

Tunnel out if you have to,

Effort Underway To Repeal Pre-productive Expense Rules

Reps. Byron Dorgan (D-ND) and Hal Daub (R-ND) are expected to introduce legislation this week to repeal the changes in handling of pre-productive expenses.

NMPF is working with a coalition of groups to marshall support for the repeal effort.

Your Congressional representatives need to know the impact of this law on dairy farmers. Congress needs to act now to repeal this new tax law which flies in the face of simplification. Contact your Senators and Representatives now and urge repeal of this confusing measure.

The 1986 tax reform law made major changes in the pre-productive period expense rules for dairy farmers. Although legislation was approved last year by the House which would have repealed the tax changes, it was blocked from enactment late in the 1987 session.

The new pre-productive period rules took effect for expenses and income beginning Jan. 1, 1987. Your 1987 tax return must be done using the new rules.

The rule requires farmers to capitalize the expenses incurred in raising animals prior to their beginning production (feed, interest, health care, pasture, etc.). The law applies to any animal having a preproductive period of two years or more. This pre-productive period is considered to start at the time of breeding, embryo implantation or purchase.

The IRS will be issuing unit cost figures, or you can estimate those costs.

The IRS will allow two basic inventory methods. The first is a "farm-price" method, where each animal is valued at its market price less estimated selling costs.

The other is known as the "unitlivestock-price" method. Animals are grouped according to kind and age. For example, a value could be placed on all animals less than a year old, and a separate value for animals more than a year old. Because pre-productive expenses begin at time of breeding, another category may be for unborn heifer calves.

The most serious problem for dairy farmers is knowing how many animals to capitalize. It is difficult to know before birth how many calves will be held for the producing herd.

Once all the calculations have been made, the total is subtracted as an expense on Schedule F. When each animal becomes a part of the milking herd, the animal is depreciated on the basis of the costs which have been capitalized.

There is an alternative, but the trade off may be costly.

The law allows producers to opt out. This decision can only be made in the first taxable year. Once made, this decision is irrevocable without the consent of IRS.

In exchange for "business as usual," you must depreciate all farm assets purchased in 1987, or the electing year, and from then on use a straight-line depreciation method, not faster depreciation schedules.

Farmers must weigh the costs of making this decision. Your county or State Extension office can provide more information.

If it sounds confusing, that is because it is confusing. It is especially ironic that this change was included in a tax package designed to simplify the tax code and remove tax shelters. Repeal of this tax measure will require the effort of all farmers affected. Contact your legislators now.

Diesel Fuel Tax Problem For Farmers

Moves to repeal changes in the collection of the diesel excise tax are taking place in Congress, supported by NMPF and a coalition of other agricultural groups.

The Budget Reconciliation Act of 1987 contained a provision changing the collec-

(Turn to Page A21)

How Can You Stay Eligible For USDA Programs

Prepared By WILLIAM McSWEENEY PSU Extension Economist

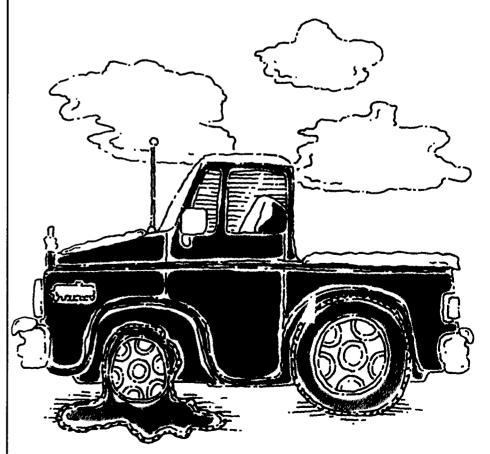
UNIVERSITY PARK — On September 17, 1987, the Highly Erodible Land and Wetland Conservation Final Rule was published in the Federal Register. As of that date, all farmers in the United States became subject to this Final Rule which pertains to the Conservation Title (Title XII) of the Food Security Act of 1985. More importantly, however, every farmer is now assumed to be knowledgeable of the various provisions and their implications.

Carrying the force of law, the Final Rule lays out in detail the requirements every farmer must adhere to in order to remain eligible for various USDA farm programs. Violation of these requirements, even inadvertently, can mean the loss of eligibility for: commodity price and income support programs, federal crop insurance, disaster payments, Farmers Home Administration loans and loan guarantees, and the Conservation Reserve Program. This amounts to a here-to-fore unheard of action (at least to many farmers) by the general public of restricting how farmers use their land if they wish to benefit from publicly provided programs. In essence, the general public, through the U.S. Congress, has now made a statement of its expectations of reasonable and responsible use of agricultural land. Many farmers will find it hard to accept the notion of the general public placing restrictions on the use of privately owned land, perhaps feeling that "Society has no right to tell me how to farm my land!" From the very beginning of this Nation, however, the general public has retained rights in the use of land. These rights in the use of land have generally gone unused. Times have changed.

society, at this point-in-time, is not placing absolute restrictions on the use of farm land. If you do not currently make use of any of the USDA programs mentioned earlier, and if you expect that you will not make use of them in the future, then you are not obligated under the provisions of the Food Security Act to do anything regarding the use of your farm land. Most farmers, however, in light of the recent farm crisis will want to protect their eligibility for these programs in case they are needed in the future. To protect your eligibility for these USDA programs, you must follow five basic steps.

STEP 1: See if you have highly erodible land or wetlands on your farm. Your local Soil Conservation Service office has a list of highly erodible soil mapping units. Check that list against the soil mapping units on your farm. You can find the soils on your farm in a soil survey, which is also available from your SCS office if a survey

make a change if you must,



It is important for farmers to realize that

is complete in your county.

A field must be predominantly highly erodible and used to produce an agricultural commodity before it is subject to either sodbuster or conservation compliance. A field is predominantly highly erodible when one-third or more of the field is made of highly erodible soil map units, or if the highly erodible area is 50 acres or more. STEP 2: Do not drain wetlands to grow crops. Converting wetlands for the purpose of growing crops is a violation that will result in ineligibility.

Your local SCS office can also help determine if you have any wetlands on your farm. It is important to realize that not all wetlands are swampy or marshy in appearance. If you have even the slightest suspicion that you have wet soils on your farm, check with your local SCS office before you drain or otherwise alter the (Turn to Page A21)