If it becomes law it will not go into effect until January 1, 1987. It will have no bearing on tax returns for 1986.

A farm panel discussion on "How we manage our farm business," was also on the day's agenda. Included on this panel was Donald Risser, Kenneth Rutt, and Ralph McGregor.

Risser operates Meadow Vista Farm with his two brothers. They farm 375 acres near Bainbridge and raise 155 cows.

Rutt farms on 425 acres and has 105 milk cows on his Edgefield Farms. He also sells dairy related equipment in Quarryville.

McGregor, from East Berlin, of McRal Dairy Farm has 200 cows. He farms 607 acres, 300 of which are rented.

One important topic was time management. Risser reported that by always having a notepad and pencil he is able to better utilize his time. He pointed out that he is always making notes on things that need to be done or looked into. He illustrated the importance of these by stating "I'd sooner not have my pocketknife, than not have paper and pencil."

Rutt said his family maps out a schedule for each week. Goals for the week are recorded and checked off as accomplished. This also lets family members see if they are on the right path to gaining these goals.

He went on to state, "Goals are important in a business. You need to know where you want to be five or ten years and make adjustments to progress."

McGregor finds it very helpful to spend as much time as possible reading to keep abreast of current trends and broaden ones horizons to new ideas.

When asked how they felt about estate planning, all three panelists agreed a need existed on every farm for some planning of this type. Among the benefits they listed were the ability of the heir to pay any debts through a life insurance term policy, a partnership agreement which allows the remaining partners to buyout that share in case of death, and a form of protection for those who carry on.

Risser responded to the topic of how to keep a steady cash flow by explaining that they usually have something to sell, beef or crops. By having a source it provides them with an option by which he can gain cash to work discounts or other deals.

McGregor noted that while he doesn't do anything greatly different to maintain a cash flow, by having a steady cash flow he is able to purchase commodities at a good price after making phone calls to find the best prices.

An approved credit line at a local lending institution helps Rutt's cash flow. He is able to use this line to maintain a level of liquidity necessary to make purchases that will result in a discount. He is also able to maintain a cash flow through good money management and benefits from the flow of money through his equipment business.

Other speakers on the day's agenda included,H. Louis Moore, Donald Shiflet,and David Galligan, VMD.

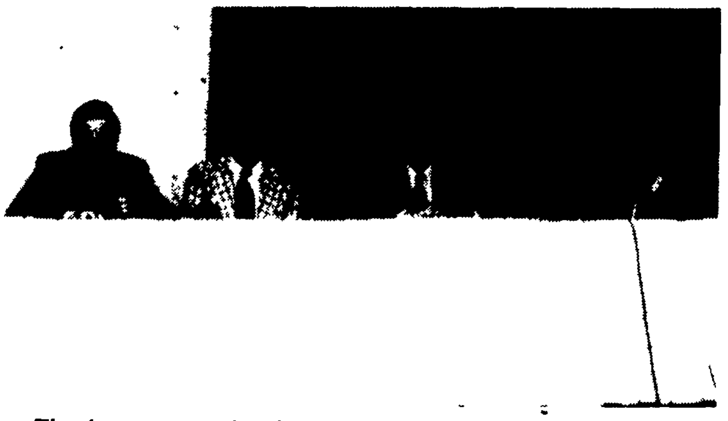
H. Louis Moore, Agricultural Economist, Penn-State, explained how the nation's economy has been growing at a steady rate in recent years while the agriculture economy has not shared in this general recovery.

Agriculture, Moore pointed, out has been producing everything in surplus. The current farm bill attempts to correct this problem as its goal is to make the U.S. more competitive in the world market.

This will be achieved through lower loan rates which have as their goals: increased exports, discouraging production increase abroad, reduce U.S. surpluses, reduce CCC costs, raise farm incomes and return the U.S. to a free market.

Donald Shifflet from the Farm Credit office in Baltimore, examined the money situation and money management. He stated that 10 percent of the nation's farmers are in a severe financial strain and they have 23 percent of the ag debt.

Shifflet noted that it is the family size commercial farm that is most effected by the current financial situation.



The farmer panel at Lancaster County Dairy Day included, left, Ralph McGregor, Donald Risser, Kenneth Rutt and Glenn Shirk, moderator.

While Farm Credit has been experiencing difficult times throughout the country, Shifflet pointed out that the Baltimore district is in good shape. This is due to the diverse nature of agriculture in this area.

Shifflet urged the audience to develop or sharpen good management practices and in general to be good businessmen.

Dr. David Galligan, VMD, New Bolton Center, explained some management considerations in feeding cows economically.

Some of the management factors he suggested the group consider were: methods of weighing feed, dry matter checks, cattle grouping, calibration of parlor feeders, and bunk space.

He then went on to explain each of these topics and suggested ways to correct a problem or implement improvements.

Consideration of the total product report, positive and negative should be considered prior to incorporating a new product, Galligan reported.

Lancaster is holding Dairy Days on two consecutive weeks to give the dairyman a better opportunity to attend both session. Day two will be held on March 11 and will focus on production, cows and crops.

Avian Flu Monitor

Avian flu successfully quelled

(Continued from Page A1)

has led to the destruction of birds in four eastern states, the New York Department of Agriculture's Dr. Bruce Widger issued two orders to all live bird markets in New York City. First, the order requires that all markets remove birds and related debris from the premises and clean and disinfect the market weekly. This also applies to all trucks and bird hauling equipment. Second, following the discovery of H5N2 virus at a market, all birds must be destroyed and cleaning and disinfecting must be completed within 10 days,

According to USDA veterinarian, Stephen Ellis, department personnel are testing for virus twice a week at some 44 New York live bird markets. Ellis, who is one of three USDA veterinarians working in a consulting capacity in Harrisburg, hopes to be able to return home to Maine within a week.

Although officials believe that the virus has been eradicated, this is no time for poultrymen to drop their guard, cautioned Hoffman. Accordingly, intensive surveillance will continue on about 250 Pennsylvania flocks. These flocks include locations linked to any previously infected flocks by common integrators, as well as any flocks visited by trucks moving birds to the New York markets.

Flocks involved in the intensive surveillance program are being tested once to two times a week, said Ellis. This surveillance will probably continue for about four to six weeks after all infected premises have been cleaned and disinfected.

Hoffman noted that the State Department of Agriculture is currently looking at the possibility of licensing not only poultry haulers, but anyone engaged in transporting live animals. "If a trucker has a license that can be revoked, then he's likely to give more attention to the requirements needed to protect the (poultry) industry," Hoffman said.

PDA is also considering the establishment of minimum sanitary standards for the poultry industry, Hoffman said. "The federal government and the state cannot afford to continue to clean up our mess," he emphasized.

UEP recommends changes in egg marketing order

LANCASTER — According to the United Egg Producers, a majority of those testifying at recent hearings favored the proposed egg marketing order. That message was relayed to poultry producers at Poultry Progress Day by Poultry Federation executive director John Hoffman.

Over the past two months, USDA had scheduled five hearings across the country, with the last hearing held on Feb. 27. The current version of the order calls for a first-year total checkoff of one cent per dozen, with ½-cent earmarked for promotion and the same amount to go toward a surplus hen removal program. All producers would be required to participate, and no refunds would be granted.

Based on controversy surrounding the surplus removal provision, UEP has recommended that the following changes be made in the order:

- The cost of the surplus removal program should be limited to not more than $15 million.
- The surplus removal assessment should be lowered from one-half to one-quarter cent per dozen.
- The specific regulations governing surplus removal should be included in the marketing order. As the order is currently written, details of the provision would be not be available until outlined by a 21-member Marketing Order Board of Directors. At the present time, however, no board has been appointed.
- Three nonproducer members should be included on the board of directors.
- After the marketing order is in place for five years, a referendum should be held to determine whether or not to continue it.
- The board should be able set policy on the basis of a 15-person quorum.
- The USDA Secretary should be required to act on all board proposals within 48 hours.

USDA is now accepting written comments from the industry until Apr. 9. At that point the Secretary of Agriculture will make his recommendation, and written comments from the industry will again be requested. Following a review of all recommendations and testimony, the Secretary will decide whether to halt the order or to hold a nationwide referendum.

A recommendation from the secretary is expected by May and a final decision should be handed down by September. If a referendum is scheduled, voting may begin in late November or early December, according to Hoffman.