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Farm Asset Depreciation Changes for 2018

The Tax Cuts and Jobs Act of 2017 (TCJA) has changed how farm producers depreciate assets. Under the old law, new (brand new never been used) farm equipment was classified as 7-year property. Now, new farm equipment is classified as 5-year MACRS property. Used farm equipment is still classified as 7-year property.

Under the old law 3, 5, 7, and 10 year farm property was depreciated at 150 % declining balance. Now, under TCJA 3, 5, 7 and 10-year farm property will be depreciated at 200 % declining balance. This allows the farm producer to get depreciation at a faster rate. Farm assets in the 15 and 20-year MACRS recovery classes remain at 150 % declining balance method.

The TCJA has increased Section 179 deduction to \$1,000,000 in 2018 for qualified property. Section 179 expense deduction is reduced dollar for dollar if the cost of qualifying Section 179 property placed in service in 2018 is over \$2,500,000. If qualifying Section 179 property is greater than \$3,500,000 farm producers cannot take Section 179 expense deduction.

The total amount of Section 179 deduction farm producers can take on sports utility vehicle (SUV) placed in service in 2018 is \$25,000. Vehicles must be rated at more than 6,000 pounds gross vehicle weight but not more than 14,000 pounds gross vehicle weight. This is for SUVs used for farm business purposes.

Special Depreciation Allowance (Bonus Depreciation) for farm assets placed in service in 2018 are eligible for a 100% depreciation allowance. This rate will stay in effect thru 2023. In the past only new (brand new never been used) items were eligible for Special Depreciation Allowance. Now, both new and used assets are eligible. Special Depreciation Allowance is not an election. If you do not plan to use Special Depreciation Allowance you must elect out of it on a class by class basis.

The tax changes that have been enacted in the Tax Cuts and Jobs Act of 2017 are some of the biggest changes to our tax code since 1986. Farm producers should consult with their tax advisors to see how the law will affect them and their farming operations.



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The Economic Value of Applying Broiler Litter in the Fall

Spring application of broiler litter is ideal for maximizing the economic value but faces challenges that include wet soil conditions, lack of time to spread litter near planting, and availability of litter in the spring. Therefore, it is a common practice in Kentucky to apply broiler litter in the fall. While not optimal from an economic, agronomic, or environmental perspective, producers still need to understand the economic value from applying broiler litter in the fall.

Litter applied in the fall to fallow cropland will suffer from ammonium volatilization and leaching resulting in little to no nitrogen available to the crop come spring. This results in an economic value less than if applied in the spring. To evaluate the economic value of broiler litter applied in the fall, first assume that soil test recommendations indicate the need for phosphorus and potassium. Also, assume that “as received” broiler litter has a nutrient content of 50 lbs of nitrogen, 56 lbs of phosphorus, and 47 lbs of potassium (average for Kentucky). Broiler litter also contains calcium, therefore also has a lime value. With current fertilizer prices of \$497/ton for anhydrous (\$0.30/lb N), \$490/ton for DAP (\$0.41/lb P₂O₅), \$354/ton for potash (\$0.30/lb K₂O), and \$10/ton for lime (at the quarry), the expected value of broiler litter applied to fallow cropland in the fall is \$34/ton.

This value should cover the price paid for the litter, transport, and application to compete with commercial fertilizer when applied in the fall. The value of broiler litter increases to \$38/ton if it is spread in the fall to cropland that has a cover crop planted. Both fall broiler litter prices are higher compared to 2017 (\$29/ton on fallow cropland and \$33/ton for cover crop). This is directly attributed to an increase in anhydrous, DAP, and potash prices compared to this time last year.

If availability of litter in the spring is a concern, stockpiling litter purchased in the fall can be an option if local, state and federal regulations allow. With the correct storage techniques and a properly staked litter pile, producers can expect minimum nutrient loss for spring application. If the same commercial fertilizer prices hold, the average broiler litter in Kentucky would have a value of \$40/ton if properly stored and applied in the spring.

The value of broiler litter differs in the fall if applied to pastures or land for hay production. If applying broiler litter to an established stand of alfalfa with a legume mix of <25% of the stand, the average broiler litter in Kentucky at current commercial fertilizer prices has a value of \$46/ton. The value of broiler litter will vary based on grass type, established stands vs. new seeding/renovation, and whether the land is used for hay, pasture, or silage.

Since the value of broiler litter is dynamic and always changing, decision tools have been developed so producers can enter soil test data, nutrient content of measured litter, commercial fertilizer prices, and management practices of broiler litter applied to determine the value. Tools for applying litter to both grain crops and land in hay/pasture/silage are available and can be found on my website at the following link: http://www.uky.edu/Ag/AgEcon/shockley_jordan.php



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Death Taxes Get Even Deader

We still have folks show up at our farm transition/succession/estate planning workshops because they want to learn how to keep from losing their estates to inheritance taxes. It takes about two seconds to lay that fear to rest. “Don’t worry about it.” Under current tax laws, 99.89% of farms will owe no federal estate taxes.

Estate taxes were a legitimate concern as recently as 2001 when the federal estate tax exemption level was \$675,000 and the highest marginal tax rate was 55%. With major tax revisions in 2001, 2010, and 2012 the exemption levels rose and the tax rates were reduced (<https://www.ers.usda.gov/topics/farm-economy/federal-tax-issues/federal-estate-taxes/>).

The Tax Cuts and Jobs Act of 2017 nearly doubled the most recent exemption to \$11.18 million for each individual with transportability (i.e. the remaining unused amount from one spouse can be transferred to the surviving spouse) so that the effective exemption is nearly \$22.4 million for a couple. These terms exclude more than 99% of farm estates from any federal inheritance tax liability.

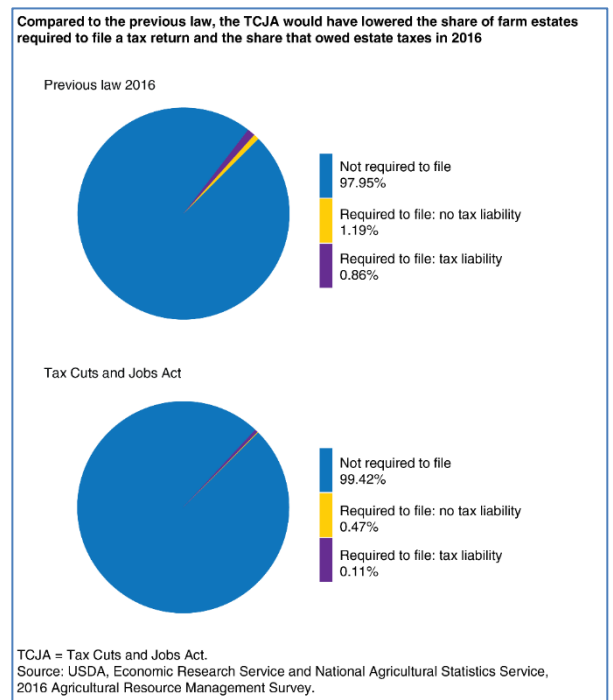
Using 2016 ARMS (Ag Resource Management Survey) data, Social Security Administration mortality rates, USDA’s assets and debts forecast, and Farm Credit System interest rate data, a recent USDA-ERS report provides an estimate of how many farm estates would have been subject to estate taxes in 2016 if the current provisions had been in effect. With a forecast of 39,214 farm estate settlements for 2016, only 184 (0.47%) of those estates would have had to file an estate tax return, and only 43 of those estates (0.11%) would have owed any federal inheritance taxes. The total inheritance tax liability on farm estates nationally would have been \$102 million.

One caveat to the 2017 tax changes is that with current language, they are temporary. The \$11.2 million exemption will revert to the \$5 million level with inflation adjustments on January 1, 2026. Previous changes have also had sunset provisions, but those have generally been made permanent or adjusted to a higher level. Time (and legislative action) will tell if the current provisions will expire in 2026.

The demise of death taxes does not diminish the need to conduct business and estate transition planning. Transferring the ownership and management of a family farm business is the most significant exercise that a family will do. Failure to plan adequately can lead to disastrous results. As I’ve said at all my farm succession meetings in recent years, “Death taxes don’t destroy family farms, families do.”



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Food Price Inflation Remains Tame

As we approach the holidays, U.S. food price inflation continues to be virtually non-existent. According to USDA, food prices (both home and away) for the past month stayed constant and have only increased 1.2% over the past twelve months. Grocery store food price increases are even more benign. After falling 1.3% in 2016 and 0.2% in 2017, grocery store prices are expected to be virtually flat in 2018. For the past 20 years all food prices increased on average 2.4%, while grocery store prices rose 2.1%. Dairy, pork, poultry, and beef prices have been trending lower, with higher prices for eggs, fresh fruits and vegetables.

Certainly depressed commodity prices have contributed to keeping a lid on U.S. food prices. Since the USDA's "Farm Prices Received" index peaked in April 2014, aggregate crop and livestock prices have fallen by nearly 25%, while food prices at home (groceries) have been virtually flat.

The price we pay for many of our food items is impacted more by changes in marketing costs (e.g. labor, transportation, processing, packaging, storage, etc.) and other global factors than the prices farmers receive. USDA estimates that the farm value for every \$1 that the U.S. consumer spends on food is around 16 cents.

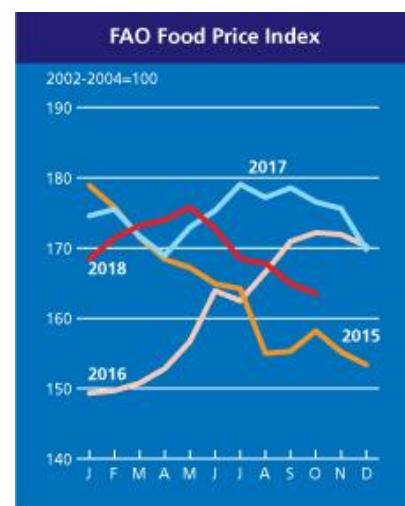
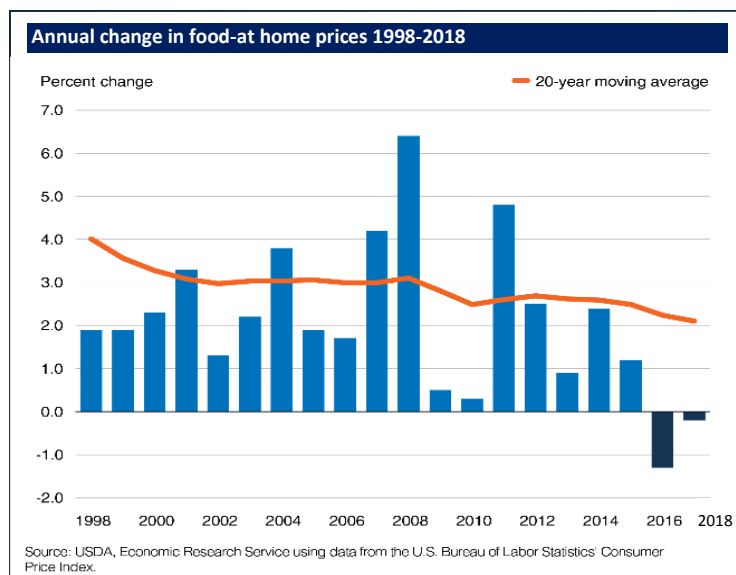
Food prices are also falling worldwide. The Food and Agriculture Organization (FAO) food price index indicates that global food prices have declined 7% over the past twelve months. Globally, food prices tend to be more volatile than U.S. food prices due to differences in crop yields, degree of processing, food marketing infrastructure/competition, farm management, technological adoptions, and government policies, among other factors.

Retail food price inflation in the U.S. is expected to remain relatively low in 2019 (+1 to 2%), as consumers benefit from intense competition in the grocery sector, abundant ag/food supplies, and continued food marketing efficiencies and innovations. However, continued disruptions in trade flows could begin to creep into U.S. food prices if trade conditions deteriorate.

For more details see

USDA Food Price Outlook: www.ers.usda.gov/data-products/food-price-outlook/summary-findings

FAO Global Food Price Index: www.fao.org/worldfoodsituation/foodpricesindex/en/



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