



# Northeast Missouri Ag Connection

*Your local link to MU for ag extension and research information*  
<http://agebb.missouri.edu/agconnection>

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## **Income Tax Management - In a Drought Year?**

Many Missouri farmers and ranchers experienced drought this year and for some this was the second consecutive year. This year the water situation was severe, causing several livestock owners to sell animals. Even though farm income may be lower in 2018, **income tax management** could be crucial. Following are some issues to consider:

### Breeding Livestock

The Internal Revenue Service (IRS) allows a livestock producer 2-years from the end of the year in which the disaster occurred to replace those livestock without reporting the gain. A farmer/rancher has 4-years in the case of a federally declared disaster, which will include several counties in Missouri for 2018. The restrictions are (1) they must be replaced by like-kind livestock. So beef for beef and not dairy for beef or sheep for beef. Bred heifers would qualify. (2) Sporting livestock, i.e. pleasure horses, would not qualify. (3) Only livestock above normal sales qualify for the postponement. (4) Following is an example:

A farmer normally sells 25 cows, but in 2018 due to drought, is forced to sell 40 cows. The farmer can postpone the gain received on 15 head (40 minus 25). The other issue to remember is the farmer could face paying a difference if prices are higher. So selling a cow at \$800 allows that income to be postponed, but if that replacement costs \$1,200, the farmer still has to come up with the \$400 difference.

### Non-Breeding Livestock

A taxpayer can postpone the gain for one year on the number of animals above normal sales. No federal disaster declaration is necessary and it applies to all classes of livestock. The taxpayer's principal business must be farming (two-thirds of gross income from farming/ranching) to qualify. The taxpayer must show the normal sales to demonstrate the number to postpone. Again, an example is:

A farmer normally sells 50 calves in a normal year but due to this year's drought was forced to sell 90 calves. The farmer can choose to postpone the income on the 40 calves (90 minus 50) until next year.

Both the breeding and non-breeding livestock must have been sold because of weather-related conditions (drought in this year's case). A short explanation of the disaster (when declared if applicable, drought, etc.) must accompany the tax return.

### Crop

Crop rules are similar to the non-breeding livestock rules. A farmer can postpone the income for one year assuming that is his or her normal business practice. Determination can be made by crop. So, if a farmer sells beans in the following year but feeds corn, the bean income could be deferred to next year if it is a normal way of selling. Again, the farmer will have to prove this is a normal business practice and not just to defer income.

Income tax management is the bottom line in all these decisions this year. Allowing the deferral of income does not mean a farmer has to or even should. Some farmers will have increased income due to sales above what they expected while others may not. Individuals will need to decide if income next year will likely be higher and adjust accordingly. Doing a tax estimate yourself or with your preparer is very important considering this year's drought as well as new tax laws.

County extension offices will have the Farmer's Tax Guide (IRS publication 225) available about December 1. If there are individual income tax questions, contact your agricultural business specialist.

**Source:** *Joe Koenen, ag business specialist*

### **Farm Tax Workshops**

*Focus on Tax Law Changes Affecting Farmers*

Nov. 12th @ 6:15 p.m.

Unionville & Montgomery City

Nov. 19th @ 6:15 p.m.

Brookfield, Kirksville & Moberly

Free but pre-registration required by the Friday before the workshop by calling (573) 581-3231 or (660) 947-2705

## **Avoid High Grading when Selling Timber**

For many woodland owners selling timber involves selecting the highest value trees and harvesting them. MU Extension state forestry specialist Hank Stelzer cautions woodland owners to consider the long-term impacts when selling timber and avoid a practice known as "high grading". High grading is harvesting all the best trees and leaving only low value trees that are not as profitable to harvest. High grading can occur with the practice of "diameter-limit cutting," which means selecting trees for harvest above a certain diameter.

To explain high grading, Stelzer often uses an analogy with a livestock herd. High grading timber is like a rancher selling his prize winning bull and keeping a lower quality bull for breeding. This management strategy of cashing in top performing stock and investing in poor performing stock leads to poor performance over time.

Stelzer recommends selective cutting to avoid a situation where low value trees are providing the seed for the next generation. This practice seeks to

maximize profit without harvesting prize trees at a time when they are producing seed. The goal of selective cutting is to increase the value of the woodland over time for wildlife value and future harvests. Selective cutting is best accomplished by a trained logger or forester marking trees for harvest. Trained loggers and foresters may be aware of potential markets for poor performing trees, and know the value of removing poor performing trees to open up the canopy for high value seedlings to grow.

Managing woodland in a way that improves its value over time is not easy. For help, see MU Guide G5051, "Selling Timber: What the Landowner Needs to Know". This guide is available online at [extension.missouri.edu](http://extension.missouri.edu) and can be ordered from your MU Extension County office. Another source of assistance with managing forest resources is the Missouri Department of Conservation, which employs Resource Foresters to help woodland owners in Missouri. For help finding private foresters visit the Missouri Consulting Foresters Association website, [www.missouriforesters.com](http://www.missouriforesters.com)

To stay up date on issues impacting woodland owners consider subscribing to the Green Horizons newsletter by emailing Hank Stelzer at [stelzerh@missouri.edu](mailto:stelzerh@missouri.edu). The Green Horizons newsletter is published three times a year by the MU Center for Agroforestry in conjunction with the Forest and Woodland Association of Missouri. It is also available online at <http://agebb.missouri.edu/agforest/>

**Source:** *Max Glover, agronomy specialist*

## **Building Soil Health Potential**

In production agriculture, soil health can be broadly defined as the ability of the soil to perform to its agronomic potential. For hundreds of years, many societies failed to consider soil as the foundation of an environmentally sound sustainable web of life. Ignoring the essential roles of millions of species of soil organisms (fungus, algae, bacteria, nematodes, earthworms, etc.) was another critical oversight in understanding soil as a living breathing organism. While physical properties and chemical nutrients were extensively studied, little consideration was given to the soil biological component until most recently.

The introduction of chemical fertilizers following WWII and the subsequent replacement of draft animals by mechanization followed by synthetic pesticides provided major changes in US production management strategies. Eventually, crop diversity was replaced by

monocultures or short-term crop rotations for temporary improved economic gain. This change in management strategies provided considerable neglect to soil biological impact, reductions in soil health potential and the subsequent negative long-term legacy effect.

Soil health research and understanding continues to improve through scientific interest and newer methodologies and technologies. Now management strategies should focus on the benefits of utilizing new soil tillage and crop management practices, such as cover crops, specifically designed to more closely imitate natural ecosystems. The resulting effect has shown reduced need for pesticides and fertilizers, thus reducing farming costs while improving environmental quality. Building soil health is a legacy that can be passed on through the generations. The scientific challenge is quantifying the impact of various management decisions and their impact on building soil health potential.

Studies by Veum et al (2014) (Figure 1), indicated that soil health potential is a continuum which improves with perennial vegetation including grasses and legumes; a reduced tillage/soil disturbance; incorporation of livestock grazing and manure into the system; increased rotation diversity including cash

crops and forages; and cover crops for increased soil cover and diversity of the microbial population. Utilizing all of these options for improving soil health may not be practical in every management scenario. However, implementing some of these considerations in an integrated and diversified systems-management approach will likely improve soil health potential and benefit production agricultural overall. Predicting soil performance requires a better understanding of the relationship between various soil properties and the potential for improved management decisions.

Research has confirmed that biologically diverse systems are much more resilient in the face of environmental stresses. Reliance upon current production systems during times of increased weather variability, especially increased frequency and duration of drought, is a potential recipe for economic and environmental disaster. It is expected that along with the new interest in soil health, increased rigorous research will help guide producers in best management practices to improve our nation's food security while increasing environmentally sustainable agriculture production for generations.

**Source:** Todd Lorenz, agronomy specialist

## Continuum of Soil Health

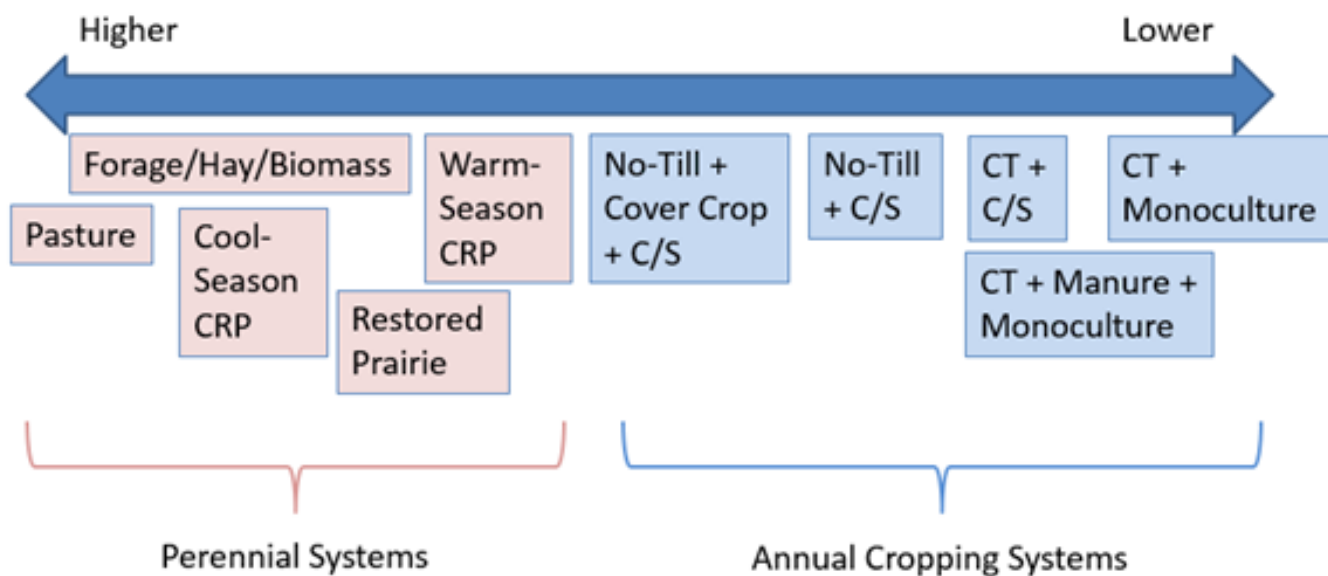


Figure 1. Continuum of soil health in various systems (Veum et al. 2014). {Conservation Reserve Program (CRP), Corn (C), Soybean (S), Continuous Tillage (CT)}

Veum, K.S., R.J. Kremer, K.A. Sudduth, N.R. Kitchen, R.N. Lerch, C. Baffaut, D.E. Stott, D.L. Karlen, and E.J. Sadler. 2015. Conservation Effects on Soil Quality Indicators in the Missouri Salt River Basin. *Journal of Soil and Water Conservation* 70:232-246.

## Missouri Livestock Symposium

Nov. 30 & Dec. 1, 2018

William Matthew Middle School  
1515 S. Cottage Grove  
Kirksville, MO

This will be a premier educational event for livestock producers and it is FREE. It is open to the public and does not require registration. The meals are free. The trade show is one of the larger in the Midwest.

The keynote speaker on Friday will be nationally known Dr. David Kohl, professor emeritus, Virginia Tech. He is well known for his ag economics related articles in *Corn and Soybean Digest*. He has conducted more than 6,000 workshops for agricultural groups.

On Saturday there will be a total of 48 sessions on the topics of beef, sheep, meat goats, stock dogs, forages, horses, farm management and farm and home topics.

There are many additional details on the website  
[www.missourilivestock.com](http://www.missourilivestock.com)

## Improving Missouri Farm Labor Management Workshops

Many farms and ranches have found it to be increasingly more difficult to find quality help. University Extension has developed statewide workshops to help with labor management, finances and protect the business.

### *Topics to be included:*

- *Good supervisors*
- *Recruiting employees*
- *Termination*
- *Managing human and legal risks*
- *Knowing the labor workforce*
- *How to retain good employees*
- *Being competitive in compensation*
- *Record keeping*
- *Proper hiring practices*
- *Managing payroll*

The fee for the all-day class is \$20. To register call the phone # by the location you would like to attend.

Kirkville - Nov. 15 (660) 457-3469  
Marshall - Nov. 29 (660) 584-3658  
Springfield - Dec. 6 (417) 326-4916  
Sikeston - Dec. 13 (573) 545-3516

