



Current Report

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NEW CHOICE IN PEANUT PRODUCTION FOR 1968

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Recent legislation has made provision for a peanut allotment to be leased or sold to any owner of farm land. The lease or sale must be made within the county.

Last year 629 farmers released 6,462 acres without receiving any pay.

The owner of peanut allotments has several choices that may affect the profit he makes from his allotment. He may:

1. Plant his present allotment.
2. Rent additional allotment* (for cash or crop share)
3. Rent out part or all of his allotment.
4. Buy additional allotment.*
5. Sell part or all of his allotment.

Regulations and Normal Yields

There are certain regulations, (such as adjustments of allotment for productivity) and restrictions (not more than 50 acres of allotment may be transferred to a farm) that a person must be aware of before he can start to figure the value of an acre of peanut allotment.

An acre of peanut allotment is not the measurement you want to use when you buy or lease. You are dealing in

*Farmers who acquire additional allotment are limited to fifty additional acres for their farm.

productivity. It is pounds of peanut productivity you need to obtain so that you may increase your allotment by an additional acre. You may need to lease two acres of 600 pound normal yield so you can plant one acre on your farm which has 1,200 pounds normal yield.

1. The first thing you need to do is visit your County ASCS office and learn what the yields are on the farms involved. (Buyers and Sellers)

2. Find out what the regulations are before you start to purchase or rent additional allotments.

Does the farm you are obtaining an allotment from have a lien against it? If so, you must have a release before you can purchase the allotment.

Yield and regulations need to be known before you can figure what you can afford to pay to lease peanut allotment. If you know the assigned yields and regulations it is fairly easy to figure the value of renting peanut allotments for 1968. This is not true for figuring what you can pay to purchase peanut allotments because a new set of supports must be determined after this year. Some operators may rent the peanut allotment and move it to his land and give a crop share. Some are renting on a cash basis.

Rental Rates

In Oklahoma the crop share rental

for peanuts varies greatly over the state. The landlord may receive 1/5 of the gross production and pay 1/5 of the cost of the fertilizer and drying, or he may receive 1/4 of the production and not pay anything on expenses.

With crop share rental, the landlord typically receives 1/4 of the peanuts and hay, and pays 1/4 of the costs of fertilizer, pesticides. After the peanuts are in the windrows, he pays 1/4 of all costs for getting the crop marketed.

Income Taxes

The sale of peanut allotments is treated similarly to the sale of cotton allotments in previous years for income tax purposes.

The sale of a peanut allotment is a capital gain sale. The seller must consider as taxable income, one half of the profit he makes from this sale. The buyer of the allotment has purchased a non-depreciable capital asset and it is a fixed cost which increases the value of the farm by this amount. If the peanut allotment should become worthless what you have paid for the allotment could be counted as a capital loss the year this occurs.

The least income is ordinary farm income and the person who leases additional allotments has an ordinary farm expense.

Social Security

Farmers who sell their peanut allotment or farmers who purchase peanut allotments will not have their Social Security affected by this transaction. Farmers considering renting out their peanut allotment may or may not have their Social Security affected.

If Farmer "A" leases his peanut allotment to an individual and:

1. He continues to farm the income will count as ordinary farm income.
2. If he had been renting out his

farm land and was materially participating, his lease money for peanut allotment will be ordinary farm income.

3. He rents out all of his farm and does not farm, income from the peanut allotment is not ordinary farm income.

The money paid for a peanut allotment lease is an ordinary farm expense and will reduce net farm profits.

Break-even Price

A major problem in making this decision is how to determine what you can do and break even when leasing or buying peanut allotments. The same is true for the person leasing out or selling his peanut allotment. A person who owns all of the necessary equipment can probably produce an additional ten acres and his fixed costs change very little. A farmer who is acquiring a peanut allotment for the first time will have to acquire special peanut equipment or pay custom rates. In either case his costs for growing ten acres of peanuts will be greater than the person who owns all of the necessary equipment.

What is a Peanut Allotment Worth?

If a farmer secures an additional acre of peanut allotment and plants it this may displace an acre of some other crop. In this example, cropland is limited and the crop displaced will be grain sorghum. The normal yield of peanuts is 1,200 lbs./acre, the normal yield of grain sorghum is 2500 lbs. The selling price of peanuts is $10\frac{1}{2}\text{¢}$ per pound, peanut hay 65¢ per bale and grain sorghum \$1.85 per cwt. The customary crop share for peanuts is 1/4 and grain sorghum is 1/3 (less certain costs that the landlord shares for each crop.) We have used these inputs in our examples. Use figures that fit your yields and expected prices and other costs that apply to your farm.

Example opposite shows that the farmer who produces peanuts instead of grain sorghum with this ratio would have a

more profitable enterprise. You will need to figure your own farm yield and the proposed allotment yields and your cost of production to determine what

your break even price would be when renting or buying peanut allotments in 1968.

Item	Peanut Example	Your Farm	Grain Sorghum Example	Your Farm
Production				
	Income		Income	
Peanuts	1,200 lbs @ 10½¢ = \$126.00		XXX	
Peanut hay	30 bales @ 65¢ = 19.50		XXX	
Peanut pasture	0.00		XXX	
Grain sorghum	XXX		2,500 lbs @ \$1.85 = \$46.25	
Pasture	Cover crop 0.00		Stalk pasture 1.00	
	All receipts \$145.50		All receipts \$47.25	
	Landlord's (1/4) 36.58		Landlord's (1/3) 15.75	
	Tenant's (3/4) 109.12		Tenant's (2/3) 31.50	
Preharvest				
	Expenses		Expenses	
Cover crop	\$ 0.00		Cover crop \$ XXX	
Seedbed	4.00		Seedbed 3.00	
Herbicides	6.00		Herbicides XXX	
Seed	22.50		Seed .80	
Planting	.50		Planting .50	
Fertilizer	7.00*		Fertilizer 6.00*	
Pesticides	9.50*		Pesticides 1.00*	
Cultivation & hoeing	4.00		Cultivation & hoeing 3.00	
Total	\$ 53.50		Total \$14.30	
Harvesting				
Digging & raking	\$ 6.00		XXX	
Combining	12.00*		\$ 4.50	
Sacks	0.00		XXX	
Labor for sacks	0.00		XXX	
Hauling	1,200 lbs @ 15¢ cwt. = 1.80*		2,500 lbs @ 15¢ cwt. = 3.75*	
Drying	10.00*		XXX	
Baling	7.50*		XXX	
Total	\$ 37.50		Total \$ 8.25	
TOTAL EXPENSES	\$ 90.80		TOTAL EXPENSES \$22.24	
L. L. Exp.*			L. L. Exp.	
(1/4) (47.80)	= \$ 11.95		(1/3*) (10.75)	= \$ 3.58
4			3	
Tenant's Exp.	\$ 78.85		Tenant's Exp.	\$18.67
Owner-Oper. Rets.	\$ 54.70		Owner-Oper. Rets.	\$25.00
L. L. Receipts	\$36.38		L. L. Receipts	\$15.75
L. L. Expenses	11.95		L. L. Expenses	3.58
L. L. Return	\$24.43		L. L. Return	\$12.78
Tenant's Ret.	\$30.17		Tenant's Ret.	\$12.60

*The landowner pays his share of these costs

	Owner Operator	Your Farm	Owner renting out his land	Your Farm
Net returns from peanuts	\$54.70	_____	\$24.43	_____
Opportunity cost (minus sorghum)	<u>25.00</u>	_____	<u>12.78</u>	_____
GAIN	\$29.70	_____	\$11.65	_____
Break-even price for 1 lb. of peanut allotment	$\frac{\$29.70}{1,200} = .02439$	_____	$\frac{\$11.65}{1,200} = .0097$	_____
Break-even price per lb. Either rent in or out	2.4¢	_____	1.0¢	_____

This example shows that for 1968 an owner-operator could give or take 2.4 cents per pound and break even. The land owner could give or take 1.0 cent per pound and break even where he rents his allotment out. The alternative use of his land and his fixed costs is very important in the budget.

The price that can be paid for peanut allotment is very speculative at this time. The support price is in effect for 1968 but what will be done after this year is uncertain. Some farmers are offering three times what they would pay for a peanut allotment lease for 1968. One year from now the value of a peanut allotment should be easier to figure.

Relative Customary Contribution of Land Owners Toward Operating Expenses,
Labor and Harvesting of Peanuts and Grain Sorghum in Oklahoma

Crop	Share of Crops	Equip. Furn.	Seed	Ferti- lizer	Insec- ticide	Fuel	Labor	Harvest and Prod.	Comments	Percent Practiced
Grain sorghum	1/3	0	0	1/3	1/3	0	0	0	All areas.	80-90
Sorghum	1/3	0	0	1/3	1/3	0	0	1/3 comb	Eastern half. Decreasing.	0-10
Peanuts	1/4	0	0	1/4	1/4	0	0	1/4 ¹	Dryland all areas.	80-90
Peanuts	1/5	0	0	0	0	0	0	0	Dryland all areas.	0-10
Peanuts	2/5	0	0	2/5	2/5	0	0	2/5 ¹	Irrigation water, pump and motor furnished. All areas.	75
Peanuts	1/2	0	0	1/2	1/2	0	0	1/2 ¹	Irrigation system furnished. Increasing. All areas.	10
Peanuts	1/3	0	0	0	0	0	0	0 ²	Irrigation system not furnished. All areas.	5
Peanuts	1/4	0	0	0	0	0	0	0	Irrigation system not furnished. All areas.	10
Peanuts	1/5	0	0	1/5	1/5	0	0	0	East Side - Irrigation ³	

¹The land owner pays for his share of sacks, combining, drying and hauling as he shares in the crop. Most tenants west of US 77 pay for hauling all peanuts to market. Land owners pay for hauling their share on east side of US 77.

²Land owner pays for his share of the drying.

³All water and irrigation costs furnished by tenant.

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