INTERESTED IN REDUCING YOUR 1999 TAX LIABILITY?

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with ideas from J. Spencer, W. Thomas, R. St John, F. Gore, W. Larson & C. Smith

Uncle Sam (IRS) loves profitable businesses. In the longer term, profits mean increased tax liability. In the short term, however, there are tax management strategies that can help control your liability. Many dairy producers will have unique opportunities this month to use some of those strategies. There may be some benefit to listing some alternatives that were discussed at the 1998 Dairy Business Conference.

1. Prepay expenses. Many dairy managers are familiar with this concept of prepaying feed, fertilizer and supplies that will be needed in the next year. There should be an agreed upon volume and price (it may be a good time to negotiate price).

2. Remember your cows. Now may be the time to improve your facilities to enhance cow comfort and safety. Charlie Smith said that shades, barns, free stalls, fences, travel lanes are examples of things that often need repair at North Florida Holsteins. Some pro-active improvements can improve future productivity and profitability.

3. Remember your suppliers. High priority should be given to reducing or eliminating accounts payable. Of course, next year's principal payments may be prepaid, that distributes profits but may or may not effect your tax liability. Jeff Spencer of Farm Credit indicated that terms for lines of credit can be enhanced when your debt coverage ratio is improved to 1.5 or higher.

4. Keep a log of expenses. Expenses like travel and training are sometimes overlooked. Decision makers need constant updating and retraining. Wayman Thomas suggested that every person that travels has expenses and many aren't recorded, so aren't deducted.

5. Remember your people. Woody Larson suggested that employees are resources that are sometimes overlooked, but they helped generate profits. It stands to reason that they will be more motivated if they feel that their efforts will be rewarded. Salary raises, benefit improvements (especially retirement plans) and bonuses are ways to distribute profits while decreasing tax liability and potentially improving future profitability.

6. Purchase assets. It is common to see new pickup trucks parked next to the buildings of farms that had good years. Two of the most profitable DBAP dairies in 1997 were dairies that dramatically increased inventories of cattle and other assets. One dairy purchased a group of open heifers in the spring and calved them out in the fall and winter months. Thus, assets that were purchased early in the year at a low cost had a much greater value at the year end.

As assets are added to your dairy, watch the percentage of assets that are in cattle. DBAP dairies that had more than 50% of their total assets in cattle had the highest asset turnover rate and return to assets. Conversely, dairies that had less than 30% of their total assets in cattle had much lower asset turnover ratio and an average return to assets below zero.

7. Remember our environmental friends. Art Darling suggests rectifying any manure handling problems or potential environmental problems now. This may keep regulators away longer or at least put them in a better mood when they arrive.

Thinking through these alternatives with your accountant well before the end of the year could help control your tax liability. For more information, consult the Farmer's Tax Guide.