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Taxation Tidbits
Selling vs. Trading-in Equipment

In the previous Ag Connection, we discussed how The American Recovery and Reinvestment Act of 2009 contains several substantial tax provisions which may make 2009 a tremendous buying opportunity year for business equipment. New purchases frequently involve getting rid of an older piece of equipment. Given the current levels of the deduction available under the Section 179 expensing election, you may want to give consideration to how you structure your next purchase.

As a reminder, Section 179 capital asset expensing will be maintained at the $250,000 maximum deduction level for 2009. Additionally, remember that qualifying assets for Section 179 can be new or used.

The real issue for discussion is whether you trade-in the old equipment or sell the old equipment and purchase the new equipment without a trade-in. Historically, most farmers have traded-in their old equipment. However, the current levels of the Section 179 deduction may make it financially attractive for you to sell the old equipment and purchase the new without a trade-in.

An example may be helpful. A dealer has a new tractor you want with a price of $150,000. Additionally you have a tractor purchased a few years ago that is now worth $50,000, but only has a remaining tax basis of $10,000 because of a prior Section 179 deduction and depreciation.

If you trade-in the old tractor for $50,000 and pay $100,000 boot, your tax basis in the new tractor is only $110,000 (the $10,000 basis of the old tractor plus $100,000 boot). The $110,000 is eligible for the Section 179 deduction.

On the other hand if you sell the old tractor for $50,000 you will have a $40,000 gain and pay the dealer $150,000 for the new tractor. This structuring of the transaction results in $150,000 being eligible for the Section 179 deduction and a gain on the sale of $40,000. You are probably thinking that is sounds like six of one compared to a half-dozen of the other.

The difference is the latter transaction results in $40,000 less income being subject to self-employment taxes and at roughly 13% net self-employment tax, that's a saving of approximately $5,200. This is the reason many people are reconsidering the way they will structure future business equipment purchases.

Source: Parman R. Green, Ag Business Mgmt. Specialist

FARM POND HAZARDS

A farm pond can be a source of accidental drowning. Data reveals most victims range in age from toddlers to young adults, and do not reside on the property or site.

Children, under the age of four, make up the largest group that drown in ponds. Some get too close to the water's edge and lose their balance in the soft earth. Others wade in shallow water and fall into deeper holes. No one knows what happens in other cases. However, lack of close supervision, underestimating a child's curiosity, and adults overestimating a child's sense of judgment all contribute to pond drowning.

Even though a child verbally acknowledges a warning or caution, it does not mean that he/she understands the hazard or risk, or will behave appropriately. The short attention span of a child, plus the attractiveness of the water as a play area, renders most verbal instructions ineffective. An adult supervisor should never lose eye contact with a child playing near a pond or lagoon. Teaching a child to swim at the earliest possible age helps eliminate this problem.

Adults, too, drown in farm ponds. Data indicate accidents occur when people use these areas for recreational swimming. Most victims were in their late teens or early twenties and visitors to the area. Sharp drop-offs on the pond floor and leg cramps cause even experienced swimmers to experience problems.

There are other dangers associated with farm ponds. Some may be contaminated by fertilizer and pesticide runoff, livestock waste, or other pollutants. If water is cloudy, has a foul odor, or is littered with algae, it should not be used for swimming, due to possible infectious agents. Ponds used for swimming should be analyzed every spring for water quality by a qualified laboratory. Other dangers lurk beneath a farm pond's surface. Jagged rocks, broken bottles, animal bones, and other miscellaneous junk are common in farm ponds.

In general, it is recommended that all ponds be fenced and posted to keep uninvited persons out. Non-posted, non-fenced ponds increase the risk of a court suit if uninvited swimmers drown. Restrict entrance to your pond. This will help keep out uninvited guests.

To make your farm pond safe for you and others to swim in, try to eliminate all physical hazards. This may mean grading a bank for easy entrance, dragging shallow areas for dangerous objects, marking drop-offs, or roping off unsafe areas. Use depth markers and signs so everyone can see how deep the pond is at different spots.

A multiple drowning can occur when one person tries to rescue another. Every farm pond used for swimming should have a rescue post. It should be placed firmly in the ground near the water and painted yellow. Obtain a nylon rope long enough to reach across the pond. Attach one end of the rope to a life ring, the other end to a wood block, and hang all these on the post. A one gallon, plastic milk jug containing one pint of water could also serve as your buoy. A thin 12 to 14 foot pole should also be kept at the rescue post as an aid in helping someone out. Finally, the location of the nearest telephone and emergency numbers should be painted on a sign and attached to the post.

One person should never swim alone, even if he/she is an expert swimmer. Those who swim in farm ponds should also be familiar with drown-proofing and artificial respiration techniques. These are taught by the American Red Cross and other swimming instruction programs.

This information was developed by Dennis Murphy, Professor of Agricultural Engineering, Penn State University. Source: Kent Shannon, Natural Resource Engineer Specialist

Attention Hay Buyers — Don't Import, Imported Fire Ants

Imported fire ants (IFA) are a serious threat to people, crops, agricultural equipment, newborn and young animals. These exotic pests often make their nests in hay bales. When infested bales are transported to other areas, new colonies can become established.

Recent drought conditions in many areas of the United States resulted in a demand for hay from IFR-infested areas. Fortunately, there are a number of practical ways to not only prevent initial infestations, but also limit the spread of these harmful ants.

Imported fire ants (the red imported fire ant, the black imported fire ant, and their hybrid) may look like typical, everyday ants, but are far from ordinary.

IFA are best distinguished by their aggressive behavior

and mound-shaped nests. These ants are 1/8 to 1/4-inch long and reddish-brown or black. They live in colonies inside hard, mound shaped nests. These mounds can get quite large, growing to 300,000 ants. This can inhibit field-worker activities and damage farm equipment.

An estimated 14 million people are stung by IFA each year in the US. IFA respond rapidly and aggressively when disturbed, clamping onto their victims with powerful jaws and stinging repeatedly. Each sting injects venom causing a burning sensation, earning these pests the name *fire* ants. These stings produce itching blisters that can become infected. Although uncommon, in severe cases, the stings can send sensitive victims into anaphylactic shock.

They feed on almost any type of plant and small animals, including insects and livestock. IFA pose a direct danger to many plants, trees, and agricultural crops. They eat the buds of young trees and the germinating seeds of more than 125 native wildflowers and grasses. The impact of IFA in Texas alone is estimated to be $1.2 billion each year.

These ants were unintentionally introduced into the United States from South America almost 100 years ago. As of 2008, IFA infested more than 320 million acres in 13 south eastern states including our bordering states of Arkansas, Oklahoma and Tennessee.

IFA commonly move to new, non-infested areas by hitchhiking on agricultural equipment and commodities, including baled hay.

The U.S. Department of Agriculture's Animal and Plant Health Inspection Service (USDA- APHIS) wants to prevent further spread of IFA. They are assisted by state departments of agriculture to enforcing a Federal quarantine and cooperate with them to regulate the movement of certain articles including: baled hay and straw stored in direct contact with the ground; soil; plants and sod stored outdoors; used soil-moving equipment; any other article or means of conveyance determined to pose a risk of spreading IFA.

Hay can be shipped anywhere within a quarantined area but not **outside** the quarantined area. Even with the quarantine, there is still a chance IFA may be moved in hay.

There are a number of practices Missouri hay buyers can follow to help reduce new IFA infestations: Ask if the hay contains ants; visually inspect the hay bales when they are delivered; if possible, request that the hay be certified for movement by the shipping State; monitor for IFA where hay bales are or were located; and If any suspected ants are found, get them correctly identified. If you need assistance, contact the Missouri State Department of Agriculture or a local cooperative extension office. Contact information is available online at http://www.csrees.usda.gov/Extension/index.html

Source: Jim Jarman, Agronomy Specialist and USDA – APHIS Program Aid No. 1996, a flyer on IFA in hay, and other sources.

AVOIDING HAY FIRES

If rain is in the forecast, producers often are tempted to bale at a little higher moisture content than recommended to avoid weather-related damage. Unfortunately, severe heating can occur when hay is baled and packed too wet and stacked in a storage facility. Severe heating can cause significant dry matter and quality loss or, worst of all, a hay fire.

Heating results from plant respiration and microbial activity and can occur in baled hay at moisture contents as low as 13 %. Therefore, heating is a natural occurrence with temperatures reaching more than 125^{o}F, even in hay baled at safe moisture contents.

If excess moisture is present, heat resistant fungi become active, which can drive hay temperature to more than 150^{o}F. At about 170^{o}F, the micro-organisms die. However, heat producing chemical reactions can continue to increase hay temperature. Spontaneous combustion can occur, if hay temperature reaches 450^{o}F and the material is exposed to air. Furthermore, hay fires can occur over two weeks after the hay is placed into storage.

Producers, therefore, should monitor the temperature of stored hay. The hay should be checked daily to see if there has been any rise in temperature. Temperatures below 140^{o}F generally indicate no particular heating problem. Temperature readings between 140 and 170^{o}F provide no clear indication of pending problems.

If the temperature is above 180^{o}F, call the fire department. Remember, spontaneous combustion can occur when the materials are exposed to air. It is imperative the fire department be

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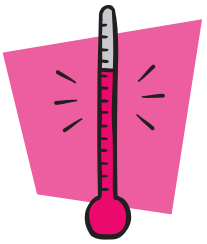
present before a producer tries to move any hay that he or she suspects has dangerously high temperatures.



Producers should never stand on top of a hay bale they suspect may be heating, because smoldering hay can create a cavity that often cannot be detected from the top of the bale.

It is possible to monitor temperature without a thermometer. Using a long steel rod as a probe, drive the rod into the inner stack and leave it for at least 15 minutes. If the rod is too hot to handle, the temperature inside the stack is probably above 120^0F, and caution is warranted.

Preventing hay fires starts at the time the hay is baled. Optimum moisture content for baling depends on bale size. For small, square bales, the moisture content should be no more than 20%, without preservatives. During warm, moist conditions reduce moisture content when baling small square bales to 18%. The upper limit for large round bales is about 16% to avoid taking special precautions to prevent excessive heating. If large round bales are stored outside and unprotected, moisture content can be increased to about 20%.

For many years, producers have relied on experience and the "feel" of hay to estimate moisture content. Today, there are a variety of tools available to more accurately determine moisture content before and after hay is baled.

Source: Kent Shannon, Natural Resource Engineer Specialist

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