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GENERAL RULES FOR FARMERS' INCOME-TAX RETURNS

As the time approaches for making income-tax returns on operations in 1947, farmers of the Southwest, as in other parts of the Nation, are naturally more interested in the answers to certain questions connected with the making of a fair and true return. It is possible in this article to cover only general income-tax rules regarding the usual items of farm receipts, expenses, and inventories. The following comments, therefore, are not intended as a substitute either for careful reading of the instructions printed on income-tax forms or for consultation with Federal internal-revenue officials.

A fundamental fact to remember is that farmers may compute their incomes either on the basis of cash receipts and disbursements or on an accrual basis. The individual farmer must follow one or the other of these methods consistently, and any change in method from one year to another must be approved by the Commissioner of Internal Revenue.

A farmer who reports income on the basis of cash receipts and disbursements, taking no account of inventories to determine profits, must include in gross income the amount of cash received from the sale of any livestock or produce raised on the farm, the profit from the sale of any livestock or farm product purchased and sold during the year, and any other cash income received. The net income is derived by subtracting from the gross income the actual amount of money paid out to meet expenses of operating the farm during the year. Computing income accurately by this method requires the keeping of written records of only cash receipts and cash disbursements.

This method of computing income is preferred by many farmers because it is simple and requires little bookkeeping. It has the additional advantage of flexibility, in that the farmer may even out his annual income over a period of years, thus avoiding very large cash receipts in one year and the possibility of low cash receipts in the subsequent year. There is, however, a disadvantage in reporting on the basis of cash receipts and disbursements, in that a farmer may incur expenses during the year which cannot be paid until after the end of the tax period, and in such instances it may be necessary to take credit for these expenses in a year of low gross income.

A farmer who reports his income on the accrual basis must take an annual inventory as well as keep a record of all receipts and expenditures. To compute his gross farm profit for the year, he adds together (1) the inventory of livestock, crops, and products at the end of the year, (2) the amounts received from sales of livestock, crops, and products during the year, and (3) miscellaneous receipts for breeding fees, the hire of teams and machinery, Government payments, and the like during the year; and then subtracts from this total the inventory taken at the beginning of the year and the cost of livestock and products purchased during the year. His net farm profit is computed by subtracting from gross profit the various deductible expenses of the year's operation, annual depreciation of buildings and equipment, and net operating losses, if any, for each of the two preceding taxable years.

Farmers who render their returns on the accrual basis face the problem of taking an-

nual inventories. The Government allows a choice of inventory methods. Inventories may be valued, as in other businesses generally, either on the basis of cost or on the basis of "cost or market, whichever is lower." On the average farm, however, it may be extremely difficult to determine correctly the cost of livestock and crops that are raised. For this reason, a farmer is permitted to value his inventories by the "farm-price" method. In using this method, the farmer takes as a basis for evaluation the price in the local market, or a price based on the best available evidence of a fair market value, and deducts "costs of disposition", such as brokers' commission, freight charges, and other handling expenses. This gives him the current "farm price."

An alternative to the farm-price method which the farmer or rancher may use in evaluating livestock is the "unit-livestock-price" method, which permits him to assign a standard unit price for each animal within a class before it reaches maturity, based on the annual cost of raising it. An addition is made to the value of each animal each year until it reaches maturity, after which it is held in inventory at a constant valuation. In this way a farmer need only count the number of animals in each class, such as calves, yearlings, 2-year olds, all figured at the time the inventory is made, with certain exceptions in the case of purchased animals. The classification selected by the livestock raiser and the unit prices assigned to the several classes are subject to approval by the Commissioner of Internal Revenue upon examination of the taxpayer's return. This method of evaluating livestock is particularly useful to ranchers of the Southwest who carry large numbers of livestock.

In computing depreciation of capital assets—buildings and equipment—the "straight-line" method is most generally used. By this method the estimated useful life of the property is determined and the capital sum, or cost, is charged off to depreciation over the period in equal annual instalments. For example, on a tractor costing \$1,000 and expected to last 10 years, there may be an

annual depreciation of \$100. Different items will have a different rate of depreciation, of course, depending on their useful-life expectancy. For the guidance of taxpayers, the Bureau of Internal Revenue has prepared a bulletin (Bulletin F) setting forth Bureau practices in regard to depreciation deductions and estimated useful life of various types of property.

The establishment and operation of farms, orchards, or ranches entail both capital and operational expenditures, and certain general principles are to be followed in dealing with these expenditures in income-tax returns. From a tax standpoint, there are three definite periods, or stages, in establishing and operating a farm, orchard, or ranch; namely, the preparatory, developmental, and productive periods. Amounts expended during the preparatory period are required to be capitalized. Typical items of this period are the cost of clearing brush, trees, and stumps and of leveling and conditioning the land; the cost of trees and the planting of trees; expenditures for drilling and equipping wells, for building irrigation canals and ditches, and for constructing reservoirs or dams; and the cost of physical equipment having a life in excess of one year. Items of expense incurred during the developmental period may be either capitalized or treated as expenses of operation. Such costs include the upkeep of a grove or orchard after the trees have been planted, taxes, water for irrigation purposes, cultivating and spraying trees, and the cost of commercial fertilizers. After the productive stage is reached, one cannot capitalize ordinary expenses, and if any tax advantage is to be secured, the amounts of such expenses must be deducted each year as they are paid or incurred.

If an individual owns and operates a farm in addition to being engaged in another trade or business and sustains a loss from the farming operations, the loss may be deducted from income received from other sources, provided the farm is operated for profit rather than recreation or pleasure and the operator assumes the risk in the enterprise.

Regarding special or peculiar features of their operations which are not covered by the principles and rules here discussed, farmers may consult with local officials of the Bureau of Internal Revenue or may secure from them a bulletin entitled "Your Federal Income Tax," which contains a section devoted specifically to income-tax problems of farmers. Also, they can usually secure from their state agricultural colleges a bulletin on farm-income taxes, such as the Oklahoma A. & M. College Circular Number 421, entitled "Preparation of Farm Income Tax Returns."

FARM RESEARCH PROGRAM GETTING UNDER WAY

The Research and Marketing Act of 1946 provided for research into problems in particular branches of agriculture as well as problems of interest to agriculture generally. As provided by the Act, committees representing the various branches of agriculture were selected to make recommendations for research projects to be undertaken. The research projects which are recommended by the Committees and approved by the Department of Agriculture are undertaken by one or more of the divisions of the Department, sometimes in cooperation with state agricultural experiment stations or other agencies.

Among projects so far approved are several of special interest to farmers and ranchmen of the Southwest. Studies are to be made of the mechanics of wind erosion and of how to improve irrigation water supplies by recharging ground water storage. Both these projects will be directed by the Soil Conservation Service. The wind erosion research will be carried out at the Kansas State Experimental Station and the irrigation studies in California. A project which sheep raisers will watch with interest is one seeking methods to prevent sheep from becoming infested with internal parasites. The project aims also at developing ways to combat parasites already present.

Dairymen will be interested in two projects to develop better dairy strains for the South and higher production from cows on

the average dairy farm. To develop dairy herds that will produce more milk for southern producers, it is planned to cross the heat-resistant Red Sindhi bulls with Jersey or other domestic breeds. The effect of further crossbreeding, outbreeding, or inbreeding in the development of hot-weather cows will be studied. For higher production from cows on the average dairy farm, researchers will make experimental studies of (1) systems of breeding that concentrate the genetic factors for high milk production; (2) quicker and better proof of sires capable of transmitting high production ability; and (3) ways of predicting the value of young dairy bulls more accurately.

To improve methods of freezing and refrigerating milk and cream, a research project has been set up which involves a study of the preservation of the product without altering its physical or chemical makeup—as when it is dried, evaporated, or condensed—so that it will retain its fresh-milk flavor. Successful preservation of flavor and other qualities in frozen milk would make it easier to carry the product over from periods of flush production. More information also will be sought on preventing the flat, stale odor which sometimes occurs in refrigerator-stored milk.

Projects of more general interest include those to determine the nutrient value of forage in relation to milk production; to improve peanut varieties and harvesting methods; to increase the efficiency of stockyard facilities and services; to reduce pig losses; to reduce egg losses during handling, processing, packaging, transporting, and warehousing; and studies on consumer preferences, on methods of measuring farm expenditures and income, and on finding profitable alternative uses for items of farm production that seem likely to be in overabundant supply in the future.

The broad program of research contemplated in the Research and Marketing Act of 1946 should result in the frequent publication of reports of vital interest to farmers and stockmen. References will be made from time to time in this *News Letter* to the reports

which relate to improvement of farming and ranching in the Southwest.

FARM PRICES

New Wool Price Schedule

The Department of Agriculture recently announced a new schedule of selling prices, effective October 25, for shorn wool owned by the Commodity Credit Corporation. For wools of the 1946 and 1947 clips, the new schedule includes increases over the former schedule of one to two cents a pound, clean basis, in the two highest classes of fine Territory, Texas, and Fleece wools. No changes were made in the prices for average-length fine wools or half-blood wools, while shorter-than-average fine and half-blood wools were reduced one to three cents a pound. Other changes in the schedule reduced prices of medium and coarse wools by 5 to 13 cents a pound, clean basis, from the previous schedule, and prices of off-grade wools by 10 to 30 percent. Prices for the 1943, 1944, and 1945 clip wools were reduced by three cents a clean pound from the revised prices for 1946 and 1947 clips.

The revised schedule of selling prices is designed to place CCC-owned wool in a competitive position with foreign wools. The revision was made under authority of the Wool Act of August 5, 1947, which continues price support for wool through December 31, 1948, and which authorizes the CCC to price its wool holdings in keeping with world market conditions. Present CCC holdings amount to approximately 350,000,000 pounds, including both shorn and pulled wools.

FARM MANAGEMENT

Balanced Rations for Hogs

Farmers can achieve a considerable saving in grain fed to hogs if the grain diet is supplemented by protein concentrates such as soybean meal, cottonseed meal, or tankage. Such a balanced diet would increase the efficiency of the grain and result in an increase in gains made per unit of grain fed. Moreover, according to a report of the Louisiana Agricultural Experiment Station, it is pos-

sible to substitute culled sweet potatoes for grain if a proper supplement is fed. The test covered by the report indicates that protein feed supplied at the rate of $\frac{3}{4}$ pound per day for each hog weighing from 100-200 pounds will accelerate the increase in poundage and also save grain. Soybean meal is said to give better results than cottonseed meal or tankage. It is also pointed out that salt and a mineral mixture should be available at all times so that the hogs can feed themselves.

ANNOUNCEMENTS

Recent Publications

Louisiana Agricultural Experiment Station, Baton Rouge:

Artificial Insemination of Dairy Cattle, Leaflet No. 8, by E. W. Neasham, R. C. Calloway, and D. M. Seath.

New Mexico Agricultural Experiment Station, State College:

Codling Moth Control, Bulletin 338, by J. R. Eyer and J. V. Enzie.

Texas Agricultural Experiment Station, College Station:

Peach Varieties for Central and East Texas, Bulletin No. 687, by H. F. Morris.

The Price of Texas Farm and Ranch Lands, 1920-1945, Bulletin No. 688, by Joe R. Motheral and others.

Sweet Corn Tests in the Lower Rio Grande Valley, Bulletin No. 689, by B. S. Pickett.

The Texas Feed Law: Definitions, Standards, and Regulations Relative to Feeding Stuff, Circular No. 115, by F. D. Brock.

Fertilizer Experiments with Spinach in the Texas Winter Garden, Progress Report 1090, by Bruce A. Perry.

Seabreeze Wheat, Progress Report 1095, by E. S. McFadden and W. H. Friend.

The Use of Fertilizer and Supplemental Materials in the Production of Bermuda Onions, Progress Report 1096, by Bruce A. Perry.

Copies of these bulletins may be obtained by request to their respective publishers.