

**DAIRY FARM
MANAGEMENT
BASICS**

A Farm Management Course by
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Control Feed Costs - Article 17

Goal Grow and procure good quality feeds economically

Know your feed costs It is your major cost of producing milk



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**Farming and The
Taxpayer Relief Act of
1997**

As the harvest season begins and the end of the year draws near, inevitably there is an end-of-year evaluation of taxes on agriculture operations. The following article was developed by Steve Sutter, a University of California Area Farm Advisor, to answer many of the questions about the 1997 Taxpayer Relief Act and how it will impact farmers. Mr. Sutter has given The Lancaster Chamber of Commerce & Industry permission to reprint this article, in its entirety, in this edition of Lancaster Farming.

The Taxpayer Relief Act of 1997 lowers Federal income taxes for most farmers, and allows farm families to transfer farms across generations more easily, according to USDA agricultural economists James Monke and Ron Durst. Most provisions of the new law become effective in 1998.

An estimated 6% of farm estates currently owe Federal estate and gift taxes compared with just over 1% of all estates. The Act gradually increases the unified estate and gift tax credit to shield \$1 million from estate taxes by 2006. However, due to the relatively slow phase-in through 2003, most of the benefits will be realized in 2004 and beyond. This, and other provisions of the Act should reduce, if not eliminate, the need to sell farm assets to pay Federal estate taxes, especially for continuing businesses.

Lower capital gains tax rates provide the greatest income tax savings for farmers -- nearly \$725 million of the estimated \$1.6 billion annual savings for the U.S. farming industry. The rate declines from 28% to 20% for individuals in most tax brackets (from 15% to 10% for taxpayers in the 15-percent bracket), with lower rates available in the future for assets held at least 5 years.

Couples can exclude up to \$500,000 of the gain on the sale of their principal residence. This new exclusion can be used as

frequently as every 2 years.

The new law also expands retirement savings incentives. Currently, only about 9% of farmers annually contribute to an individual retirement account (IRA). Although the 1997 Act creates a new, nondeductible "Roth IRA," deductible IRAs are usually preferred if marginal tax rates are expected to fall substantially in retirement.

Farmers who pay their own health insurance premiums will benefit from expanded self-employed health insurance deductions. This year, farmers and other self-employed taxpayers are allowed a deduction of 45% of health insurance premiums; the percentage deduction gradually increases to 100% by tax year 2007 and thereafter.

The Act restores farmers' ability to use deferred payment contracts without being subject to the alternative minimum tax (AMT). Deferred payment contracts allow farmers to deliver farm commodities for sale at a specified price, with payment deferred until the following year. The Act also repeals the AMT for small corporations (most farm corporations) beginning in 1988.

The Act increases tax benefits for most taxpayers for having dependent children by providing a \$500 (\$400 for 1998) tax credit for each qualifying child under the age of 17. An additional refundable credit is allowed for taxpayers with 3 or more children. The new child tax credit is expected to benefit about one-third of all farmers and their families.

Farmers and their advisers can request the free IRS Publication 225 "Farmer's Tax Guide" each year (December) on 1-800-829-3676. For more specific information be sure to discuss your options with your account or financial advisers.

Feel free to send your comments and ideas to Jim Shirk at The Lancaster Chamber of Commerce & Industry, PO Box 1558, Lancaster, PA 17608-1558, by email at jshirk@lcci.com or call him at (717) 397-3531.

1 Explore your production options and costs. The worksheet that was illustrated in Article 7 can serve as a guide for helping to determine your costs of producing feed per acre, cost per ton, or cost per bushel. Some production and harvesting options are listed below.

- Own or rent land, own your own machinery and grow your own crops
- Own or rent land, but custom hire someone to do some or all of the field work and harvesting
- Rent your land out in return for some of the crops, or buy back the crops
- Own or rent land, buy less machinery, and graze the land vs. harvesting it
- Own or rent land and produce all your own forages and grains
- Own or rent land and produce most of your forage and buy most of your grain

2 Consider how many cows the land will support when pasturing, or when growing forages only, or when growing forages and grain. As you evaluate stocking intensity, also consider the amount of land that is needed to dispose of manure in a responsible manner, and when it will be available to receive manure applications throughout the year.

What feeds do cows need and how can their needs be met at least cost?

- 1 Let the cows' needs, the cost of home-grown feeds and the cost of purchased feeds, play a major part in dictating the ration to be fed and the crops to be grown. Let the cows dictate the cropping program that is most desirable, rather than the cropping program dictating the feeding program.
- 2 Sometimes the above guideline may have to be bent because of machinery, equipment, feed storage facilities and feed handling systems that are already in place.

Buy wisely

- 1 Shop for good prices
- 2 Many times it is beneficial to invest in economical storage facilities, and to borrow money in order to purchase feeds in bulk at discount rates, or at times when the market is weak, such as at harvest time.
- 3 Consider various commodities as an economical source of good quality ration ingredients.
- 4 If you buy feed ingredients, be sure you are getting the quality you are paying for -- and want. As the buyer, you are in charge of quality control and you assume more of the risks.
- 5 Feed prices should be adjusted for variations in moisture and quality. The value of feeds also vary depending upon where they are priced, for example on the stalk in the field, in the windrow, stored in the grower's facilities, at the market place, or delivered to the farm.

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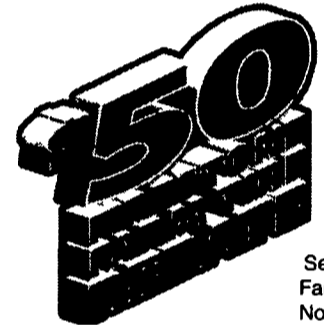
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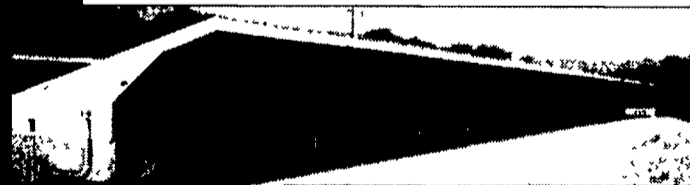


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