

# Drought Economics

- Droughts cause ranchers to lose equity
- Ranchers are a resourceful lot
- Information to improve decisions
- Plan verses the extent of drought
  - Mid Feb
  - Summer
  - How to get to next March green season

# Drought Economics

- There are values to keeping a core herd (genetics, disease, knowledge of rangeland)
- High prices now do not mean high prices in June or when ever you sell.
- Be careful what you book in the budget as a calf price and feed costs
- If you sell all the cattle out for the drought how do you cover ranch fixed costs?  
Equity?

# Actions

## Costs verses value

- Early weaning (30-90 days, but as early as 6 weeks)
  - Ration
  - Health issues (smaller size & dusty pens)
- Destock Production Units
- Non Income Producers
  - Replacement heifers
  - Open cows
- Higher Feed Costs
  - Cows down in condition (\$ to breed)
  - Broken mouth cows
- Final Cuts
  - Bottom producers (late calving, WWT)
  - 2<sup>nd</sup> calf heifers

# Actions

- Purchase Feed Resources
  - Hay supplement on range
  - Dry lot feeding
  - Lease feed out of the area (trucking)
- Price Drought Insurance

# Taxes are Crucial

- Increased sales of animals from a drought
- Need to preserve their **equity** to rebuild the herd after the drought.
- There are two IRS tax elections
- 451 allows sales above average of all livestock to be deferred to the next year.
- Not keeping replacement heifers or stockers sold early
- Move the income to the next year, when due to drought costs should have less income.
- 1033 allows them to defer capital gains on Breeding stock sold above normal for two years or longer if the drought monitor is D2 or worse.
- Consult your tax accounts after reading 2 handouts on web

# IRS 451(e)

- Principal business is agriculture
- Cash accounting method
- To qualify, the producer's county must have received a federal disaster declaration.
- Sales related to the drought under this section can qualify even if they occur prior to the declaration

# IRS 1033(e)

- Principal business is agriculture
- All Tax payers (cash or accrual)
- Prove normal culling
  
- To ensure that you qualify for tax relief under either of these code sections it is advisable to speak with a tax professional.

# Defer Taxes

- Realize that if you sell when pairs \$1500 that you may be forced to buy back in at \$3000 to prevent paying capital gains
- That will require either
  - Getting a loan
  - Having other equity to reinvest
  - Building back slowly



# Considerations

- Least cost feed
- How much can you spend
- Where are prices going?
- Feeder options
- Bring lender along

# Budget 1

- Sac. Valley Cow/Calf 2013 cost study Excel sheet – 300 head
- Keep everything + feed costs of 1 month
- (Hay @ 3% of 1100 cow/day \* 30 days @ \$325/ton)
- Calf prices of 580 pounds at \$1.35
- **\$16,520**

## Budget 2

- Early wean at 320 for \$1.85 (sell all heifers and steers)
- Cull 35% of the herd feed one month
- \$86,000 in additional cow sales
- \$12,200 income above operating costs

# Budget

- One page
- What if with your numbers