



KANSAS FARM MANAGEMENT ASSOCIATION

Your Farm - Your Information - Your Decision

N E W S L E T T E R

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TAX PLANNING AND TAX ESTIMATE TIME

Tax estimates are right around the corner. Please review these changes in the 2008 tax year and make sure to notify your farm management economist or tax advisor if you have any questions or concerns about how your business fits into these new tax rules. Also be sure to come prepared to your tax estimate meeting with all your business information needed to help your farm management economist make an accurate estimate in a timely fashion. Remember, prudent tax planning is an important part of *your business!!*

- **Bonus Depreciation:** Allows businesses to deduct fifty percent (50%) of the cost of qualifying property as long as the purchased property is new in 2008. Initial use of the qualifying property must occur between Dec. 31, 2007 and Jan. 1, 2009. Qualifying property includes agricultural buildings, equipment, machinery, and certain vehicles. The building component is not as strict as the qualifying rules for the Section 179 expense deduction. Under bonus depreciation all items that qualify must use the election. In other words, you can not use it on select items if several items qualify.
- **Section 179 Expense Deduction:** The amount of Section 179 expense increased in 2008 to \$250,000. The purchase cost of business assets, such as machinery, equipment, and single

purpose buildings can be expensed in the year of the purchase under Section 179 of the IRS code. Section 179 expense deduction phases out starting at \$800,000 of qualifying purchases and is completely phased out if the qualifying purchases made by the business exceed \$1,050,000 during the 2008 tax year. In 2009, the deduction goes back to the old law and will be \$125,000 plus indexing.

- **Kiddie Tax:** A child's unearned income (investment or passive income) over \$1,800 is taxed at the parents' marginal rate until the year the child is 19. In addition, full-time students who are claimed as a dependent by a parent and have an unearned income above \$1,800 will be taxed at the parents' marginal rate until the year he or she turns 24 years old.
- **Extra Standard Deduction for Taxpayers 65 and Older:** Single taxpayers age 65 and older will be allowed to add an additional \$1,350 to their regular standard deduction (up from \$1,300 in 2007), while married taxpayers age 65 and older will be allowed to add \$1,050 to the regular standard deduction (same as 2007).
- **Larger Personal Exemptions:** Each personal exemption a filer can claim is worth \$3,500.
- **Reduction in Capital Gains Tax Rates:** Long-term capital gains from the sale of

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assets held longer than one year are taxed at 0 percent through 2010 if the seller is taxed in the 10 percent or 15 percent bracket.

- **Reduction in Dividend Tax Rates:** The special 5 percent maximum rate on dividends of taxpayers in the 10 and 15 percent tax brackets is decreased to 0 percent through 2010.

- **Increased IRA Contribution Limits:** The maximum IRA contribution has increased to \$5,000 (up \$1,000 from \$4,000 in 2007). A person who reaches the age of 50 or greater in 2008 can contribute an additional \$1,000 into their IRA.

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2008 Income Tax Tables

Single

2008 Taxable Income	Tax
\$8,025	10% of taxable income
\$8,026 to \$32,550	\$803 plus 15% of excess over \$8,025
\$32,551 to \$78,850	\$4,481 plus 25% of excess over \$32,550
\$78,851 to \$164,550	\$16,056 plus 28% of excess over \$78,850
\$164,551 to \$357,700	\$40,052 plus 33% of excess over \$164,550
More than \$357,700	\$103,792 plus 35% of excess over \$357,700

Married Couples Filing Jointly

2008 Taxable Income	Tax
\$16,050	10% of taxable income
\$16,051 to \$65,150	\$1,605 plus 15% of excess over \$16,050
\$65,151 to \$131,450	\$8,970 plus 25% of excess over \$65,150
\$131,451 to \$200,300	\$25,545 plus 28% of excess over \$131,450
\$200,301 to \$357,700	\$44,823 plus 33% of excess over \$200,300
More than \$357,700	\$96,765 plus 35% of excess over \$357,700

Head of Household

2008 Taxable Income	Tax
\$11,450	10% of taxable income
\$11,451 to \$43,650	\$1,145 plus 15% of excess over \$11,450
\$43,651 to \$112,650	\$5,975 plus 25% of excess over \$43,650
\$112,651 to \$182,400	\$23,225 plus 28% of excess over \$112,650
\$182,401 to \$357,700	\$42,755 plus 33% of excess over \$182,400
More than \$357,700	\$100,604 plus 35% of excess over \$357,700

2008 FARM BILL CHANGES THE CONSERVATION SECURITY PROGRAM

Farmers and ranchers can voluntarily participate in many government farmland and grassland conservation programs. These programs provide an opportunity to increase returns to

their land by taking better care of the land through the use of conservation management practices, and exist to help provide technical, financial, and educational assistance to

agricultural producers, and landowners. Depending on the different program objectives, practices can increase grassland and cropland quality and be environmentally friendly at the same time enhancing the overall productivity of the land. Conservation programs are created by the federal government and described and funded through the Food, Conservation, and Energy Act of 2008. With the help of several grassroots and government agencies, most of the programs are organized and monitored by the Natural Resources Conservation Service Agency (NRCS). One of these programs is the Conservation Stewardship Program (CSP), known as the Conservation Security Program under the 2002 Farm Bill.

In the 2002 Farm Bill the Conservation Security Program (CSP) was created with the idea of rewarding farmers and ranchers for their continual and additional conservation stewardship and environmental management on privately owned working land. Working land is land that is currently “used” and not set idle. Land such as cropland, grassland, prairie land, improved pasture, range land, and incidental forested land that is part of an agricultural function could qualify for this program, under a voluntary application procedure. Payout for this program was determined by the applicant’s current conservation management on the land, the amount of acres available to be enrolled in CSP, and by the program’s three tiers of participation. Payments were different with each tier. Tier 1 contracts last for 5 years with a maximum payment of \$20,000 annually; Tier 2 contracts last for 5 to 10 years with a maximum payment of \$35,000 annually; and Tier 3 contracts last for 5 to 10 years with a maximum payment of \$45,000 annually. However, with the 2002 Farm Bill, CSP funding was only available for landowners in certain watershed areas in Kansas and in the rest of United States. In addition, due to a need for funding elsewhere for national security purposes, the CSP program was not fully funded as originally described in the 2002 Farm Bill. Since 2002 the program has

only enrolled 16 million acres nationwide. In 2007, there were 809,000 acres enrolled in the CSP program in Kansas.

Under the 2008 Farm Bill, the CSP program underwent a name change, as well as a change in its funding allocations and in the criteria needed to be eligible for the program. The name was changed to Conservation Stewardship Program (CSP) (instead of Conservation Security Program). The new CSP program received \$12 billion in mandatory funds over the next 10 years. Unlike the 2002 CSP program, the 2008 program payments are not based on the three-tier program and will not be allocated by watershed locations. Instead, this program will be available to all farmers and ranchers nationwide through annual sign-ups. The new CSP program was revised to encourage producers to take on resource concerns in a “comprehensive manner” by addressing further conservation activities while still maintaining and improving existing conservation actions. The NRCS has indicated that applicants must be able to “demonstrate that they are meeting the stewardship threshold for a least one resource concern and they must address at least one additional priority resource concern by the end of the conservations stewardship contract” to participate in the CSP program. Applications will be evaluated and ranked based not only on local criteria, but also state and national criteria. The NRCS has indicated that under the new CSP program all contracts will be for 5 years and payments may not exceed \$200,000. Payments will compensate producers for the following actions: 1) installing and adopting additional conservation activities; 2) improving, maintaining, and managing conservational activities in place at the time the contract offer is accepted; 3) adopting resource conserving crop rotations; and/or 4) engaging in activities related to on-farm conservation research and demonstration activities and pilot testing of new technologies or innovative conservation practices. To find out more about this program and other working land conservation programs,

contact your NRCS office or read about them on the Kansas NRCS website:
www.ks.nrcs.usda.gov.

Sources

Natural Resource Conservation Service. 2008.

“Farm Bill 2008: At a Glance Conservation Stewardship Program” Fact Sheet. March 2008.

Natural Resource Conservation Service. 2002. “Farm Bill 2002: Conservation Security Program” Fact Sheet. March 2005.

Kansas Department of Wildlife and Parks. “USDA Offers \$257 Million For Conservation Security Program.” November 2007.

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THE STATUS OF GRAIN-BASED ETHANOL PRODUCTION IN KANSAS

Capacity and Location

There were 12 operating grain-based ethanol plants in Kansas as of August 1, 2008. Growth in Kansas ethanol production since 2005 is shown in Figure 1. If these plants produced ethanol at 100% of their stated capacity, they could produce 453 million gallons of ethanol annually (MGY). Of these plants, 3 were located in Southwest Kansas (180 MGY), 2 in the South Central region (80 MGY), 2 in West Central Kansas (50 MGY, 11%), and 1 plant each in the Central (52 MGY), Northwest (40 MGY), and East Central (35 MGY) areas of the state. Two additional grain-ethanol plant facilities exist in the state – one under construction in Northwest Kansas (20 MGY) with plans to begin production later in 2008, and one in South Central Kansas (55 MGY) that is at least temporarily off-line. The construction of at least one other ethanol plant is being considered for the Southwest region of Kansas that could process both grain and cellulosic feedstock.

Projected Feed Grain Use

At the current annual production capacity of 453 million gallons of ethanol, the 12 operating grain-ethanol plants in Kansas would use approximately 162 million bushels of feed grains (corn and grain sorghum) per year. This assumes that 1 bushel of feedgrains produces

2.8 gallons of ethanol. This amount of feedgrains equals 29% of the average total corn and grain sorghum production during the 2005-2007 period. Production from the ethanol plant under construction and the plant currently off-line would bring feed grain use to 188 million bushels, 33% of 2005-2007 average production.

Distillers Grain Production and Use

Since the fall of 2005, distillers grains (DGS) production by Kansas ethanol plants has supplied an increasing percentage of the maximum potential DGS use by Kansas livestock feeders. Using Kansas livestock on feed numbers and Iowa State University livestock feed ration recommendations for fed, beef and dairy cattle, poultry and hogs, it is estimated that during the September 1, 2005 – August 31, 2006 period Kansas ethanol plants produced 23% (1,085 million pounds) of the maximum amount of distillers grains that could be fed to Kansas livestock. This proportion increased to 28% during the 2006/07 period and 41% in 2007/08, and is projected at 55% in 2008/09.

Comparative Advantages for Kansas Ethanol

Grain ethanol plants located in Kansas may have some comparative advantages relative to other geographic regions of the country. With their proximity to major cattle feeding

operations in the western part of the state, Kansas ethanol plants are able to sell a large proportion of their distillers grain by-products in wet cake form – thereby saving on natural gas based drying expenses. In addition, with the existence of ethanol blending capabilities in Wichita in South Central Kansas, ethanol plants in the state are able to transport approximately 50% of their denatured ethanol product by truck instead of by rail transportation. Rail transport generally is more expensive than truck movements for short hauls, but is less expensive for long-distance shipping. Because of their locations in the western Corn Belt, Kansas ethanol plants also have a geographic transportation cost advantage over plants located further east when shipping ethanol by rail to western states. Some portion of these advantages may be offset by generally higher corn costs than in states such as Iowa, Minnesota, and South Dakota.

Truck Transportation Impacts

Kansas ethanol plants have impacted the truck transportation industry in the state. Approximately 515 semi-truckloads of feed grains are needed daily to supply feedstock to Kansas ethanol plants. Assuming that 50% of ethanol produced in the state is transported by truck from ethanol plants, it is estimated that 75 truckloads of ethanol are shipped daily in Kansas. In addition, about 350 loads of wet distillers grains are hauled away from Kansas ethanol plants to livestock feeders on a daily basis. Converted to an annual basis, Kansas ethanol plants require 188,000 truckloads of feed grains, and transport out approximately 27,400 truckloads of ethanol and 128,000 truckloads of wet distillers grains. Trucking related operating and capital expenses

associated with Kansas ethanol plants amount to approximately \$54 million dollars per year (using 2007 diesel prices) (Source, Josh Roe, K-State, 2008).

Profitability of Western Corn Belt Ethanol Production

The profitability of ethanol production in the western Corn Belt has been generally lower during the August 2007 through October 2008 time period than it was during early-mid 2007. Figure 2 shows trends in both the value and cost of ethanol since February 2007. Differences in value and cost of ethanol are reflected in the estimates of profitability indicated in the chart. The influence of both fuel and grain markets as well as cost competition within the grain ethanol industry are reflected in these numbers. Tight profit margins for grain ethanol production appear to be having an inhibiting effect upon both the construction of new ethanol plants and the economic sustainability of those plants already in existence. In a competitive economic market such as this, those firms that are most efficient and well capitalized have the best opportunity to survive periods of tight profits or even losses.

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Figure 1. Growth in Kansas Ethanol Production: 2005-2008

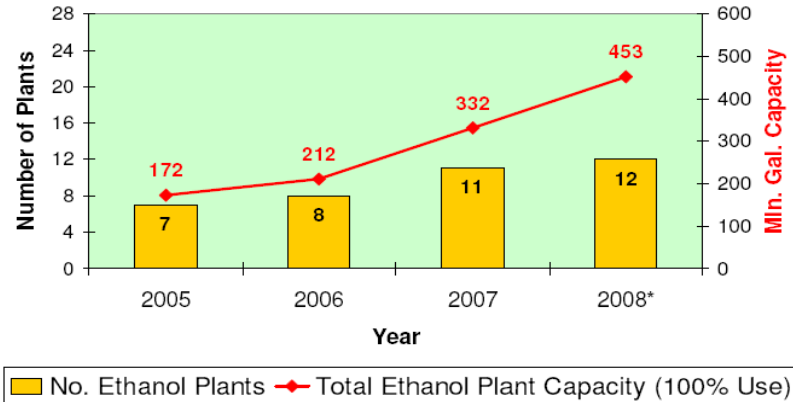
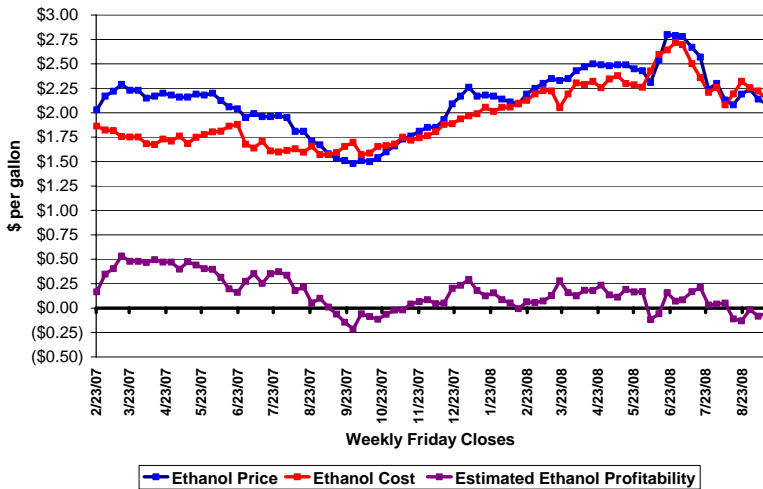


Figure 2. Profitability of Nebraska Ethanol Production: 2007-2008



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.kmar105.com/kfma; and, on the Extension Agricultural Economics website: www.agmanager.info. The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



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