



## **SECTION 179 AND BONUS DEPRECIATION PROVISIONS**

As you work on your tax management plans for 2011, it is important to note the current Section 179 and bonus depreciation provisions available. For taxable years beginning in 2010 and 2011, Section 179 deductions are available on up to \$500,000 of qualifying purchases as long as the total investment is below \$2,000,000. For 2012, the Section 179 deduction is reduced to \$125,000 (with an investment limit of \$500,000). The Section 179 deduction is currently scheduled to drop to \$25,000 (with an investment limit of \$200,000) in 2013 or thereafter. Remember that property must be placed in service by end of the year. Also, beware that related party purchases and non-corporate lessors, in general, do not qualify for the Section 179 deduction.

100% bonus depreciation is available on qualifying **new** purchases placed in service until December 31, 2011 on assets with a recovery

period of 20 years or less, which means that farm buildings will qualify. 50% bonus depreciation is available for property placed in service in 2012.

It is important to note that for fiscal year entities the Section 179 limit is \$500,000 for tax years beginning in 2011. The 100% bonus depreciation property, on the other hand, must be placed in service by December 31, 2011. Thus, if your fiscal year begins March 1, 2011 for example, you have access to the entire \$500,000 Section 179 deduction for assets placed in service by the end of your fiscal year, but the use of 100% bonus depreciation is available only for assets placed in service by December 31, 2011.

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## **WILL WHEAT BE PROFITABLE IN 2012?**

The time has come to plant the 2012 Kansas winter wheat crop. In 2011, Kansas farmers harvested roughly 7.8 million acres of hard red

winter wheat. Kansas hard red winter wheat acreage has decreased in recent years, as other crops have become more profitable alternatives. There are many question marks regarding the number of wheat acres that will be planted this fall. In addition to wheat acres trending down, extreme drought conditions continue to be a major concern in a large portion of hard red winter wheat country. As producers make decisions regarding wheat planting intentions, a crop budget can be a useful tool in aiding in the decision making process.

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The purpose of this article is to provide producers with a projected wheat budget for the 2012 winter wheat crop. Current new crop cash contract bids along with current crop input prices were used in order to accurately project the 2012 wheat crop budget. Kansas Farm Management Association wheat enterprise data were used to estimate machinery costs, crop insurance premiums, miscellaneous expenses, and hired labor expenses. It is important to note that machinery costs include repairs, fuel and oil, non-farm auto expense, depreciation, and average machine hire expense. In terms of land costs, Kansas Farm Management enterprise reports take share rent, cash rent, and owned land ownership costs into consideration. For the purposes of this budget, cash rent is used to estimate land costs. Interest expense is also included in the budget.

The projected 2012 Kansas wheat budget is shown in Table 1. As can be seen, total cost of \$290.95 per acre is projected. Seed cost of \$24.75/acre was calculated using a seeding rate of 75 pounds of seed per acre at a cost of \$0.33/lb. Total fertilizer cost of \$70.38/acre in the budget represents 80 lbs of nitrogen fertilizer applied at a cost of \$0.65/lb and 25 pounds of phosphorus at \$0.735/lb. Finesse, costing \$15.35/oz, applied at a rate of 0.4 oz per acre was used to calculate herbicide cost of \$6.14/acre. Fungicide costing \$2.69/oz applied at a rate of 6 oz per acre was used to determine fungicide cost of \$16.14/acre. Cash rental rates have increased along with the price of land recently. For the purposes of this budget, cash rent was estimated at \$70/acre. Interest cost is calculated at a rate of 5% on 1/2 of non-land costs.

In addition to projected costs per acre, Table 1 also shows projected income per acre as well as

return per acre and a breakeven production price at a yield of 45 bushels per acre. As one can see, wheat yielding 45 bushels per acre and sold at a price of \$8.00/bu would result in \$81.34 return over all cash costs, depreciation, and land costs. By historical standards, this would be well above long-run average returns. Operator labor is not factored into this particular budget projection. Even deducting \$29.20/acre for operator labor would result in \$52.14 economic profit. In contrast, the 6 year average KFMA wheat enterprise data suggests near breakeven economic profit for wheat enterprises in Kansas.

Figure 1 represents breakeven prices per bushel at various levels of production. It appears that with the current projected wheat price and current cost structure, average wheat yields could potentially result in above average returns for Kansas wheat producers. Given current price levels and projected profits, producers may want to consider pricing some of the 2012 wheat crop. Given the volatile market situation and current weather conditions, producers should take caution and evaluate risks associated with forward pricing 2012 wheat production. Keep in mind that this is a projected budget and costs can vary greatly across different areas of the state. It is also important to remember that costs vary from producer to producer. Despite good projected prices, profits are greatly affected by cost management and yields. With good growing conditions, good managers could potentially have a very profitable 2012 wheat crop when compared to historical averages.

*Aaron Gasper*  
*Extension Agricultural Economist*  
*Kansas Farm Management Association, NC*

**Table 1. 2012 Wheat Enterprise Budget**

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<b>INCOME PER ACRE</b>	
Yield Per Acre	<b>45</b>
Price Per Bushel	<b>\$8.00</b>
Government Payments	<b>\$12.30</b>
<b>GROSS INCOME PER ACRE</b>	<b>\$372.30</b>

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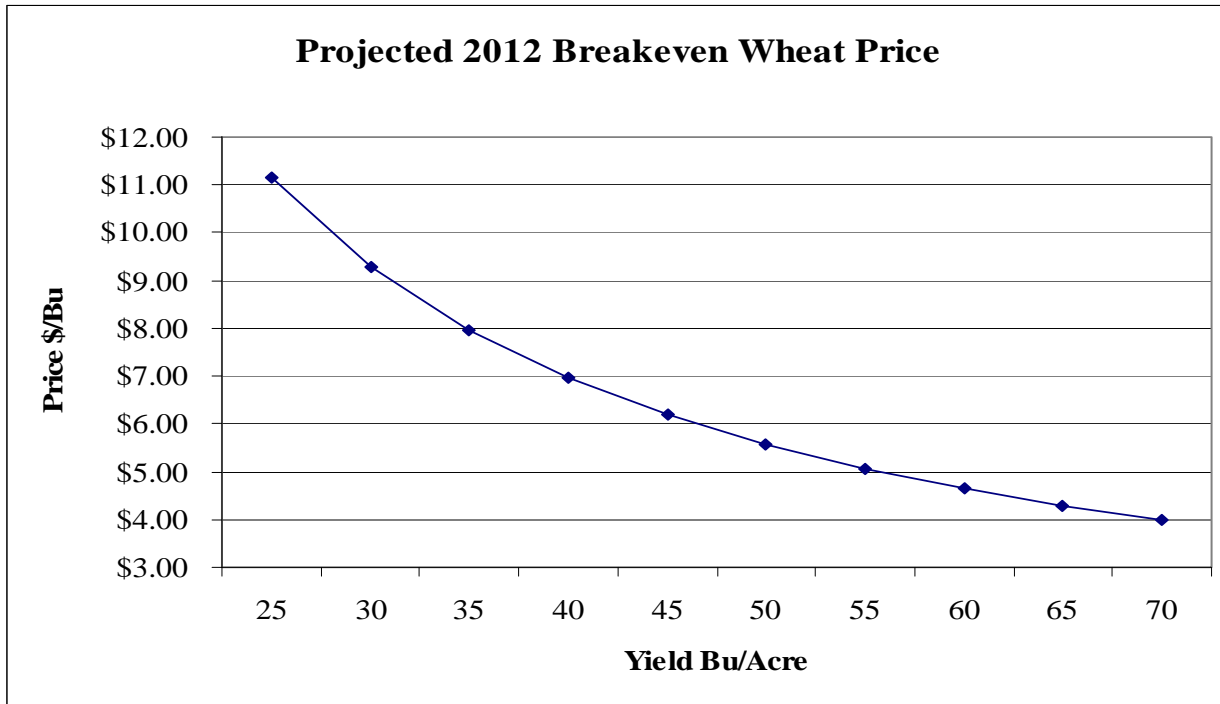
<b>COST PER ACRE</b>	
Seed	<b>\$24.75</b>
Herbicide	<b>\$6.14</b>
Fungicide	<b>\$16.14</b>
Fertilizer	<b>\$70.38</b>
Crop Insurance	<b>\$9.45</b>
Miscellaneous	<b>\$11.59</b>
Machinery/Labor Expense	<b>\$68.87</b>
Hired Labor Expense	<b>\$8.25</b>
Land Charge/Cash Rent	<b>\$70.00</b>
Interest on 1/2 Non-Land Costs	<b>\$5.39</b>
<b>TOTAL EXPENSE PER ACRE</b>	<b>\$290.96</b>

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<b>NET RETURN</b>	<b>\$81.34</b>
<b>BREAK EVEN PRICE PER BUSHEL</b>	<b>\$6.19</b>

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Figure 1



## RELATIVE PROFITABILITY OF WHEAT ENTERPRISES

Using KFMA enterprise data for 157 farms, this article examines the relative profitability of farms with continuous wheat enterprise data from 2006 to 2010. This article also illustrates the large differences in breakeven prices for wheat.

To illustrate differences in gross income, cost, and net return (i.e., profitability), farms with continuous wheat enterprise data were sorted into thirds using net return to management per acre. Cost categories include seed, fertilizer, herbicide and insecticide, crop insurance, machinery, labor, land, interest, and other. The machinery cost category includes repairs; machine hire; fuel, gas, and oil; and depreciation. The labor cost category includes hired labor as well as family and operator labor.

Table 1 presents yield, price, gross income, cost, and net return for the three net return to

management groups. Figure 1 provides a graphical depiction of total cost per acre, net return to management per acre, and price per bushel differences among the net return to management groups. The difference in net return between the low and high groups was \$107.09. Net return to management per acre for the high net return group was \$46.86. In contrast, net return to management for the low net return group was a -\$60.23. The high net return group had more wheat acres, more crop acres, a higher yield, a higher price per bushel, and significantly lower total costs than the low net return group.

Gross income per acre for the high net return group was approximately 19 percent higher than that for the low net return group. More importantly, total cost per acre was approximately 28 percent lower for the high net return group. Differences in gross income per

acre between the high and low net return groups accounted for 35 percent of the difference in net return to management between the two groups. Differences in total cost per acre accounted for the remaining 65 percent of the difference in net return to management between the two groups. Most of the difference in gross income between the two groups was associated with yield differences. The three largest differences in costs per acre between the two groups were associated with the labor, fertilizer, and machinery cost categories.

Average cost per bushel for each farm with continuous wheat enterprise data from 2006 to 2010 is presented in Figure 2. The average cost per bushel over the five-year period was \$6.61. This can be compared to an average wheat price of \$5.35 and average gross income per bushel of \$6.47. The bottom one-third group had a cost of production (\$8.18) that was almost \$2.00 per

bushel higher than the cost of production for the top one-third group (\$5.22). The trend line in Figure 2 emphasizes the importance of economies of scale with respect to wheat production.

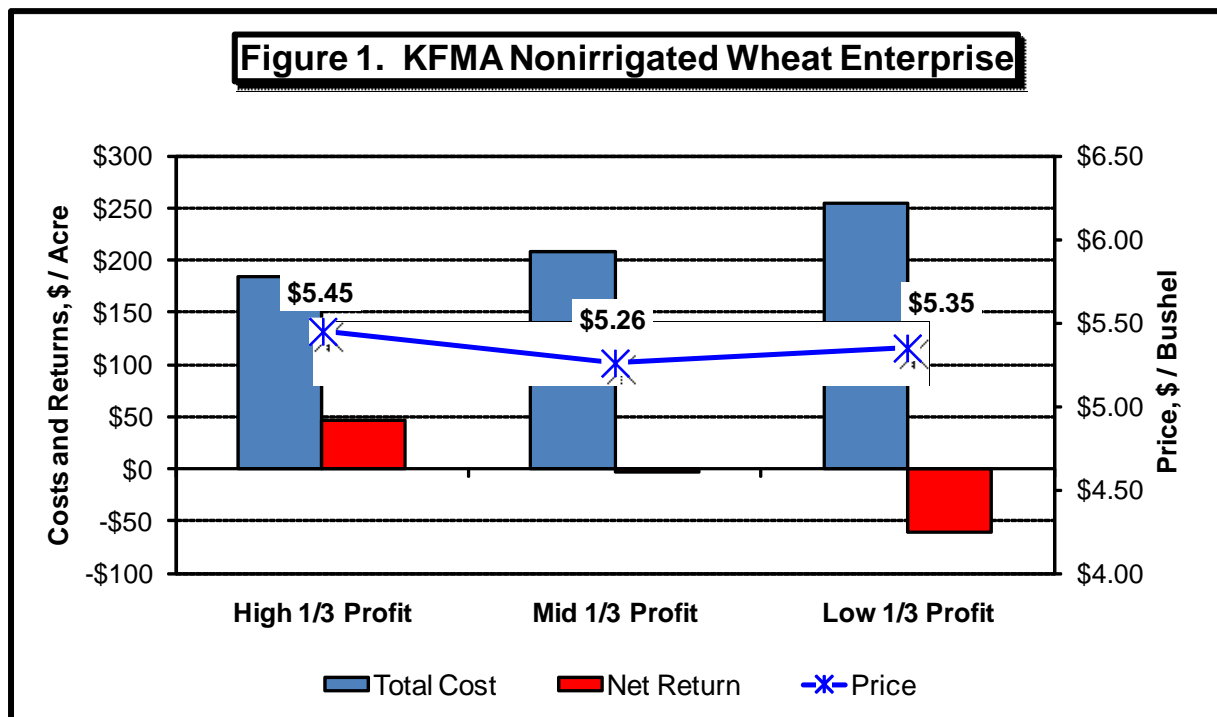
The analysis above was presented to motivate wheat producers to examine their production costs. For many Kansas farms wheat remains a very important crop. This increases the need to know a farm's cost of production. Next month's newsletter will illustrate the relative profitability of beef cow enterprises. For those interested in additional enterprise summary information, check out the KFMA web site: [www.agmanager.info/kfma](http://www.agmanager.info/kfma).

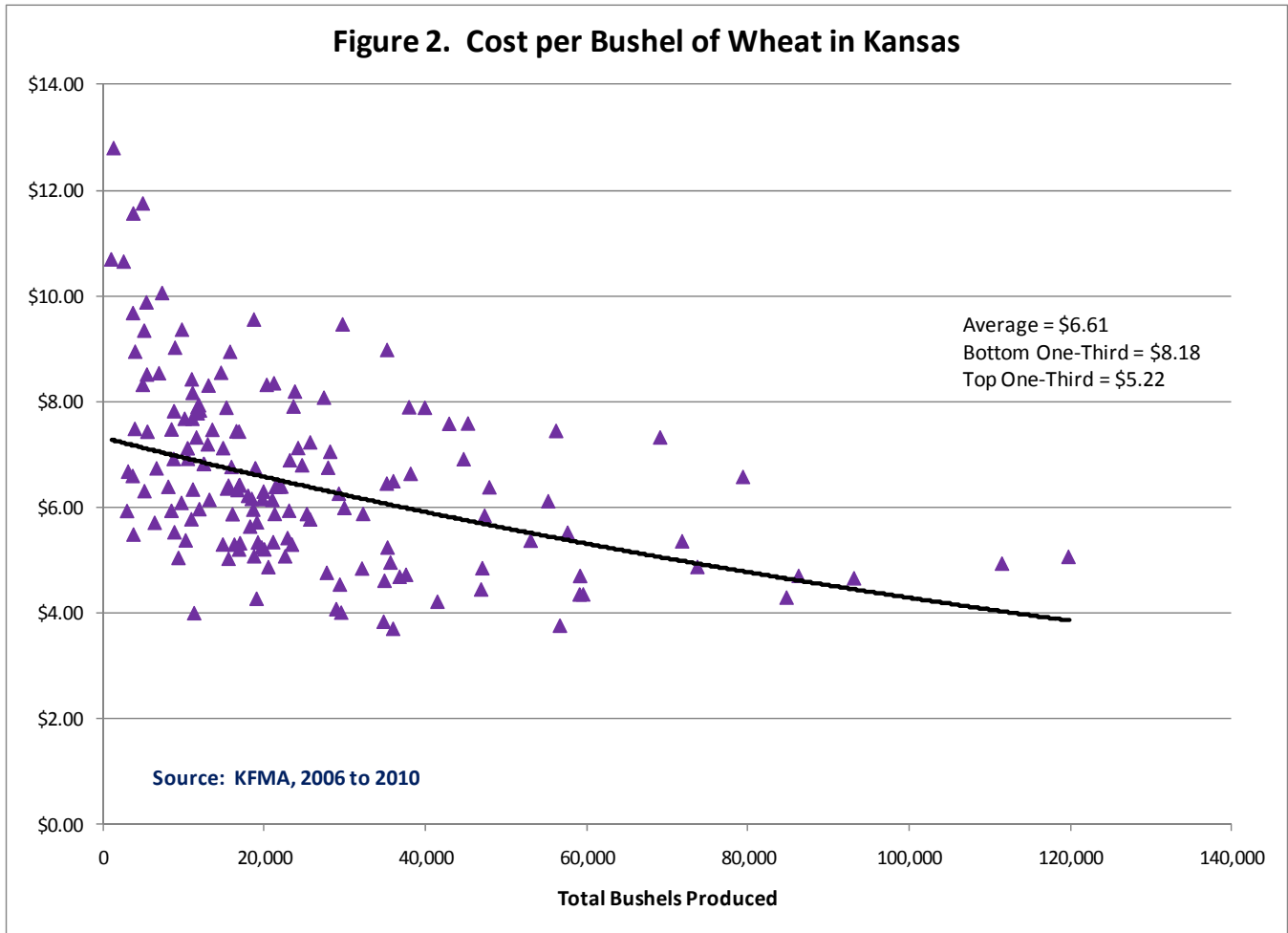
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**Table 1. Kansas Farm Management Association: State Average  
2006-2010 Nonirrigated Wheat Enterprise Sorted by Net Return to Management per Acre**

	Profit Category			Difference between High 1/3 and Low 1/3	
	High 1/3 Per Acre	Mid 1/3 Per Acre	Low 1/3 Per Acre	Acres / \$	%
Number of Farms	52	53	52		
Enterprise Acres	1,096	705	452	644	142%
Owned Acres	260	185	196	64	33%
Rented Acres	836	519	256	580	227%
Yield per Acre	43.8	39.2	37.2	6.6	18%
Operator Percentage	82.1%	84.1%	85.6%	-3.5%	-4%
Price per Bushel	\$5.45	\$5.26	\$5.35	\$0.10	2%
<b>INCOME:</b>					
Crop Income	\$193.03	\$168.49	\$161.98	\$31.06	19%
Government Payments	\$15.17	\$14.30	\$15.40	(\$0.23)	-2%
Other Income	\$22.34	\$23.16	\$16.10	\$6.24	39%
Gross Income	<b>\$230.54</b>	<b>\$205.95</b>	<b>\$193.48</b>	<b>\$37.06</b>	<b>19%</b>
<b>COSTS:</b>					
Seed	\$8.08	\$10.33	\$12.19	(\$4.11)	-34%
Fertilizer	\$30.13	\$40.11	\$47.40	(\$17.27)	-36%
Herbicide-Insecticide	\$10.20	\$10.40	\$11.50	(\$1.30)	-11%
Crop Insurance	\$10.17	\$10.65	\$9.55	\$0.62	6%
Machinery	\$52.70	\$51.94	\$63.58	(\$10.88)	-17%
Labor	\$26.43	\$32.90	\$43.98	(\$17.55)	-40%
Other	\$6.97	\$8.75	\$12.79	(\$5.82)	-46%
Land	\$25.31	\$27.69	\$33.35	(\$8.04)	-24%
Interest	\$13.69	\$15.68	\$19.37	(\$5.68)	-29%
Total Cost	<b>\$183.68</b>	<b>\$208.45</b>	<b>\$253.71</b>	<b>(\$70.03)</b>	<b>-28%</b>
Net Return to Management	<b>\$46.86</b>	<b>(\$2.50)</b>	<b>(\$60.23)</b>	<b>\$107.09</b>	





## ENROLLMENT IN 2011-2012 MAST PROGRAM

MAST is a distance education program for producers and agribusiness professionals who desire to strategically position their businesses for success. Through MAST, participants are equipped with better management skills, new decision-making tools, peer networking, and strategic planning.

This year, MAST begins with a two-day workshop on the K-State campus, November 15-16. At this workshop, program participants are introduced to key management tools and business planning models. For the next three

months, participants learn through distance education methods, and progress through several learning modules focusing on various farm management topics and tools. Topics covered include land and machinery management, financial analysis, human resource management, tax and policy issues, risk management, and marketing. Participants return to campus for a final two-day program in February that emphasizes applying tools and concepts to developing comprehensive business plans.

For more information visit the Ag Manager web site ([www.agmanager.info/MAST](http://www.agmanager.info/MAST)) or contact Shannon Krueger, MAST Program Coordinator

at (785) 532-6994 or via e-mail at [shannon@agecon.ksu.edu](mailto:shannon@agecon.ksu.edu).

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## RECOMMENDATIONS FOR FURTHER READING

The purpose of this section of the newsletter is to briefly discuss articles and web sites that may be of interest to readers. In general, the articles discussed will not report on original research. Rather, the articles will contain citations to web sites and articles that discuss topics of general interest.

In issue 126 of the *Animal Science Monitor*, Dan Simmons discusses the importance of improving your value to your current employer and positioning yourself for future success. He briefly discusses five steps: engaging in additional training, attending industry events, asking your supervisor for ways you can improve or become more valuable, participating in a mentoring program, and keeping current regarding industry trends and developments. The third and fourth steps are not as relevant for self-employed individuals. However, the other three steps are certainly relevant for these folks. The major theme in the article is the importance of garnering and using knowledge and information.

Bob Milligan recently discussed work/life balance in a brief article on AgWeb. He indicated that there are four reasons why individuals often work too much: the farm or agribusiness financial status does not allow for hiring additional labor, no one else is capable of doing the work, time working seems more urgent, and there is nothing important to do in non-work time. He follows up with the following four suggestions: make life balance a priority, plan for life balance, train others to complete some of your tasks, and enhance personal efficiency. Two common themes in his discussion of these suggestions is prioritizing

tasks and delegating tasks to others. He notes that many employees may enjoy doing new tasks or tasks that you are currently doing.

Michael Greenstone and Adam Looney have written a recent article entitled "A Dozen Economic Facts about Innovation". This publication should be of interest to policy makers as well as those involved in industries in which innovations are critical to productivity such as production agriculture and most agribusinesses. Innovation is the process of discovering new ideas and realizing those ideas at a large scale. Innovation often leads to economic growth, higher wages, and long and healthier lives. The dozen facts briefly discussed by the authors are as follows:

- Innovation drives economic growth and raises wages.
  - Innovation improves U.S. life expectancy.
  - Innovation makes technology affordable.
  - New organizational structures lead to rising standards of living.
  - New household technologies allow more time for family and leisure.
  - The pace of American innovation has slowed during the past four decades.
  - Innovation has failed to increase wages for a substantial number of Americans.
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- Significant barriers to innovation exist in the government and the private sector.
- Federal support for research and development has declined in recent years.
- Relatively few U.S. college students study fields critical to innovation.
- American women are less likely to continue in STEM (Science, Technology, Engineering, and Math) fields than American men.
- U.S. policy makes it difficult for international students to stay and work.

More information is contained in the article which is posted to my contributor site on Ag Manager under “Recommendations for Further Reading”.

Alan Auerbach and William Gale have updated their projections related to the federal budget outlook in a paper entitled “Still Tempting Fate”. Previous projections were described in the March 2011 newsletter. Although the budget projections have improved relative to those presented earlier this year (as a result of the recent debt limit deal and lower interest rate

projections), projections still show the medium-term and long-term outlooks to be problematic (i.e., unsustainable). Under what the authors call an “extended policy” scenario, the ten year deficit from 2012 to 2021 is expected to be approximately \$8.1 trillion. The debt to GDP ratio is expected to exceed 80 percent by 2021 and continue to rise thereafter reaching the post-World War II level late in the 2020s. As they have done in previous papers, the authors compute the fiscal gap which measures the size of immediate and permanent increases in taxes and/or reductions in non-interest expenditures that would be required to set the present value of all future budget amounts remaining after subtracting non-interest expenditures from the revenue equal to the current value of the national debt. Under their “extended policy” scenario, estimates of the fiscal gap range from \$34.9 to \$52.9 trillion depending on assumptions related to spending cuts, and Medicare and Social Security projected expenditures. More information is contained in the article which is posted to my contributor site on Ag Manager under “Recommendations for Further Reading”.

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The Kansas Farm Management Association (KFMA) Newsletter is distributed monthly to provide farm management information to farm decision makers. Further farm management information can be found on the KFMA program website: [www.agmanager.info/kfma](http://www.agmanager.info/kfma); and, on the Extension Agricultural Economics website: [www.agmanager.info](http://www.agmanager.info). The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



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