EXTENSIONSERVICE
AGRICULTURE AND NATURAL RESOURCES

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Managing Income for Long-term Success

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Income tax liability becomes a primary concern when livestock producers have additional income and equipment purchases are often used as a means to reduce potential tax debt. Although equipment purchases can be useful to minimize tax burden, alternative investments may be advisable to improve the long-term viability of the enterprise. Begin by listing business necessities and calculate an expected return on investment for each area to help prioritize them. Consult your tax advisor to determine how potential investments may impact your tax burden. Some suggested areas of investment include:

Improve Soil/Forages:

Collect soil samples from both pasture and hay fields and apply necessary soil amendments and pasture renovations. Pastures are often neglected when it comes to soil amendments, so take this opportunity to improve your soil and grazeable forage for the future. Reduce taxable income by purchasing lime, fertilizer or seed in the fall for application either in the current or next tax year.

Evaluate Feed Resources:

Making high-quality hay can be a challenge given the high humidity and frequent rainfall in the region. Take time to evaluate stored forages to determine if supplements are required to meet the nutritional needs of livestock during the coming winter. Pre-paid expenses can reduce the current year's tax liability, meaning that purchasing feed in the current year but using it in the coming year can be advantageous. Some feed can be stored for extended periods while others cannot, so consider shelf-life.

Improve Infrastructure:

- Replace or install fencing to improve forage utilization. A well-constructed fence will last a number of years, improve property value and potentially reduce liability.
- Improve or develop additional water resources. Water resources can impact animal movement and forage utilization.
- Replace, upgrade or build new corrals and handling facilities. Although handling facilities only get used a few days each year, a well-designed, well-built facility will improve human and animal welfare increasing operational efficiency.

- Construct hay storage facilities to improve the quality of stored feed and reduce storage losses. Maintaining the nutritional value of stored feeds will reduce overall hay needs, and may potentially yield additional grazing acreage.

Reduce Debt:

If land, cattle or equipment are mortgaged, consider accelerating loan payments to reduce interest payments. Being debt-free when farm income is reduced will help maintain profitability while ensuring the business is more financially secure.

Pay Yourself:

Most producers don't take a salary from their business, but it's never too early or too late to start planning for your long-term future. Consider a medical savings account or retirement investments that allow deferred income taxes.

Pay Taxes and Save:

For livestock producers, the majority of capital assets are contained in land and livestock; however, converting them into cash isn't wise because they generate income. Paying taxes and saving additional income to have cash on hand provides the ability to take advantage of opportunities to expand when they arise.

Replace Necessary Equipment:

Upgrading to more efficient equipment can be a wise move, but equipment costs money to own and operate. Evaluate your equipment needs and what your operation can justify prior to making a purchase.

Many of these suggestions can be made as sub-section 179 purchases that can immediately reduce your tax liability. Others will qualify as an allowable expense. In either case, make improvements before the end of the calendar year because many options for tax management end on December 31.

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