



Plan for the inevitable

“We decided not to sell those cows in December,” a friend related. “Of course, we needed the money—but we couldn’t afford the income.” The cattle cycle had brought higher priced calves that justified the non-farm extravagance of building a new house. The next stage had to wait until January.

Tax strategy can get in the way of other goals, too, yet most producers juggle a few payments and receipts either side of the New Year’s holiday. The idea is to defer some income or expense if you think it will be more welcome the next year.

Unless you have farmed the tax code for several years, you probably need professional advice. You may be able to use income averaging to roll part of a year’s income back into a previous year at a lower rate, for example. Discover your options and investigate how best to plan for the inevitable filing date.

Just as the end of every year makes some folks think about income taxes, the low part of the cattle inventory cycle should make us think about culling. Cows are worth a lot as hamburger. It is time to roll the oldest ones out, along with any that have ever made you regret your ownership. They represent capital gains taxable income, but could be offset with capital equipment purchases.

The cattle cycle tells us we are rebuilding herds, with fewer heifers placed in feedlots. Yet, economic analyses tell us this is not the best time to keep extra replacements because they are still worth a lot. Countercyclical strategists will let herd size dwindle over the next few years, waiting to rebuild when heifers are too cheap not to keep.

Most producers take expansion opportunities when they arise; certainly, our tax structure encourages expansion. But think about alternatives to buying or retaining heifers at this turn of the cattle cycle. Perhaps you could lease out some pastures or run stockers for a neighbor in the short term for similar net income.

When you do expand your cowherd, do it with higher quality cattle that will carry you into the next turn of the cycle. The market gets more discriminating as the gulf between commodity beef and premium brand quality widens.

The year's end is also a time to think about the legacy you will leave to your heirs. Seeing them all around your holiday dinner table can remind you of the march of time. Your eventual fate is more certain than taxes, but less predictable; estate planning tries to cover all imaginable bases.

The time of gift giving could remind you that the "gift tax" doesn't kick in until it reaches \$11,000—it moves up to \$12,000 in 2006—and a couple can double that figure. There is no limit to the number of people on the receiving end. There may be tax implications for some of them, but they would have to see that as good news.

Federal estate taxes, which opponents like to call death taxes, have a questionable future. Repealed for 2005, House-passed legislation was pending in the Senate to make the repeal permanent. Estate settlement is always a tax issue in some ways, best handled with the aid of an attorney, but the exemption level was scheduled to rise to \$1 million in 2006.

Any 1,000 cows could be valued at \$1 million today, but there are big differences in quality and productivity. Some herds of that size can generate net incomes of more than \$200,000 even after the cattle cycle causes calf prices to plunge. That's because they are efficient producers of calves that excel in the feedlot and at harvest as premium beef. Other herds feature unknown commodity cows that may be better off liquidated when prices are relatively high. It is also possible to trade such cows for a smaller number of higher quality, more valuable cows.

One day you won't be here to make these decisions. Some people think it a mark of vanity or materialism to exert their "will" after they die, but it is more of a gift to heirs to have everything planned—with their knowledge and cooperation as much as possible.

Next time in *Black Ink*, we'll look a new look at the world market for beef. Questions? Call toll-free at 877-241-0717 or e-mail steve@certifiedangusbeef.com.

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