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Tax Treatment of Livestock Forage Disaster Program Payments

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In this issue:

Cattlemen who have and will receive disaster payments under the Livestock Forage Disaster Program will have some opportunities to reduce the income tax liability associated with the payments. These payments compensate livestock producers who experienced loss of grazing due to drought or fire since October 1, 2011. There are no provisions in the tax law to allow the deferral of the payments to a future tax year so they will be taxable in the year they are received. The following items in the tax law may be used to provide some relief to the increase tax liability associated with the payment.

Income averaging may be a useful tax management tool in this situation. Income averaging allows a producer to move income from a high income year back to the 3 prior years when taxable income was lower. This provides the opportunity for the income in the current year to be taxed at the lower rates of the previous three years. This tax provision works for both ordinary income as well as capital gain.

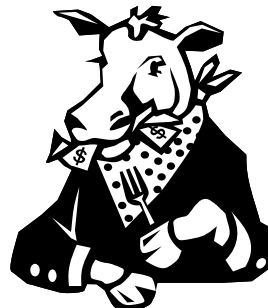
The prepaid expense rules allow a cash-basis taxpayer to take a current year deduction for the purchase of feed, fertilizer or other items that will be used in the following year. The following three conditions must be met to claim a deduction in the year of the expenditure: (1) the expenditure must be a payment for a supply, rather than a deposit, (2) the prepayment must be made for a valid business purpose and not merely to accelerate a tax deduction, and (3) the deduction must not result in a material distortion of income. Only 50% of the prepaid expense is allowed unless the farmer meets one of the following tests. The taxpayer's principal residence is on a farm or the taxpayer's principal occupation is farming.

The prepaid expense option allows the income from the payment to be used to purchase items that are deductible business expenses.

Another tool that could provide some relief is the Section 179 expensing which allows farmers to write off (much like depreciation) all or a part of the cost of qualified business use property in the year the property is purchased and placed in service. Currently, the 2014 maximum amount that can be expensed is \$25,000 and with an investment limit of \$200,000. For every dollar invested in a piece of depreciable property above \$200,000 the \$25,000 is reduced by a dollar. For example, a piece of machinery costing \$210,000 will result in only a \$15,000 expensing amount. Qualifying business property includes the purchase of new or used machinery, equipment, cattle feeders, a single purpose livestock or storage facility and purchased breeding livestock.

This is only a brief discussion of a few tax management tools that can be used to manage taxable income. Please consult your tax preparer or advisor for additional information concerning the income tax management tools and their implications that would apply to your specific business situation.

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What Now? Discussing Cash Windfalls

Scott Clawson, NE Area Extension Specialist

It has been an intriguing start to the spring to say the least. Postponing the discussion of rainfall for the moment, there are some exciting things happening in the cow calf business. Recently, I had a discussion with a friend and cow calf producer that shed some light on a situation that several may be facing. In comparison to last year calf prices are up roughly 46%. Fortunately, fall calving operators are getting to transition high market prices to high check-book balances right now; while we spring calvers are keeping our fingers crossed. Adding to this, the Farm Bill expedited retroactive payments for drought experienced in many Oklahoma counties in 2012 and 2013. Between these two cash flow events some producers may be enjoying the debate of, what now?

Like many decisions in production agriculture, there is no blanket action that everyone should follow. Financial scenarios on the farm will vary greatly between operations. This will lead each producer to need a specific plan for the newly acquired cash. Despite the varying financial situations, there are some strategies to help in this process.

- **DEVELOP A WRITTEN PLAN** - Prior to acting, taking time to develop a written plan can help guide you in the process. Gather and update financial documents as they can provide facts regarding your financial situation. Once this is done, allocate the money and stick to the plan. Take some “splurge” money but make sure it is a responsible amount. The worst feeling is to look up a month later and ask “where did I spend that?”
- **MONITOR YOUR TAX SITUATION**- These two situations have the opportunity to impact your taxable income. Discuss your situation with your tax preparer to gauge what your potential tax liability may be. Dis-

aster payments are taxable in the year they are received.

- **REDUCE HIGH INTEREST DEBT**- Simply speaking, the higher the interest rate, the greater the cost of that purchase. Reducing or eliminating this debt now can have a drastic impact on what you end up paying. Look at your variable rate debt as well. Odds are that the next rate adjustment will be higher and principal reductions will provide some benefit.
- **CASH IS KING**- One language that everyone speaks in the ag and business world is cash. Keeping cash on hand can provide tremendous financial security. In addition, as sound investments come along in your current operation cash provides the mobility to take advantage quickly.
- **JUMP START RETIREMENT ACCOUNTS**- The numbers continue to tell the story of the increasing age of ag producers. Take this opportunity to increase your contribution or even to start retirement saving. One of the most basic risk management strategies is to diversify. Having money invested outside of the direct ag markets can help level out the impact of the volatile commodity markets.
- **FUND SUCCESSION PLANNING ACTIVITIES**- Implementing a good transition plan may have a cost associated with legal or other fees. This is a great chance to get those things paid for while keeping your “pre-windfall budget”.

These are far from the only options, simply just a start in the decision making process.

Setting Farm and Family Goals

Damona Doye, OSU Farm Management Specialist

A periodic reassessment of your personal and business goals is useful. Whether you have experienced a cash windfall or are experiencing financial stress from drought, the time may be right for some proactive thinking about what you want to accomplish. OSU fact sheet AGEC-244, Goal Setting for Farm and Ranch Families, provides a simple guide and worksheet to help: <http://>

pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1674/AGEC-244web2013.pdf

Making goals specific, measurable, action-oriented, reasonable and with a specified time frame helps ensure that they can be useful roadmaps and communication tools for family and business partners.

Highlights of the 2012 Census of Agriculture – Oklahoma Farmland Acreage

Roger Sahs, OSU Extension Specialist

The Census of Agriculture provides a wealth of information on U.S. farms, ranches, and operators. The USDA recently released a complete report of state and county-level farm and ranch statistics for the 2012 Census. This article explores one measure provided by the Census that receives considerable attention, the amount of acreage dedicated to agricultural production.

Land in Farms

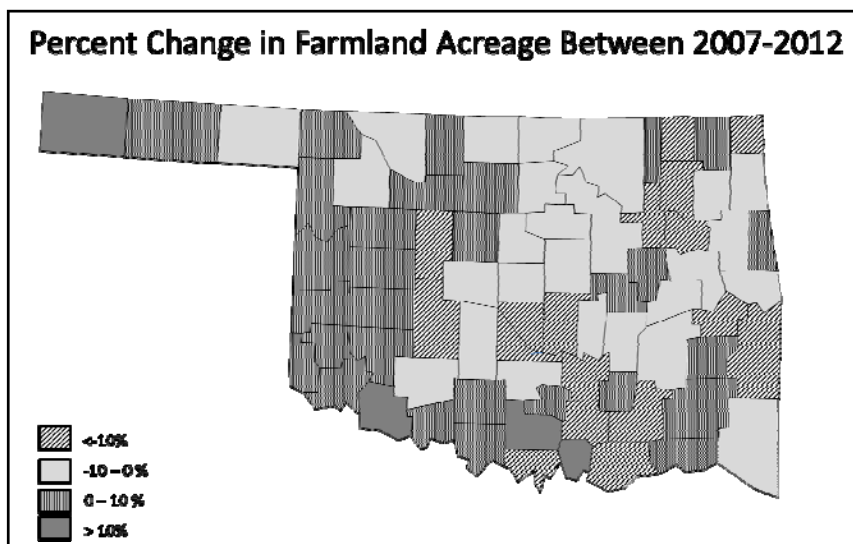
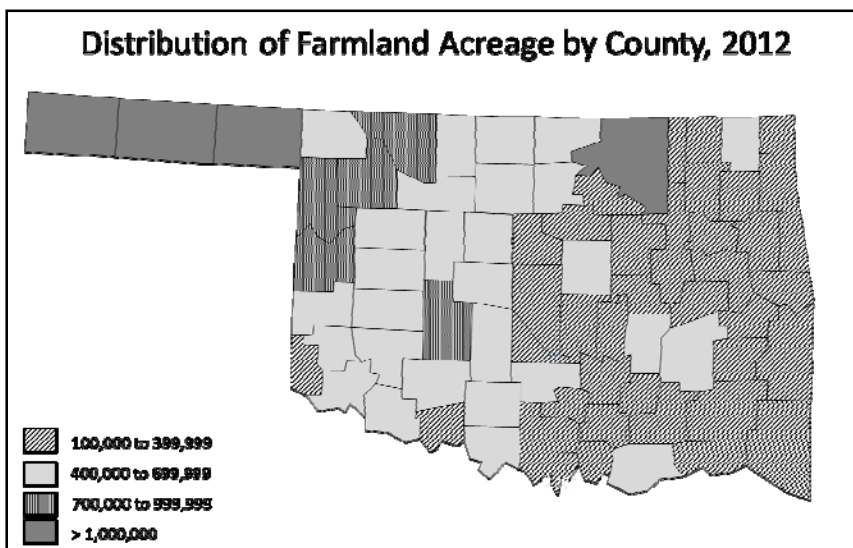
The Census defines a farm as any place from which \$1,000 or more of agricultural products were produced and sold or normally would have been sold during the reference year. This definition has been used since 1974. Land in farms is defined as consisting primarily of agricultural land used for crops, pasture or grazing. It also includes woodland and wasteland not actually under cultivation or used for pasture or grazing, provided it was part of the farm operator's total operations. Large acreages of woodland or wasteland held for nonagricultural purposes were deleted from individual reports. Land in farms includes acres set aside under annual commodity acreage programs as well as acres in the Conservation Reserve and

Wetlands Reserve Programs for places meeting the farm definition.

The amount of land in farms in the United States declined between the 2007 and 2012 from 922 million acres to 915 million acres representing less than one percent decline. This was the third smallest decline between Census reports since 1950. The states with the largest decline in land devoted to agricultural production include Kentucky (6.7%), Alaska (5.4%), Georgia (5.2%), Mississippi (4.6%), and Wisconsin (4.1%). On the other hand, 19 states reported an increase in farmland between the two Censuses. Perhaps this is not too surprising given the favorable returns to agriculture since 2007.

Oklahoma Farmland

According to the 2012 Census of Agriculture, Oklahoma is home to 34,356,110 acres of farmland. This represents a 2.1% decrease from the 2007 Census. Figure 1 below shows the distribution of farm acreage by county from the 2012 Census and is shaded by quartile. Farm acreage varies to a large extent by the geographic size of the county. Osage County is the largest county by land area in Oklahoma, but contains 70,161 fewer acres of farmland than Texas County, the second largest county in land area. It is interesting to note that farmland acreage in Osage County decreased by 5.7% but increased 6.7% in Texas County since the 2007 Census. Tulsa County has



Highlights of the 2012 Census of Agriculture – Oklahoma Farmland Acreage (cont.)

the fewest acres of agricultural land at 106,222.

The state as a whole lost over 731,000 acres (1,142 square miles) of farmland between the 2007 and 2012 Censuses, and 44 counties (57%) experienced a decline in acreage. Osage County lost the most acres at 74,007, and Wagoner County had the largest decline in percent terms at 24.3%. Cimarron County experienced the largest growth in farmland by count at 112,658 acres, and Marshall County experienced the largest growth in percent terms with a 21.6% increase. Figure 2 reveals that several counties surrounding Oklahoma City and Tulsa experienced substantial declines in percentage terms due to urban growth.

Finally, despite a loss in farmland acres statewide, the average farm size in Oklahoma actually increased from 405 to 428 acres since the 2007 Census. The culprit was the fact that Oklahoma lost 6,320 farms, now estimated at 80,245. The 7.3% loss in farms was greater than the 2.1% decline in farmland acreage.

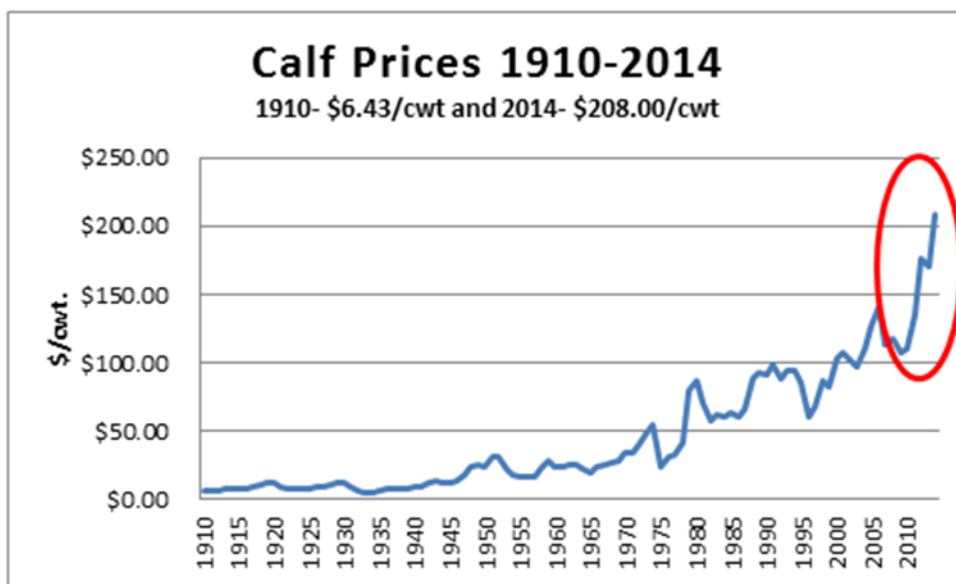
For more information, access the Oklahoma state and county reports from the 2012 Census of Agriculture at: http://www.agcensus.usda.gov/Publications/2012/Full_Report/Census_by_State/Oklahoma/index.asp

Take Another Look!

Scott Clawson, NE Area Extension Specialist

There are many production practices that can increase income. Castration, backgrounding, and dehorning all come to mind. Based on the level of price increases we have seen in the calf market, it is time to toss out that sale barn café napkin that we scratched out some numbers on and get a new one. A roughly 46% increase in calf prices from 2013 to 2014 can change the way we look at calf investments. One quick example, a 5-10% increase in weaning weight from implanting a suckling steer could increase

sale price \$55 (500 lbs.*5% = 25 lbs.*\$2.20/lb.). That is a one calf number, multiply that by 20 steers and you have the potential for an extra \$1,000 of sales. As far as cost, the increased revenue from one steer would roughly cover the cost of an implant gun and implants for the remaining 19 steers. It will not take long for a collection of small investments to yield big results. Changes in markets mean changes in numbers; it's time to take another look at our production practices!



Data summarized from <http://beef2live.com/story-calf-prices-year-1910-2014-88-112494>

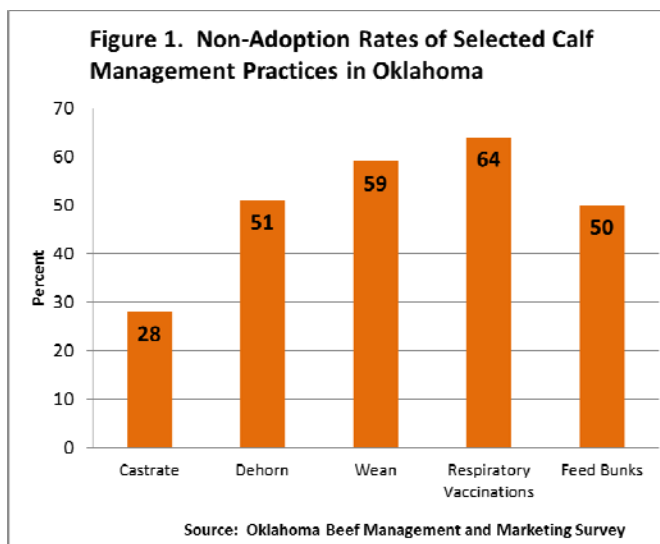
Are You Leaving Money on the Table? Kellie Curry Raper, Livestock Marketing Economist

Many Oklahoma producers do not take advantage of potentially value adding health management practices prior to marketing their calves. Certainly, each management alternative has pros and cons for individual cattle producer. A producer's final decision regarding practice adoption is based on many things, including time, tradition, upfront costs, facilities, labor availability, perceived premiums, accessibility to marketing options and more. Some management practices, such as castration and dehorning, require labor, but are otherwise relatively low-cost with minimal on-farm holding period for healing prior to marketing. Other practices, such as two rounds of respiratory vaccinations and a 45 day weaning period require some upfront costs in addition to labor, as well as on-farm resources for keeping calves separate from cows during this period. The overriding economic criterion for evaluating practice adoption is a relatively simple concept, but in reality, it is not always a clear cut decision. Does an alternative opportunity add more value than costs to a producer's calves? How much risk and uncertainty is associated with adding value while incurring those additional costs?

Preconditioning typically bundles the management practices of castration, de-horning, feed bunk training, a 45 day weaning period, and 2 rounds of respiratory vaccinations into a marketing package. Recent research estimates that the expected net return from participation in Oklahoma Quality Beef Network's (<http://www.oqbn.okstate.edu>) Vac-45 preconditioning program in 2010 was \$58/head with an 80% probability of a posi-

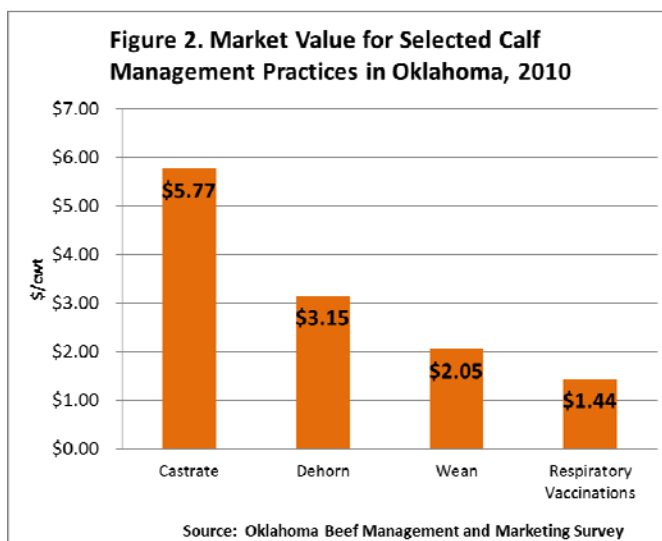
tive net return (Williams, et al 2014). That number includes premiums, the value of additional gain, and the cost of preconditioning.

A survey of Oklahoma cow-calf producers indicates that 28% of producers do not castrate bull calves before marketing (Figure 1). The number of non-adopters jumps to approximately 50% for both de-worming and feed bunk training. Weaning 45 days and 2 rounds of respiratory vaccinations have higher rates of non-adoption at 59% and 64%, respectively.



Even if it is not feasible for a producer to adopt the full bundle of practices required for a preconditioning program, there is still value for producers in adopting individual practices. Research evidence points to premiums for specific practices implemented on Oklahoma ranches for calves sold in Oklahoma livestock markets. Williams, et al (2012)

looked at premiums for calves marketed in 2010 across ten livestock market sites and across thirty sale dates in Oklahoma (see Figure 2). Two basic management practices that are readily verifiable by buyers at livestock markets are castration and dehorning. Steer calves received a \$5.77/cwt premium over intact bull calves of similar weight, hide color, and quality. Sale lots with any calves contain-



ing horns were discounted approximately \$3.00/cwt and the discount applied to the entire lot, not just to the calf or calves with horns.

Other value-added practices create calf attributes that

Are You Leaving Money on the Table? (cont.)

are not as readily verified. This is particularly true of many practices associated with formal preconditioning programs. Without third party verification, cattle buyers are left with some degree of uncertainty as to whether seller claims of practices such as administered vaccinations and extended weaning periods are true. Still, Williams, et al (2012) found calves with 45 day weaning garner a \$2.05/cwt premium over unweaned calves while calves with respiratory vaccinations completed bring \$1.44/cwt over unvaccinated calves.

No practice is free of cost. Premiums (or positive net returns) for specific practices or bundles of practices are not guaranteed. However, research suggests that for many practices, market premiums exist along with a high likelihood of positive net returns. In a cow-calf operation, good management goes hand in hand with good marketing. Are

you leaving money on the table?

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Can Storage of Vaccine Affect Its Efficacy?

Gant Mourer, Beef Value Enhancement Specialist, Oklahoma State University

Respiratory disease in cattle also known as BRD, shipping fever or pneumonia may cost the U.S. cattle industry over \$2 billion annually (Powell 2013). Management techniques can offset much of this cost and having a good vaccination program can maintain the health of a calf all the way through the production system. A vaccine can cost over \$3.00 a head, and if not stored properly that vaccine can be rendered ineffective. Producers cannot afford to overlook the importance of how they store vaccine and handle it prior to injection.

Biological products should be stored under refrigeration at 35 to 45°F unless the nature of the product makes storing at a different temperature advisable (APHIS 2007). If vaccines are not stored within this temperature range, efficacy to the calf can and will be reduced. Killed vaccines are especially susceptible to freezing temperatures. Freezing a killed vaccine will alter the adjuvant or delivery system of a killed vaccine. This, in turn, negatively affects the immune response to the antigen in the vaccine. Modified live viruses (MLV) are more stable but can be inactivated if they are repeatedly cycled above or below the required temperature range (Gunn et al, 2013). Also, once activated by mixing, MLV's effective life will be reduced to 1-2 hours and need to be maintained at 35° to 45°F. This

can be accomplished by only mixing the doses that you will use at that time and use a cooler to maintain temperature while working cattle.

Researchers from the University of Arkansas and Idaho analyzed the consistency of temperatures for different types, ages and locations of refrigerators over a 48 hour period. They found that only 26.7% and 34.0% of refrigerators were within the acceptable temperature limit 95% of the time. Refrigerator location can also affect temperature. Refrigerators located in barns (35.6°F) were colder than in mud rooms (41.72°F) and kitchens (40.82°F). (Troxel and Barham 2009). Temperature within a 24 hour period can also be highly variable for individual refrigerators. Troxel and Barham (2009) demonstrated some refrigerators may take up to 8 hours to cool down to the 45°F required or temperature can drop below freezing and range from 28.4°F to 44.6°F, while others will remain too cold varying from 24.8°F to 35.6°F over that period of time.

Producers need to be aware of these variations in temperature so they are able to adjust refrigerator temperature as needed. Thermostats can also be very variable from unit to unit, so keeping a thermometer inside works well to monitor and to make adjustments as need. Simple indoor-outdoor thermometers work well to achieve this goal. The

Can Storage of Vaccine Affect Its Efficacy? (cont.)

outdoor unit can be placed in the refrigerator while the LCD display can be hung with a magnet on the door. This allows temperature to be monitored without opening the door and many models will record the high and the low temperature in a 24 hour period so producers can adjust accordingly.

How a producer handles vaccine outside of the refrigerator is important as well. Coolers can easily be modified for syringes and are important to maintaining vaccine efficiency chute side. Using a 1 1/2' PVC pipe or sink tail piece purchased at any hardware store and a 1 1/2' hole saw, inserts can be placed through the cooler and work well to keep syringes cool and out of light while in use. Either ice or freezer packs can be used as a coolant to maintain temperature for several hours depending on outside ambient temperature. Make sure that enough coolant is used to maintain temperature while working cattle and extra ice may be needed if working cattle all day or during warm days. It may also take up to an hour for the cooler to reach the needed 45°F, so producers may need to plan ahead prior to processing cattle.

These are a few simple suggestions that can help ranchers get the full value of the vaccine that they purchase. More importantly, positively affect the health of their herd,

decrease sickness, and increase profit.

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Cooler fitted with PVC pipe



Cooler with fitted syringe



**Mark your calendar!
2014 Statewide Conference
August 7-8**

Moore Norman Technology Center, 13301 S. Penn Ave, in OKC

- Concurrent breakout sessions: Agricultural, Alternative Enterprises & Business and Finance
- Mini mall showcasing made-in-Oklahoma products
- Networking opportunities with Oklahoma Agriculture & Small Business Vendors. For more information see <http://okwomeninagandsmallbusiness.com/>

Mark Your Calendars

Megan Rolf, OSU Animal Science Department

Oklahoma State University, in collaboration with the Beef Reproduction Task Force, will be hosting the 2014 Applied Reproductive Strategies in Beef Cattle Conference (ARSBC). The meeting will be held on the OSU Stillwater campus from October 8-9, 2014.

The conference is held annually, and rotates to a different state each year. This year, we will focus on a variety of applied subjects for producers, veterinarians, and beef industry stakeholders. The conference program includes a variety of educational programs from basic cattle reproduction and artificial insemination to the latest advances in embryo transfer and reproductive technologies. The com-

plete schedule of events is posted at www.beefextension.com/genetics. We will post updates to this page as the conference planning progresses and registration opens later this summer.

Key goals of the Beef Reproduction Task Force include promoting widespread adoption of reproductive technologies among cow-calf producers, educating producers in management considerations that will increase the likelihood of successful breeding of animals through artificial insemination, and educating producers about marketing options to capture benefits that result from use of improved reproductive techniques.

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