



## Taxes for agricultural enterprises: A useful course from the RightRisk team

By James Sedman and John Hewlett

Agricultural producers know successful operations include proper income tax management. Whether you are a farmer, a rancher, in business for-profit, or a hobby operator, proper knowledge and implementation of tax-management strategies are an increasingly important part of a business.

There is an online resource available to help producers increase knowledge and tax management understanding: *Taxes for Agricultural Enterprises*. The free course is at RightRisk.org.

The RightRisk team is a group of risk-management educators from eight western universities, including the University of Wyoming College of Agriculture, specializing in interactive risk-management education products for agricultural producers.

*Taxes for Agricultural Enterprises* is a step-by-step interactive

course that takes producers through the various terms, definitions, and strategies for managing taxes.

The course is not meant to replace advice from an accountant or to be a comprehensive do-it-yourself tax guide. It is, however, designed to educate producers and increase their awareness of tax management strategies.

### Defining Farms and the Importance of Recordkeeping

The course begins with definitions of for-profit or a qualified farm, which determine how the operation is treated by the Internal Revenue Service (IRS).

Generally, farms are considered for-profit if they meet any of a large number of criteria such as showing a profit, being the primary business activity, active involvement in making management decisions or overseeing labor, and others. This may seem trivial, but it is important

where a not-for-profit is treated quite differently by the IRS in how deductions are made and revenue is classified.

The importance of good recordkeeping is emphasized in the next phase of the course. Keeping good records is becoming increasingly important, not only for tax purposes but also for the overall performance of a business.

Cash and accrual accounting methods are discussed as well as the advantages and disadvantages and exceptions to both. Once a producer understands the difference between the two methods, a decision can be made on which method best fits with his or her operation.

### Defining Farm Income and Expenses

The course proceeds with a presentation of the various classifications of farm income and expenses – and how they fit into the

IRS Form 1040 (Schedule F), Profit or Loss From Farming. Hedging, forward contracts, and other risk-management options for revenue are also discussed.

The expense portion of the course addresses common questions relating to what is defined by the IRS as expenses. Vehicle expenses and home and telephone expenses are presented.

Depreciation schedules for equipment and livestock are also discussed. This section is especially relevant to producers buying and selling breeding livestock due to drought conditions.

*Taxes for Agricultural Enterprises* is not intended to be a do-it-yourself tax guide. Consult a tax professional for strategies that best fit your operation.

The course is designed to provide producers insights on tax-management strategies in a step-by-step

manner. Each course section includes a worksheet with several questions and scenarios allowing users to test their knowledge as they go.

To view the course online, visit RightRisk.org and follow the link to *Taxes for Agricultural Enterprises* under the Products tab. The Workshops link on this page lists onsite programs offered by the team across the West.

For more information about this and other risk-management topics on the Web, visit the Western Risk Management Library online at <http://agecon.uwyo.edu/riskmgt>.

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## Getting the most from your grass resource

By Michael Smith

Managed grazing can enhance plant growth so plants provide the most they can with the intensity of grazing, soil fertility, and water available.

Managed grazing ranges from low-intensity approaches that largely control utilization levels to management-intensive grazing (MIG) that requires an every-day inspection of pasture use and growth rates.

MIG will maximize plant growth; however, more management effort is needed. MIG requires subdividing pastures into a sufficient number of smaller paddocks so the stocking density is high enough that use is relatively uniform and the grazing event is short enough so significant regrowth is not occurring.

This grazing interval stimulates growth during the subsequent recovery period. The basic management premise is that sufficient residual forage will be left after grazing to intercept the sunlight necessary to keep plants growing at their potential. Too much residual forage will shade some leaves while too little residual forage will not intercept as much sunlight as possible.

Each grass species, because of its growth form, will have a slightly different optimum residual biomass needed to foster growth. Dropping paddock(s) out of the grazing rotation is prudent if the manager does not have sufficient animals to maintain the optimum residual forage. Only graze enough paddocks so animals can keep up with the growth. The other paddocks can be hayed.

At the lower end of the spectrum of intensity that can still be called managed grazing, the manager will balance animal numbers with seasonal forage productivity and will control the distribution of animals in the pasture through water, salt/mineral locations, and, perhaps, herding. Managing the distribution of and utilization levels by animals to prevent overgrazing in concentrated areas is normally the most important aspect of efficient use of grazing lands and maintenance of pasture composition and productivity in extensively managed rangelands.

A slightly higher level of management intensity is to initiate a grazing rotation among two or more paddocks or grazing areas through pasture fencing or by regulating water availability at different locations and times. On rangeland, this procedure limits use levels and prevents repeated use of an area the same time every year. Avoiding repeated use of the same area every year maintains plant diversity and prevents undesirable changes in the vegetation that might occur with grazing in seasons critical for plant growth.

The principles of MIG are less applicable to extensively managed rangelands because the active plant growing season is too short for the infrastructure needed to be cost effective. In all managed grazing, control of residual forage amounts is the critical skill of managers.

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## The difference between stocking rate and stocking density

By Michael Smith

Stocking density and stocking rate are frequently confused and used as if they were interchangeable in many discussions about grazing capacity, how much grazing had taken place, or how much better a certain grazing system may be.

What do they mean, and how should each be used?

**Stocking density** refers to the number of stock occupying a specific land area, such as 12 cows per acre. The grazing system, a method of managing grazing, includes a description of the number of animals grazed per acre as they move through a series of pastures. This is important because of the effect the density of animals has on the forage and soils of a pasture.

As the density of animals increases, there will be more competition for choice forages, and the animals will disperse across the pasture to a greater extent. Dispersion could result in utilization over a greater proportion of the area and, frequently, use of a wider variety of plant species.

In addition, the higher density increases the number of hoofprints present during grazing. This could be beneficial if these times coincide with seed shatter (when a grass matures and dries out, seeds often shatter and fall off the plant) or precipitation, the hoof depressions provide a micro habitat for seeds and catchments for water, thus enhancing the chance of seed germination or of water entering soil.

**Stocking rate** has another dimension, that of time. Stocking rate is the product of the numbers of the type of animals and the time they are present. Stocking rate is used in reference to the capacity of a land unit or to document the amount of grazing that occurred on a unit.

To provide a more universal meaning, stocking rate can be coined in terms of a standard-sized animal for a fixed period. In practice, the animal unit month (AUM) is used. A 1,000-pound cow is used as the basis. The approximate conversion between types of animals is to multiply the body weight of the animal by 0.001. The expected consumption of forage by the AU for one month is about 760-800 pounds. Using this estimate of forage consumption allows the grazing capacity of an area to be estimated by dividing the usable forage pounds determined by sampling (clipping quadrants and weighing) by 800 pounds per AUM to yield the number of AUMs that can be grazed.

These AUMs can be used in a short time by a larger number of animals (a higher stock density), as in a rotational grazing program, or over a longer period as occurs with continuous, season-long grazing.



Mike Smith