

FARM CLIENT NEWS

For NEFAA clients and ACES co-workers served by Robert Page, Extension Economist.



Harvesting the last of 2009 Farm Client Data.

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January may be the first month of 2010 and the beginning of tax season, but for Extension Economists working in the Farm Analysis program, it's also the last month of harvest season.

Like any harvest, we have a limited amount of time to get a lot of work accomplished. On one hand, we are gathering year-end crop statistics data for our annual farm reports. On the other hand, we are also gathering the December financial information to complete our farm clients' 2009 tax package to send to their tax preparer and preparing client W-2 forms, 1099-MISC forms and year-end payroll returns.

Because of the importance of this month, I've prepared two articles with an overview of (1) what kind of farm data my fellow Economists and I are gathering and (2) how this data will be compiled and published. These articles begin on page 2.

Fourth Quarter Goals – Items checked off in December.

December was a very busy month with 7 day work weeks and 12-14 hour days. Here's a recap of my activities for the month.

- Made 16 farm visits during the month in Jackson, Dekalb, Cherokee, Madison and Blount counties to complete tax estimates and subsequent revisions as final crops were sold or contracted.
- Posted all available client bank statements and farm records through November or December YTD into QuickBooks to use as few as possible estimated items to complete federal and state tax estimates.
- Attended and spoke at the Blount County Extension Office's annual County Commissioner luncheon with CEC Dan Porch presiding.
- Attended and spoke at Etowah County Extension Advisory Board meeting with CEC Mary Lucille Jordan presiding.
- Met with CEC Dr. David West and his staff at the Calhoun County Extension office to discuss agricultural activity and opportunities for Farm Analysis service in the county. Note: The December meetings in Calhoun and Etowah Counties completed my last two 2009 visits to my 17 assigned county offices. I look forward to working even more closely with each County Extension Coordinator and their teams during 2010.
- Was invited to speak at District Director Clarene Johnson's December 1 County Extension Coordinator group meeting in Athens. After my overview of the Farm Analysis program, the CEC's completed a short survey on their knowledge of the Farm Analysis program, its benefits and publications.

Special points of interest:

- 2010 Annual Member Meeting of the Northeast Farm Analysis Association will be held on Saturday, January 16 at 6:30 PM at the Sand Mountain Research and Extension Center in Crossville.

View from the Top

Extension Director Dr. W. Gaines Smith endorses Farm Business Analysis Program and encourages recruitment of more farmers and development of expanded services.

The Strategic Analysis and Business Plan that you and the economists developed provides a comprehensive overview of the program.

The program remains relevant to the needs of agriculture in Alabama. In fact, it is probably more important today than when organized over three decades ago. There is less "margin for error" in producers' decisions meaning thorough analysis is critical.

Excerpted from a December 8, 2009 email from Dr. Smith to all Extension Economists.

More details of Dr. Smith's new 3-5 year goals for the Farm Analysis program will be reviewed at the annual NEFAA member meeting on January 16 at SMREC.

Update on 2009 Alabama Farm Depreciation.

In last month's newsletter, I reviewed several questions on 2009 depreciation deductions, including this warning concerning limits on farm equipment and machinery depreciation on Alabama tax returns.

Warning in December newsletter: In 2008, Alabama tax code decoupled from federal tax code on this extra \$125,000 in Section 179 depreciation. That means section 179 depreciation on Alabama 2009 tax returns is still limited to \$125,000.

Update: We were told by representatives of the Alabama Department of Revenue in mid-December that the \$125,000 limit on Section 179 depreciation on 2009 Alabama tax returns will be increased to match the \$250,000 depreciation limit on 2009 federal tax returns. See your tax preparer for further details.

Farm Data – What information are we gathering?

The amount of data gathered from each farm client is extensive. These include:

- Dollar amount and unit sales by bushels, tons, bales or other units of measure for each crop raised and/or purchased, then sold during the year or carried over (inventoried) to the next year.
- Acres planted for each type of crop.
- Dollar amount and unit sales by head, pound or other unit of measure for livestock purchased, consigned or born, then sold during the year or still on hand at the end of the year.
- Acres owned and/or rented for crop or pasture with rental prices per acre by landlord.
- Dollar amount and poundage of feed and other livestock supplies purchased during year.
- Dollar amount spent on 15 or more farm expense categories. These expenses are then further separated or categorized by farm enterprise, such as cotton, poultry and other designations.
- Dollar amount spent and description of all farm equipment, buildings and land purchased during the year.
- Dollar amount and terms of sale of land and equipment sold by farmer during the year.
- Dollar amount borrowed and terms of repayment for all new farm loans, along with interest and principal repaid on new and existing loans during the year.
- Hours worked and wages paid for each employee and payroll taxes deposited by farm employer during the year.
- Dollar amount of patronage refunds received for the year.
- Dollar amount of government payments or loans received during the year.
- Payments paid to independent contractors for services performed during the year.
- Hours worked by farmer and by family members over 12 months.
- Personal funds transferred in or out of farm operations during the year.

In addition to farm information, some farm clients also provide off-farm wage, retirement, investment and non-farm business income and expenses to be compiled for tax return purposes.

In summary, a farmer who enrolls in the Farm Analysis program must be able to trust their Extension Economist implicitly with this very detailed and very confidential information. It is a trust and commitment that we Economists take very seriously.

Farm Data – What do we do with all this financial and statistical data?

The first reason for gathering all the financial and statistical data is for analysis purposes. There are four Farm Analysis Associations statewide including the Northeast, Central, Wiregrass and Gulf Coast associations. Each client farmer belongs to one of these associations. Holt and I work with the Northeast Farm Analysis Association. Completing analysis is a four step process.

Step 1. The Economist completes a Farm Record Book for each client farmer with all needed financial and statistical information. This is their complete summary record of all farm operations. Generally, the Farm Book is initially completed on the cash basis method to be used in preparing the farm tax return packet and then updated for adjustments needed to convert the final version of the Farm Book to the accrual basis of accounting for year-to-year analysis purposes. While the original Farm Record Book used by Extension Economists was a multi-page paper workbook, it is now entered into a custom designed excel spreadsheet with yearly reports very similar to the original paper record books.

Step 2. Once the excel Farm Record Book is completed, the compiled information is ready to be entered into annually updated FBFM software developed by the University of Illinois Farm Analysis program. This FBFM software is our individual and compiled farm database program and the tool that enables Economists to generate merged farm reports across all farm categories. Each Economist enters the data, checks its accuracy and then certifies the FBFM file for each farm that they have received all required data. If all data has not been received from the farmer, the data may be partially used or may be deemed unsuitable for the statewide database. Once the Economist has certified all farms suitable for the statewide database, the data files are sent to Economist Steve Brown, who merges the data of each Economist into a statewide database. This merged database generates both individual and group reports, such as:

- A five year average for one selected farm with comparisons to group averages for the same type of farm operation. For example, a comparison of Farmer Smith's grain operations to group averages for similar grain operations. This allows the Farmer Smith to look at trends for their farm compared to other farm clients in similar farms. These type reports are confidential for individual farmer use only.
- Group reports for all farms in a category, such as the Alabama Grain report. These reports form the basis for data tables of information that will appear in the final statewide report. Some of these group reports include Economic Analysis Charts and Tables for Central Alabama Cotton, North Alabama Cotton, Alabama Grain, Alabama Poultry and others. Enterprise Analysis Tables include Gulf Coast Cotton, West Alabama Catfish, Government Payments and others.

Step 3. Once the merged reports are completed, Economists read and interpret the data by summarizing trends, explaining and pointing out key changes or variables in this year's data compared to results from other years. These conclusions are written as commentary to be published along with the various charts and tables in the annual Farm Analysis Summary Report.

Step 4. Finally, the annual Farm Analysis Association Summary Report is published as the culmination of an entire year's worth of work for the Economist team. This report is truly a statewide team effort of hundreds of farmers who believe in the value of the data collected to improve both their farm and to assist all Alabama farmers, researchers, farm groups and government officials who read and study the annual report. Each Economist presents and publicizes the report and its findings throughout the state.

The 2009 annual report is scheduled to be completed and published during the second quarter of 2010. The current 2008 annual report and previous year reports can be found on the College of Agriculture's Department of Agricultural Economics and Rural Sociology webpage under the Extension tab. The web address is www.ag.auburn.edu/agec/extension.

The second reason for gathering all the financial and statistical data is for tax return purposes. After entering all pertinent data, the Economist uses the FBFM software to print worksheets for Schedule F – Profit or Loss from Farming, Fixed Asset Depreciation Reports – Tax Basis, Form 4797 and other reports needed to prepare a tax prep packet of information to send to the farmer's tax preparer to complete their federal and state tax returns.

Each Economist attends annual tax workshops to stay current with farm tax changes and works hard to determine the best possible tax options for the farmer's return. The Economist must consider not only this year's return, but how decisions made this year will impact the farm next year and in the years beyond. As Alabama farmers age and children and grandchildren begin to take over the farm, estate planning and farm exit plans must be developed. It is the nature of farming to want to pass the farm to the next generation, and the Economist is there to assist as needed.

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Northeast Farm Analysis Association

Holt Hardin and Robert Page are the two Extension Economists for the Northeast Farm Analysis Association. The association recruits and serves farm client/members in the following 17 counties.

Blount County, Calhoun County, Cherokee County, Colbert County, Cullman

County, Dekalb County, Etowah County, Franklin County, Jackson County, Lauderdale County, Lawrence County, Limestone County, Madison County, Marshall County, Morgan County, St. Clair County and Winston County.

If you know of a farmer who needs information or assistance with their farm records, you can direct them to their County Extension office or call either Holt Hardin at 256-574-2143 in Scottsboro or me at SMREC.

It is always a pleasure to meet and assist farmers with their record keeping needs.

The Alabama Farm Business Management and Financial Analysis Program.

For more information on the Farm Business Management and Financial Analysis Program, please visit the Alabama Cooperative Extension System website at www.aces.edu and select the Financial & Business tab.



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