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Tax strategies for low-income years

Nebraska farmers and ranchers who plan tax strategies now can cushion the blow of low or negative incomes in 1999. While tax strategies are important every year in a sound financial management plan, they are especially important in a low income year.

Reviewing financial records this fall and talking with a tax consultant about various strategies can provide the producer with options which may not be available later. When possible it’s important to avoid a net operating loss so that standard and specific tax credits and deductions are still available.

Following are some strategies to consider:

**Earned Income Credit**

Lower commodity prices may qualify producers for this credit. It’s available to people with earned incomes under $30,095. Taxpayers receive refundable credits up to $3,756 depending on their income level and family size. The credit offsets any tax liability and may provide a refund. Maximum credit is available to a family with at least two dependent children.

Two key factors affect this credit. One is disqualifying income, such as income received from capital gains, net rental income interest and dividends. For 1999, taxpayers become ineligible for this credit when they receive more than $2,350 of disqualifying income. Selling raised breeding livestock is no longer included in calculating disqualified income.

The difference between being eligible and ineligible for this credit can be only a few dollars. It’s an example of why producers should seek professional help in tax planning and tax preparation.

The U.S. Internal Revenue Service requires taxpayers to have some earned income to qualify for the credit. The IRS considers operations with negative farm income ineligible for the earned income credit. In these cases, wise tax planning can raise farm income above zero. Strategies including selling additional grain or livestock or delaying paying expenses until 2000. If those strategies don’t work, producers can try calculating self-employment tax using the farm optional method. This choice automatically gives producers $1,600 of income for self-employment tax purposes, even if they show a loss.

**Other tax credits**

When considering various financial management strategies, it’s important to remember that tax credits decrease your tax liability directly while deductions are applied to your income prior to taxing. The child tax credit provides $500 per dependent child under age 17.

Two kinds of educational tax credits are available to both parents and their dependent children pursuing further education: the Hope Tax Credit and the Lifetime Learning Credit.

**Hope Tax Credit:** Applies to the first two years of post-secondary education for tuition and fees paid (scholarships will affect this); up to $2,000 per person per year; covers 100% of the first $1,000 of qualifying expenses and 50% of the next $1,000.

**Lifetime Learning Credit:** Applies to all other learning/educational situations, including the third and fourth year of college, part-time and graduate studies, professional development seminars and meetings; pays 20% of costs up to a total of $1,000 tax credit per return. (For example, it would take $5,000 of qualifying expenses to reach the $1,000 tax credit.)

(Continued on page 205)
Row crops maturing, grain quality good

The first snow of the season was noted in portions of the state while many areas continued with dry conditions that put a strain on fall seeded crops in need of moisture.

Row crops were maturing and drying quickly. Wheat was being drilled into very dry top soil in southern counties and moisture was needed to establish plant development before winter. Soybean harvest was in full swing, but some varieties with green stems delayed harvest in some areas.

A shortage of grain storage at some elevators was a concern.

Crop conditions

Corn condition rated 1% very poor, 6% poor, 23% fair, 51% good, 19% excellent. Corn maturity was at 91%, behind 96% last year, but ahead of 87% average. Corn harvest was at 17%, below 30% last year, but just above 14% average.

Soybean conditions rated 3% very poor, 10% poor, 30% fair, 46% good, and 11% excellent. Soybean acreage dropping leaves was at 96%, just below 97% last year, but above 92% average. Soybean harvest rated 27%, behind 33% last year, but same as average.

Sorghum acreage turning color moved to 97%, compared to 100% a year ago and average. Sorghum mature was at 74%, behind 93% last year and 80% average.

Harvest was just beginning at 7% complete, behind 12% last year and 11% average. Sorghum conditions rated 5% poor, 30% fair, 55% good, and 10% excellent.

Dry beans harvest moved ahead to 89%, just ahead of 81% last year, and an average of 83%.

Alfalfa conditions rated 1% very poor, 6% poor, 29% fair, 56% good, and 8% excellent. Alfalfa fourth cutting, where possible, was at 78% complete, ahead of last year’s 64%, and 62% average.

Wheat seeding was 92% complete, ahead of 89% last year and 86% average. Wheat was 62% emerged, behind 64% last year, but ahead of 59% average. The risk of infectious wheat curl mites is the main concern of producers.

Agricultural Statistics Service Nebraska weekly report

Field report

Paul Hay, Extension educator in Gage County: Harvest is proceeding at a steady pace here. Dryland yields in northern Gage County are average to above average. In the southern half, yields are below average with corn from 0-70 bu/ac, soybeans from 10-25 bu/ac, and milo from 50-90 bu/ac.

Change is a constant in today’s agriculture. To help Nebraska producers deal with the many challenges they face, the Institute of Agriculture and Natural Resources Cooperative Extension has established a Web site to serve as a central hub of information.

It features information on a variety of topics, from storage and marketing issues to developing family strengths in times of diversity. It also includes links to related sites, updates on programs and educational opportunities, timely topics, audio and video releases, and more.

Materials will continue to be added to the site for some time. Its address is ruralroutes.unl.edu
**Tax strategies** (Continued from page 203)

Professional development and educational costs can only be counted toward one credit or deduction and may be better applied toward business expense deductions.

**Personal exemptions and standard deductions**

Adequately using available exemptions and deductions is key to tax planning. The 1999 personal exemption is $2,750 per individual. The standard deduction is $7,200 for married couples filing jointly and $4,300 for single individuals. Therefore, a family of four could have a $18,200 income with no federal tax income liability. However, there may be a self-employment Social Security tax liability.

**Net operating losses**

When feasible, the best tax planning strategy is to avoid net operating losses. Losses will make it impossible to take advantage of standard and special tax credits or deductions.

When net operating losses can’t be avoided, it may be important to plan the amount of loss to take advantage of carry back and carry forward rules, he said. Losses can be carried back two years, back five years or forward 20 years to offset previous or future income. The IRS assumes producers will carry back two years unless they elect to forego the two-year carryback, choose a five-year carryback or carry the loss forward instead.

This decision depends on income from the previous five years and expected income.

Operations with very low 1997 and 1998 income may want to skip the two-year carryback, since amending low income tax returns may not save taxes. If 1994, 1995 and 1996 also were lean years, producers may be best off carrying losses forward. However, if producers have a high 1994 income, they may want to plan the 1999 tax loss at a level which will absorb that high income and generate federal and state income tax refunds.

Farm losses can be offset with other income to avoid net operating losses. Examples include selling a capital asset such as land or machinery, cashing in a retirement account, converting regular Individual Retirement Accounts into Roth IRAs or other non-farm income like wages, interest or dividends. For example a producer with a net operating loss and $50,000 in traditional IRA’s could convert those to Roth IRA’s this year, showing $50,000 of income for tax purposes. With Roth IRA’s, taxes

**Marketing loans or LDPs**

When choosing either LDPs or marketing loans, it’s important to watch the market swings to take advantage of locking in your rate (low PCP or high LDP) and later selling your grain for the highest gain. Either scenario does present some risk should the market not rise and go even lower. The choice you make will also influence when the taxable income will be recognized – either this fall or next year. With marketing loans, most of the taxable income is taken at the time of the loan, e.g. in the fall. With LDP’s most of the taxable income is realized when the grain is sold.

While the same grain cannot be used for both a marketing loan and an LDP, not all your grain needs to be placed in the same program. For example you may choose an LDP for part of your grain and a marketing loan to cover another part. Or you may choose to sell portions of your grain at different times to lock in different LDP rates.

Your selection also may be based on your cash flow needs. In the following example, the producer would receive $4,000 in the fall with the LDP option versus $36,000 with the marketing loan option. This could create a cash flow problem if the grain is not sold until long after the LDP is taken.

Table 1. With marketing loans and loan deficiency payments, when is taxable income recognized?

<table>
<thead>
<tr>
<th>Example:</th>
<th>20,000 bushels of corn</th>
<th>Loan price of $1.80 a bushel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 1999</td>
<td><strong>Marketing loan</strong> for $36,000 taxable income</td>
<td></td>
</tr>
<tr>
<td>Feb. 2000</td>
<td>Loan is redeemed using a per county price of $1.60 and then sold for $1.70 a bushel a few weeks later.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Oct. 1999</th>
<th>An <strong>LDP</strong> with a per county price of $1.60</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,000 taxable income</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Feb. 2000</th>
<th>The grain is sold for $1.70 a bushel</th>
</tr>
</thead>
<tbody>
<tr>
<td>$34,000 taxable income</td>
<td></td>
</tr>
</tbody>
</table>
Apply for loan deficiency payments before you sell

Wendy Wait, Farm Service Agency Executive Director in Saline County, was one of several speakers for the Marketing Your 1999 Grain Crop Cooperative Extension Program. During the video conference she discussed various FSA programs. A videotape of the conference is available on the Web at ruralroutes.unl.edu.

Wait shares the following tips for producers:
• Always check before selling your grain to see if there is an opportunity for a Loan Deficiency Payment (LDP). In some cases this year, LDP’s have been at almost $1 per bushel of soybeans, a significant amount any year, but especially when income potentials are low. Don’t apply for an LDP on Monday for grain sold on Saturday. It’s too late.
• Check the storage agreement you make with your elevator to determine when title passes. You need to apply for the LDP while you still have ownership.
• Investigate your options now and carefully consider your choices (LDP’s or marketing loans) before selling your grain.
• Contact your local FSA Office with any questions you have about these programs. While they won’t give you tax advice, they will explain the programs and the implications of your choices. Don’t be afraid to ask questions.

LDP application deadlines are: March 31, 2000 for wheat and May 31, 2000 for corn, grain sorghum and soybeans; however as elevators try to move grain, most applications are likely to be much earlier.

The national USDA Farm Service Agency Web site at http://www.fsa.usda.gov/pas/default.asp offers a wealth of information including: news releases and media advisories so you can double check something you may’ve heard a little about on the radio; loan and price support program details; commodity reports, and state and county maps and information about contacting county and state offices. For those interested in applying for an FSA loan, many of the forms are available from the web site along with information on how to apply.

Nebraska contact information is available on the site at: wwwax.fsa.usda.gov/cgi-bin/st.exe?31.

Insect handbooks

The Entomological Society of America (ESA) has recently published a new volume in its series of Insect Pest Handbooks. The Handbook of Corn Insect Pests joins the previously published Handbook of Soybean Insect Pests as essential resources for people working with crop pest management.

Handbook of Corn Insect Pests, Edited by K. Steffey, M. Rice, J. All, D. Andow, J. Van Duyn, & M. Gray. This comprehensive handbook provides information on preventing, detecting, and controlling insect pests in corn. With contributions from 37 entomologists, the handbook includes:
-- descriptions of 76 insect and mite pests commonly found on corn and the injury they cause;
-- 145 color photos, dozens of illustrations and range maps.

(Continued on page 210)
Existing farm buildings likely will need reinforcement for grain storage

This was originally printed in the 1998 Crop Watch, but is reprinted here for those producers who may be considering converting farm buildings for grain storage. Further information about on-farm grain storage is available on these Cooperative Extension Web sites: http://www.ianr.unl.edu/ianr/lanco/ag/crops/storage.htm and www.ianr.unl.edu/cropwatchnews/grainstorage.htm

Many producers may use existing buildings for storage of some of this year's harvest. Many of these storage facilities will need reinforcement to avoid stretching or buckling from the pressures exerted by the stored grain. They also will need properly designed and managed aeration fans and ducts to control grain temperatures during storage.

All grain stored must be properly dried and cooled before going into storage, and then it must be aerated during storage. Corn and grain sorghum should be dried below 15.5% moisture for storage until spring or below 14% for storage into summer. Soybeans should be dried one point lower than corn and sorghum. The right moisture level is critical because wet grain continues to respire and decline in quality.

Pole barns and machine sheds need to be reinforced with cables or braces if grain will be stored higher than 2 feet along the walls. Unreinforced metal walls will stretch or buckle as grain depth increases. Unanchored walls or partitions will move, buckle, or collapse without appropriate support and fastening to the floor.

Grain pressure is not even throughout the height of the stored grain and increases incrementally from the top to the base, where pressure is greatest. About 23 pounds of pressure per square foot is exerted on the grain walls per foot of depth. For example, grain stored 6 feet high exerts a total force of 414 pounds per linear foot of wall, with a pressure of 138 pounds per square foot at the base of the wall.

To withstand the lateral pressures exerted by stored grain, walls must be reinforced at the posts, trusses, and post-to-truss connections. The walls should be tied together at the eave by a cable if the truss has not been designed and connected to carry the grain load. Also, cables or rods should be installed at about one-half the grain depth to provide support for the poles and walls. Care must be taken when installing the cables so trusses are not compressed or walls become buckled when grain is loaded into the building.

Bin rings or wooden grain walls could be used to keep the grain pressure off the walls of an existing building. One or two bin rings can be set on the floor and anchored as recommended by the manufacturer to provide a round storage area. A set of self-supporting, portable grain walls could be used to line the walls of a building or to form a partition in part of the building. These walls must be properly designed and installed to withstand the forces from the grain during storage. In addition, these storage areas must be filled and emptied from the center in order to prevent uneven pressure on the walls.

Distress loans

The Distress Loan Program has been approved by the Nebraska State Farm Service Agency Committee for the second year due to an expected grain storage shortage in the state. Wendy Wait, Farm Service Agency Executive Director in Saline County, said this program provides 90-day loans for grain which has to be temporarily stored in structures which would not otherwise qualify for marketing loans (including piles on the ground). Some qualifications include:

- Loans are made on 75% of the total eligible grain in temporary storage.
- Loan applications have to be made within 30 days from the completion of harvest.
- Storage qualifications include protecting the grain from livestock and providing adequate water drainage to protect the quality of the grain.

As the grain is moved into a more permanent qualifying structure, it can be rolled over into a marketing loan.

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Factors to consider when renting a bin?

With bin-buster yields predicted for this harvest and many farmers just selling or still storing last year’s grain, on-farm grain storage is likely to be short again this year. Renting storage from a neighbor or renting unused bins on your farm may be beneficial. To avoid possible conflicts later, remember to discuss each party’s responsibilities and to put the agreement in writing.

Several factors affect rental rates:

- size of bin (How well matched is it to storage needs?);
- location of bins;
- condition of bins;
- ease of loading and unloading;
- equipment included (such as a dryer and unloading equipment); and
- supply and demand.

Bin owner perspective

Bin owners need to determine their costs before determining the rental rate. A worksheet (FM82-1) for determining these costs is available from NU Cooperative Extension Farm Management, 303 Filley Hall, University of Nebraska, 68583. In a typical example, using the factors in the worksheet, fixed costs, such as depreciation, interest (10%), repairs (building only), taxes, and insurance, amount to nearly 18 cents per bushel per year for a bin with an initial investment cost of $1.30 per bushel. The electricity for aeration, repairs to equipment, and management of the stored grain may each cost about one cent per bushel. If the bin owner furnishes these, the rental rate needs to be increased to reflect this.

If the bin is paid for and is depreciated out, the owner can afford to rent it for less than 18 cents per bushel. If the owner is not compensated for out-of-pocket costs and the possible inconvenience involved in renting the bin, however, it may be better not to rent it. Remember too that if someone wants to just rent the bin for three or four months, it likely still represents an entire year of potential income for the bin owner who is not likely to be able to rent the bin to someone else for the remainder of the year.

Renter perspective

When seeking grain storage, consider all the alternatives, including selling the grain at harvest, using commercial storage, or finding other bins for rent. Annual storage rates at commercial elevators range from 25 to 30 cents per bushel (for corn) and may sound high compared to 18 cents at a neighbor’s; however, the prospective tenant needs to consider how long they plan to store the grain and if the grain will be sold or fed out of storage.

If the tenant plans to store grain for four months and sell it at the end of the storage period, a rental rate of 2 ½ cents per bushel per month (30 cents per year) in commercial storage would only cost 10 cents per bushel. In this case the producer would likely be reluctant to pay more than that to a local bin owner. If the tenant wanted to store the grain longer than four months or wanted to feed the grain, they might be better off paying more than 10 cents per bushel to rent a bin closer to the tenant’s farm. Another consideration is that commercial storage guarantees the quantity (no shrink) and quality of the grain, but would probably make an in/out charge if the grain is removed from the elevator.

Larry Bitney, Extension Farm Management Specialist

Put it in writing

Renting a grain bin from a private individual can be beneficial to both parties. It is important that the parties trust each other and arrive at mutually agreeable terms. Putting the agreement in writing will ensure that the details are understood and agreed to by both parties.

Factors to be discussed, stipulated, and noted in a written agreement when renting a grain bin:

- Names and addresses of the owner and tenant
- Location, capacity and description of bin.
- Beginning and ending dates of the lease.
- Penalty if the grain is not out by the end of the lease.
- Who maintains the equipment and who pays for repairs?
- Who is responsible for checking the grain?
- Who manages the grain?
- Who is responsible for insurance? (Grain and building need to be insured separately by their respective owners.)
- Are there restrictions on when the fans may be run?
- Is the facility accessible by large grain wagons or semi-trucks?
- Who provides augers for filling and unloading?
- Who pays the utility and energy expenses and when?
- What are the conditions the bin and surrounding area need to be left in?
Machine maintenance can lower output costs

Keeping that tractor or combine running and in good shape saves money and downtime. Maintaining and repairing existing equipment also is a good way to avoid bigger repair bills or replacement costs down the road, a University of Nebraska specialist said.

Many farmers have tightened their belts and are looking for ways to control costs, said Bobby Grisso, Institute of Agriculture and Natural Resources farm machinery engineer. Maximizing machinery life through proper maintenance and storage is a fairly straightforward way to control costs.

According to a recent Midwest study, machinery repair costs can be reduced 25 percent with excellent maintenance. An $80,000 tractor, for example, usually requires about $24,000 in repair costs over 5,000 hours of operation. With excellent maintenance, that cost can be reduced to about $18,000.

A general rule is to develop a maintenance schedule and stick with it. Making minor repairs as needed often heads off more expensive repairs later, Grisso said, and regular maintenance can help catch problems early.

"Something that could be rather inexpensive at this point could be more of a problem later," he said. "The primary thing we fight against is progressively more expensive repairs."

Average life span depends on the type of farm equipment, Grisso said. Combines typically are used for up to about 3,000 hours, while tractors can last 12,000 to 15,000 hours. After that point, repairs often become too costly to maintain, he said.

Converting storage

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sidewall loading:

Buildings to be converted for grain storage should be well-drained. A layer of plastic at least 6 mils thick should be placed on the floor, whether concrete or dirt, to reduce moisture migration into the grain. A well-designed aeration system of tubes, ducts and fans is imperative for stored grain, not for drying, but to maintain grain quality. These ducts must be sized and located to aerate the entire grain mass, with a spacing typically about the same as the depth of the stored grain. Aeration is needed to keep the entire grain mass within 10 degrees of the average outside air temperature in order to minimize moisture migration from thermal convection currents.

For more information about grain storage and the management and aeration of stored grain, contact your local Cooperative Extension Office.

Gerald Bodman, Former Extension Agricultural Engineer
Cheryl Alberts
IANR News Writer

Plateau approved for leafy spurge control

The EPA has approved the Nebraska Department of Agriculture’s request for a Section 18 emergency exemption for use of Plateau to control leafy spurge on rangeland and pastures and CRP acres in Nebraska.

The Section 18 expires August 30, 2000. A single application may be made in the fall at 8 or 12 oz/A or 8 oz/A can be applied in the fall followed by 4 oz/A in the spring. Total application rate cannot exceed 12 ounces.

Plateau is taken up by the foliage and from the soil by plant roots and provides the best control when applied in the fall while the leafy spurge is actively growing. Applying Plateau in the spring does not provide acceptable control of leafy spurge unless the herbicide is applied to areas treated with Plateau the previous fall. Methylated seed oil at 1.5 to 2 pints per acre in the herbicide spray solution should be added to the spray solution to enhance leafy spurge control. Plateau provides producers with another chemical option for leafy spurge control on rangeland and pastures and CRP in Nebraska.

Robert Masters, USDA-Agricultural Research Service

Put it in writing

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• What is the amount of the rental payment and when will it be made?

Note: To arrive at the final rental rate, you may use a formula stipulating cost per bushel per time period; however, it's probably best that the agreement show a lump sum cost. A monthly cost may suggest that the grain is being warehoused; however the farmer would not be licensed for such storage, which could affect the viability of a government loan for the grain. Using a lump sum rental amount and payment can avoid this.

Larry Bitney, Extension
Farm Management Specialist

"You have to start thinking about major overhauls," he said.

Producers should first get a complete equipment check-up at their equipment dealership, Grisso said.

An oil analysis is particularly important, he said, because it can detect what's going on inside the engine without a major overhaul. Done over a period of several years,

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Maintenance
(Continued from page 209)

oil analyses can show how lubrication in the engine is holding up and can alert producers to potential problems.

"By using an oil analysis, you know how quickly or how severely things are being worn in your engine," he said.

Grisso said each piece of equipment has specific maintenance requirements, which are listed in owner’s manuals. Air filters should be checked to make sure they’re clean and functioning properly. Both the oil in the crank case and the hydraulic fluid should be monitored. Tires also should be kept properly inflated for the load at which the equipment is working.

Some producers eliminate confusion by keeping planning calendars that list dates and times of equipment maintenance, he said.

Storing equipment properly over the winter can protect its resale or trade-in value, Grisso said. Snow, sunlight and freezing can deteriorate the rubber and plastic compounds in machinery, weakening tires, belts and seals.

After 10 years, he said, machinery housed inside has an average trade-in value 13.5 percent higher than that of machinery left outside. That’s an annual savings of 1.4 percent. Machinery stored inside also typically has 7.6 percent downtime, compared to 14.3 percent for unhoused equipment.

Generally, producers should keep their most valuable machinery inside. If there’s not enough space inside to store all equipment, combines, tractors and planters should get top priority, he said.

Tillage implements can be left outside without significant deterioration or decline in value, he said. If $300,000 of tractors, combines and planters are kept inside, assuming a 50 percent trade-in after five years, they’ll be worth approximately $20,250 more than if stored outside.

Nebraska precipitation data
Al Dutcher, State Climatologist, Agricultural Meteorology

Precipitation Sept. 1 to Oct. 4

Percent of normal precipitation Sept. 1 to Oct. 4

Insect book (Continued from page 206)

— beneficial organisms; and
— practical strategies for pest management.

*Handbook of Soybean Insect Pests*, Edited by Leon G. Higley & David J. Boethel. This handbook outlines fundamental approaches to soybean pest management that can aid in reducing insect pest damage and loss. Includes comprehensive discussions on soybean ecology and physiology, soybean insect pests, predators and parasitoids, soybean pest management procedures, noninsect soybean pests, and insect management. Provides detailed descriptions of topics such as insect identification, life-history data, and management options. Contains 92 color photographs, 200 illustrations, keys to insects and plant damage, a directory of resources for obtaining local information, and a glossary.

Copies of either publication cost $28.00 for ESA members and $35.00 for nonmembers, and may be ordered by calling ESA at 301-731-4535, ext. 3010.

Bob Wright
Extension Entomologist