

ECONOMICS

Long-term strategies help minimize taxes

by Job Springer / jdspringer@noble.org



As Ben Franklin

once noted, the only two things one can count on with certainty are death and taxes. Most Americans go to extra lengths in order to

delay them both as long as possible. This article will share some tips on how to minimize income tax obligation across time.

Income and expenses generated from entities such as a sole proprietorship, partnership, limited liability company (taxed as a partnership) and a sub S corporation are reported on the owner's personal income tax return. It is in the best interest of each business to eliminate all unnecessary expenses, and, from a business standpoint, taxes are considered an expense. Following are some steps taken each fall by individual taxpayers or taxpayers using the assistance of a tax preparer.

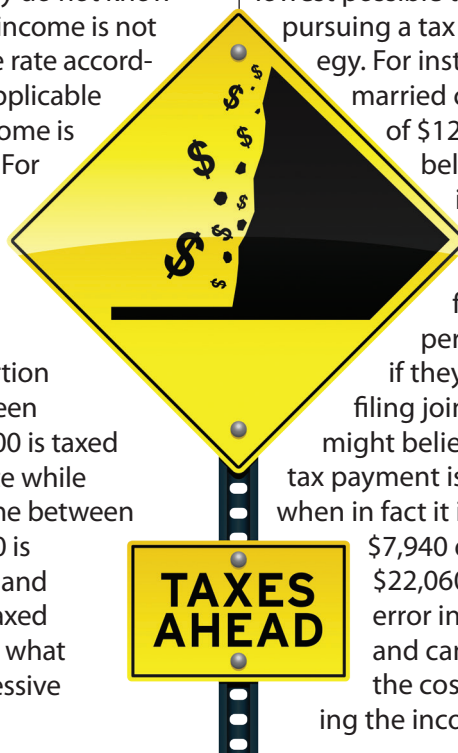
Understanding the Income Tax System

First, one needs to understand the tax rates that are expected for 2012. The above table reports the estimated 2012 income tax brackets, based on inflation adjustments, released from the IRS on Nov. 7, 2011, for a husband and wife filing jointly as well as those

| Tax Bracket | Married Filing Jointly | | Single | |
|-------------|------------------------|------------|------------|------------|
| 10% | \$ – | \$ 17,400 | \$ – | \$ 8,700 |
| 15% | \$ 17,400 | \$ 70,700 | \$ 8,700 | \$ 35,350 |
| 25% | \$ 70,700 | \$ 142,700 | \$ 35,350 | \$ 85,650 |
| 28% | \$ 142,700 | \$ 217,450 | \$ 85,650 | \$ 178,650 |
| 33% | \$ 217,450 | \$ 388,350 | \$ 178,650 | \$ 388,350 |
| 35% | \$ 388,350 | > | \$ 388,350 | > |

filing singly. The numbers in the table correspond to a taxpayer's adjusted gross income (AGI).

Second, it is important to understand the rules. Many do not know that a filer's taxable income is not all taxed at the same rate according to the highest applicable bracket. Instead, income is taxed progressively. For example, assume a married couple filing jointly has an AGI of \$120,000. In a progressive tax system, only the portion of the income between \$70,700 and \$120,000 is taxed at the 25 percent rate while the portion of income between \$17,400 and \$70,700 is taxed at 15 percent, and the first \$17,400 is taxed at 10 percent. This is what is meant by a progressive tax system.



When one understands that taxes are paid at different tax rates progressively, it becomes less important for one's income to fall at the top of the lowest possible tax bracket when pursuing a tax minimization strategy. For instance, an uninformed married couple with an AGI of \$120,000 per year might believe that all of their income will be taxed at the highest possible tax rate for that income (25 percent in this case) if they file as married filing jointly. Such a couple might believe their required tax payment is \$30,000 per year when in fact it is only \$22,060. This \$7,940 difference (\$30,000 - \$22,060) will create a large error in their tax planning and can be thought of as the cost of not understanding the income tax system. ►

ECONOMICS

It is also a good idea to divide the amount paid in taxes for the year by the AGI to know what percentage of the AGI is paid in taxes. This percentage is a good number to know for developing a strategy to lower taxable income, and, in most cases, the percentage is not as high as one thinks. In our example, the percentage of AGI paid in taxes is 18.38 percent, as calculated by the formula $\{(10\% \times 17,400) + [15\% \times (70,700 - 17,400)] + [25\% \times (120,000 - 70,700)]\} \div 120,000$. This percentage will always be less than the percentage associated with the highest tax bracket (25 percent in this case), except for cases where the AGI falls within the lowest income tax bracket.

Strategies of Lowering Taxable Income

What should be the target long-term income tax bracket for a taxpayer? It may not be the best decision to be in the 10 percent income tax bracket one year and the 25 percent tax bracket

the next year. One way to determine this is to look at what the filer's AGI has been in the past and what the best estimate is for what it will be in the future. A second question is what will the tax brackets look like in the near future? That is, will tax rates be going up or down, and by how much? If one expects income tax rates to go up in the future or for the taxpayer's AGI to increase, it may not be the best strategy to delay recognition of this year's income. If a person expects tax rates to go down or for their AGI to fall, it may be in their best interest to delay income to future years.

There are two strategies that can be implemented to delay income. The first is to prepay for expenses that one expects to incur in the coming year. However, one should be careful that this is done correctly – the IRS frowns on this strategy if they deem it an attempt to distort taxable income. The second is to purchase necessary capital assets. It is important that

a business purchase a capital asset that will create a future savings or a cash flow stream that pays for itself minus the income tax savings. This means that capital asset purchases should only be made if it makes good business sense, not simply to reduce a tax obligation in the short term. It is important to remember the salvage value of the asset and the income tax that will be paid on it.

Therefore, it is important to know your expected AGI prior to the end of the year. Once this is determined, it is important to deduce whether or not it falls within your targeted income tax bracket. If the AGI needs raised, then delay payment of bills until after the first of the year. If the AGI needs to be lowered, then first understand what expenses you will encounter in the coming year and pay for those in the current year. If the AGI still needs lowered, look for a capital asset that will truly be an asset and not a liability. ■

ANNOUNCEMENT

OK-FIRE system improves fire managers' knowledge

Oklahoma State University and the Noble Foundation will host two workshops in Ardmore, Okla., to inform people about OK-FIRE capabilities. OK-FIRE is a weather-based decision support system which has been developed for wildland fire managers throughout Oklahoma. Applications include both wildfire and prescribed fire.

The first workshop will provide a brief summary about OK-FIRE and will take place from 7 p.m. to 9:30 p.m., Tuesday, Dec. 11, at the Noble Foundation's Kruse Auditorium.

The second workshop will be from

9:30 a.m. to 4:30 p.m., Wednesday, Dec. 12, at the Southern Oklahoma Technology Center, Business Room 204. It is a more thorough training involving participants through hands-on, computer-based activities.

The workshops are designed to help firemen, emergency managers, landowners, public agency personnel and other interested parties learn how to use several aspects of the OK-FIRE website to help prevent, predict and control wildfires, as well as plan safe and effective prescribed burns. Both workshops will be conducted by J.D. Carlson,

Ph.D., associate researcher with the OSU Department of Biosystems and Agricultural Engineering.

These two workshops are free and open to anyone associated with wildland fire. Preregistration is required. OK-FIRE products utilize the Oklahoma Mesonet, the state's automated weather station network, and the National Weather Service's 84-hour North American Mesoscale (NAM) model.

For more information and to register for the workshops, please contact Elaina Wright at elaina.wright@okstate.edu or 405.744.5425. ■

Passing the buck increases antler size

by Ken Gee / klgee@noble.org



Noble Foundation research and other institution's studies have demonstrated that antler size generally increases with age. As a result, our most common

recommendation to land managers for improving antler quality on white-tailed deer is to increase the age structure of the male segment of the herd. In other words, let the bucks get older. The most effective way is to pass on harvesting small-antlered bucks. Often the response to this recommendation is "if I don't shoot him, someone else will." This response is particularly common when the property in question is relatively small in terms of deer habitat.

To address this issue, we implemented a study on our Oswalt Road Ranch to document the fate of wild free-ranging bucks. We trapped, ear tagged, attached GPS collars and released adult male deer during the spring of two consecutive years. Each year, we monitored collared bucks through the end of December to determine survival and exposure rates to hunting.

We collared 24 and 28 bucks in the first and second years, respectively. Seventeen survived each year through the end of hunting season. Causes of death for collared bucks in the first year were one natural mortality, two hunter harvests and four poacher kills. During the second year, causes of death were four natural mortalities, one hunter harvest, two killed by vehicles and four poacher kills.

These results bring to light several interesting pieces of information. As addressed in the March 2010 issue



of *Ag News and Views*, 17 percent and 14 percent of the collared bucks were poached in the first and second years, respectively. This level of poaching can certainly have negative impacts on management efforts and should be addressed through increased landowner and hunter vigilance, and reporting of suspicious incidents. However, as distasteful and unfortunate as poaching is, it is not a deer management issue – it is a societal issue.

The good news is that 71 percent and 61 percent of the collared bucks survived through the end of hunting season in the first and second years, respectively. Even though all the collared bucks spent time off the Oswalt Road Ranch during hunting season and were exposed to hunting on neighboring lands, only two were harvested by hunters the first

year and one the second year. Most neighboring properties received at least occasional to moderate hunting pressure. This possibly indicates hunters were being more selective in their buck harvest, thereby allowing more bucks to survive. This is encouraging and emphasizes that passing up small bucks – even on small landholdings – can have positive results. ■

| | Year | |
|-------------------|-------|--------|
| | First | Second |
| Collared bucks | 24 | 28 |
| Natural mortality | 1 | 4 |
| Hunter harvested | 2 | 1 |
| Killed by vehicle | 0 | 2 |
| Poached | 4 | 4 |
| Survived | 17 | 17 |

2013: First Quarter Events

Fertilizing for Profit Seminar

Fertilizer is a significant input cost for agricultural producers. This seminar will help producers understand how to more efficiently use fertilizer to maximize profits. The seminar will focus on fertilization for forage and hay. Topics include soil testing, pH and liming, and the economic and agronomic considerations of applying fertilizer.

1 p.m.-4 p.m.

Jan. 22, 2013

Noble Foundation Kruse Auditorium

No Registration Fee



Prescribed Burn Workshop

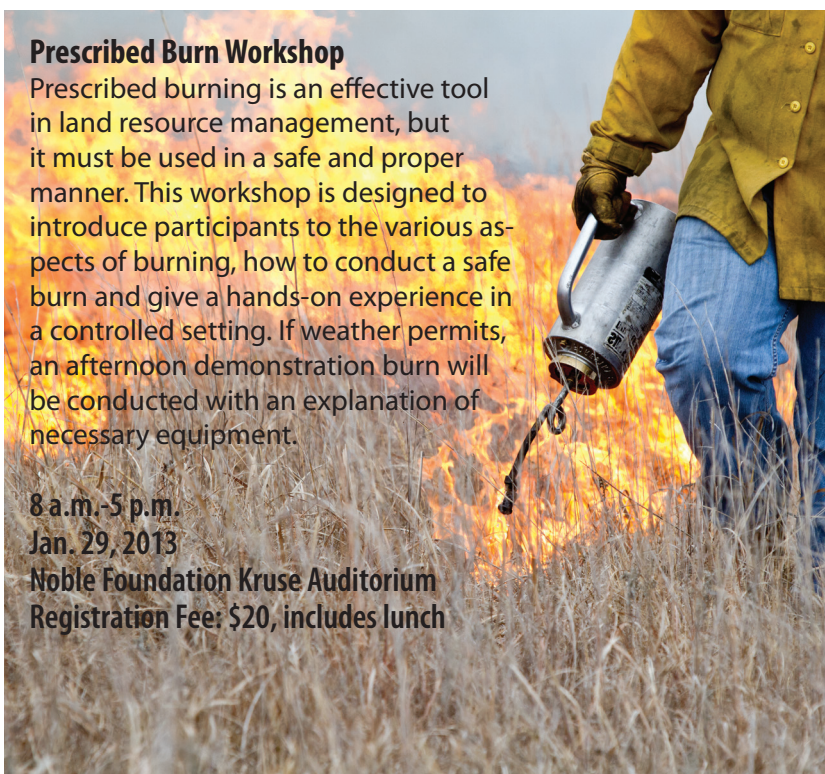
Prescribed burning is an effective tool in land resource management, but it must be used in a safe and proper manner. This workshop is designed to introduce participants to the various aspects of burning, how to conduct a safe burn and give a hands-on experience in a controlled setting. If weather permits, an afternoon demonstration burn will be conducted with an explanation of necessary equipment.

8 a.m.-5 p.m.

Jan. 29, 2013

Noble Foundation Kruse Auditorium

Registration Fee: \$20, includes lunch



Basic AG Pecan Planting and Pruning Workshop

This workshop will demonstrate the proper techniques for planting pecan trees and the importance of proper pecan tree pruning. Participants will have the opportunity to prune young pecan trees.

1 p.m.-4 p.m.

Feb. 12, 2013

Noble Foundation McMillan Farm

No Registration Fee



Spring Cattle Workshop:

Recovering From the Drought and Looking Forward

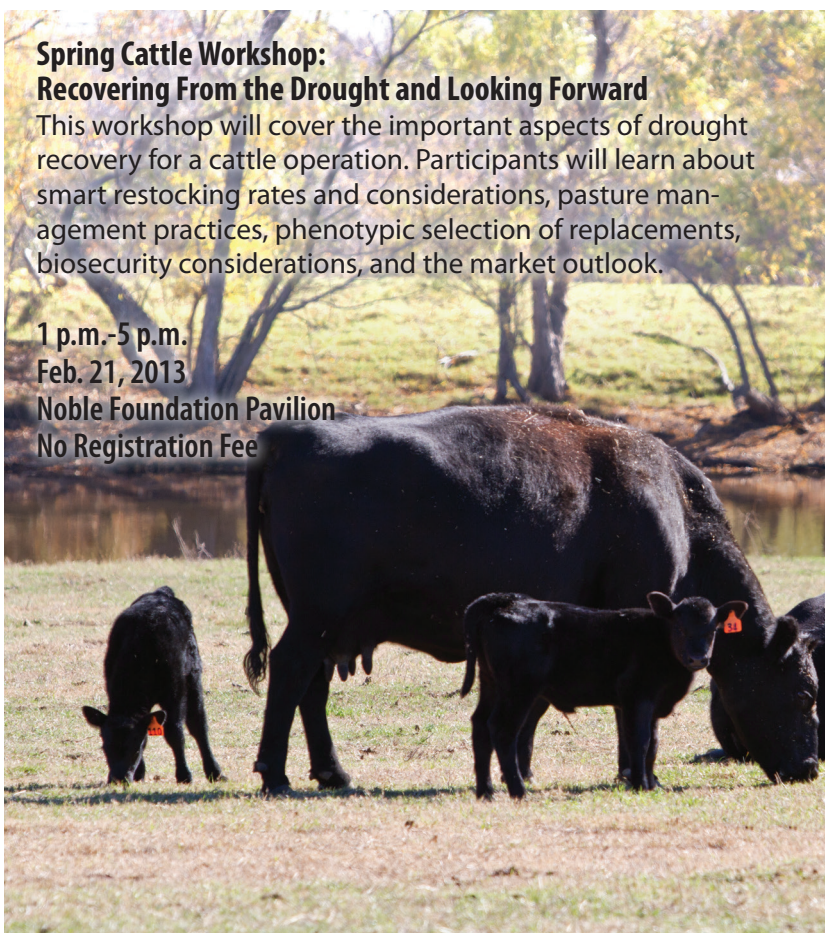
This workshop will cover the important aspects of drought recovery for a cattle operation. Participants will learn about smart restocking rates and considerations, pasture management practices, phenotypic selection of replacements, biosecurity considerations, and the market outlook.

1 p.m.-5 p.m.

Feb. 21, 2013

Noble Foundation Pavilion

No Registration Fee



For more information or to register, visit www.noble.org/agevents/ or call Tracy Cumbie at 580.224.6292. Preregistration is requested.

Basic AG Introduced Forages Workshop

This workshop will cover fertility, weed control and proper grazing management of both introduced and native grass pastures. Private pesticide applicators can receive an hour of continuing education (CEU) general credit by attending this workshop.

6 p.m.-8 p.m.

Feb. 28, 2013

Fair Hall

North Texas State Fairgrounds

2217 North Carroll Blvd.

Denton, Texas

Registration Fee: \$20, includes dinner

To register, contact Denton County Agri-Life Extension at 940.349.2894 by Feb. 21.

THE SAMUEL ROBERTS
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Brush Removal in Native Pecans Workshop

Brush removal under native pecan trees helps bring the trees into production. This workshop is designed to acquaint native pecan growers and custom managers with the tools and techniques available for removing unwanted timber and brush in native stands.

9 a.m.-12 p.m.

March 7, 2013

Frank Perry Residence

24359 N County Road 3240

Pauls Valley, Okla.

No Registration Fee



Fertilizer and Weed Control Seminar

Spring brings agricultural producers two challenges – weeds and fertilizer needs. Cost-effective fertilization and weed control practices are essential in forage and hay production. This seminar will provide producers with information on solutions to common pasture fertilization issues, as well as herbicide treatments for weed and brush control.



1:30 p.m.-3:30 p.m.

March 12, 2013

Mid-America

Technology Center

Wayne, Okla.

No Registration Fee

1:30 p.m.-3:30 p.m.

March 26, 2013

Kiamichi

Technology Center

Atoka, Okla.

No Registration Fee

Texoma Cattlemen's Conference: Focus on Efficiency

Management practices that improve operational efficiencies and optimize production are essential for long-term operational viability. Beef industry experts will identify management practices that will result in the greatest potential for improved efficiencies when implemented.

9 a.m.-4 p.m.

March 14, 2013

Ardmore Convention Center

Registration Fee: \$35, includes lunch



Beef Quality Assurance (BQA) Workshop

BQA raises consumer confidence through proper management education and guidelines for the beef industry. This workshop will give insight into BQA standards for animal care, recordkeeping, nutrition and carcass quality. Participants can become BQA certified with successful completion of the workshop and a test.

1:30 p.m.-4:30 p.m.

March 28, 2013

Noble Foundation Kruse Auditorium

No Registration Fee



Online calculators help make management decisions

by Robert Wells / rswells@noble.org



Have you ever had a tough decision to make for the ranch? One that would cost a lot of money up front, but would make doing a task much easier or

save you money in the long run, yet you still just were not sure if it was the right thing to do? Every day we face these types of decisions while managing agricultural enterprises. However, when we can take the emotion out of the equation and put the consideration down on paper, the decision becomes much easier to make.

Noble Foundation consultants have developed a series of online decision support calculators to help farmers and ranchers. These calculators range from chemical sprayer or planter calibration to determining the cost of wasted hay in different hay rings. Two new calculators were recently developed. One calculates stocker breakeven purchase price. The other, which this article will focus on, allows producers to determine the feasibility of purchasing an overhead feed bin and truck-mounted feeder.

The overhead feed bin calculator is used to evaluate the feasibility of purchasing an overhead feed bin and truck-mounted feeder for feed storage and feed delivery to cattle on pasture. Cost savings are typically associated with purchasing of bulk versus bagged feed and the ability to purchase by-product feeds compared to bulk range cubes only. Typically, there is about a \$20 per ton price increase if feed is bagged rather than in the bulk form. Additionally, an overhead feed bin allows the ability to use by-product feeds. Some ranch-



ers may not have previously had this flexibility since many feed stores do not sell bulk by-products feeds. The cost differential between range cubes and by-product feeds can be substantial and oftentimes is greater than \$60 per ton, which is in addition to the bagging costs.

This tool takes into account the lifespan of the equipment and taxable depreciation. To be as accurate as possible, the developers of the calculator took into account the tax depreciation of the equipment over a life of 10 years. For purposes of the calculator, the lifespan was presumed to be 10 years, although with proper care and maintenance the equipment could last twice as long. Additionally, for those who do not have onsite storage of their feed, this tool will calculate the costs of trips to the feed

| | |
|--|----------|
| Cost of overhead feed bin and setup | \$8,500 |
| Cost of truck-mounted feeder | \$1,750 |
| Interest rate for financing purchase | 7% |
| Amount financed | \$10,250 |
| Length of loan (years) | 5 |
| Number of cows fed | 100 |
| Feed fed to cows (lbs/d) | 4 |
| Number of feeding days, cows | 120 |
| Number of calves fed in backgrounding | 92 |
| Feed fed to calves (lbs/d) | 8 |
| Number of feeding days, calves | 45 |
| Number of trips per week to feed store | 1 |
| Round trip distance to feed store, miles | 25 |
| Miles/gallon fuel consumption, mpg | 14 |
| Cost of fuel | \$4.00 |
| Cost difference of bagged vs. bulk feed | \$20 |

store, taking into account the fuel efficiency of the truck and cost of fuel. No salvage value was assigned since it can be highly variable. If a salvage value for the equipment is determined, then the number of years to break even on the purchase cost of the equipment would be even less.

An example of a typical scenario is included in the table above. Using the table's figures, a total of 40.56 tons of feed would be required on a yearly basis. The amount of feed purchased to break even, including equipment financing, would be 146.2 tons. It would take the ranch about four feeding seasons to pay for an overhead feed bin and feeder through feed and fuel cost savings. This calculator and many others can be accessed at www.noble.org/ag/tools. ■

Phone app provides soils data in the field

by Chad Ellis / crellis@noble.org



The Natural

Resources Conservation Service (NRCS) launched the Web Soil Survey website (websoilsurvey.nrcs.usda.gov) in 2005.

The site allows online users to access soil survey information for a particular piece of land instead of having to refer to the traditional county-level soil survey books. You can read more about this website in a 2011 *Ag News and Views* article written by Dr. Corey Moffet, entitled *USDA-NRCS Has a Very Useful Tool in Web Soil Survey* (www.noble.org/ag/pasture/soil-survey).

The disadvantage of the WSS is that user access is limited to use on a personal computer. Due to this limitation, NRCS and the University of California-Davis Soil Resource Lab recently developed an app for iPhone and Android smartphones called "SoilWeb." (Figure 1.)

One unique feature of the SoilWeb app is that it retrieves graphical summaries of soil types associated with the user's geographic location through smartphone GPS capabilities. By following instructions on the app, farmers and ranchers can quickly obtain information about soil types and properties to help make management decisions while still in the field (Figure 2). Each summary shows the soil name and horizon, or layer. By clicking on the soil horizon, the app will load the Official Series Description (OSD), a narrative of commonly used soil properties such as horizon depths, colors, texture and rock fragments. Clicking on the soil name (e.g., 'Pollasky' as seen in Figure 2) provides the user with a more detailed descrip-

tion, including physical and chemical properties, definitions, and links to other databases (plants, ecological information system, etc.).

As an example, consider a producer who is contemplating bermudagrass establishment in a particular pasture. Key factors for successfully establishing bermudagrass are soil type and soil health. The producer can instantly receive soil type and physical property information about pasture using the SoilWeb app and determine if the soil in the pasture is suitable for bermudagrass establishment. The type of soil determines which nutrients are needed and how much water should be applied or how much rainfall is required for a defined level of production. The SoilWeb only provides information about soil physical properties – not the current fertility status. The SoilWeb app provides a lot of useful information, but it does not replace soil testing. Soil testing is still needed to determine the level of nutrients available for the current growing season.

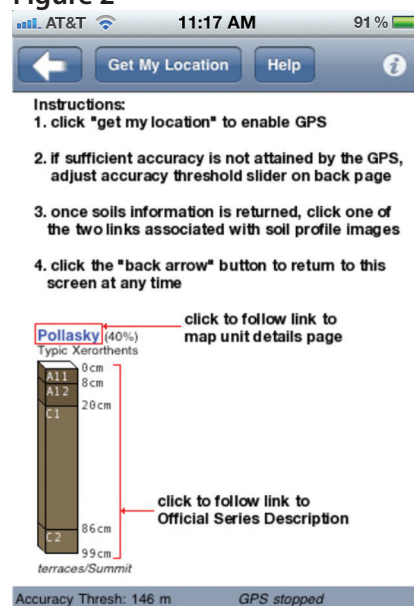
The SoilWeb app is an extremely useful tool for smartphone-using farmers, ranchers or others interested in land stewardship. With its embedded GPS system, this app provides instantaneous soil information from your given location, which is very convenient. Perhaps the best thing about the SoilWeb app is it can be downloaded for free from the Apple App Store for the iPhone or from play.google.com for the Android OS. ■

Note: Ellis joined the Noble Foundation in July 2012 as a pasture/range consultant. He has 10 years with NRCS, serving most recently as a regional rangeland management specialist in Ft. Worth.

Figure 1



Figure 2



CONTENTS

Page 1

Long-term strategies help minimize taxes

Page 2

OK-FIRE system improves fire managers' knowledge

Page 3

Passing the buck increases antler size

Page 4

Upcoming events

Page 6

Online calculators help make management decisions

Page 7

Phone app provides soils data in the field

EVENTS

Managing Taxes for Agricultural Producers

Date: Dec. 11, 2012

Location: Noble Foundation Kruse Auditorium

Time: 1:30 p.m.-4:30 p.m.

No Registration Fee

Fertilizing for Profit Seminar

Date: Jan. 22, 2013

Location: Noble Foundation Kruse Auditorium

Time: 1 p.m.-4 p.m.

No Registration Fee

Prescribed Burn Workshop

Date: Jan. 29, 2013

Location: Noble Foundation Kruse Auditorium

Time: 8 a.m.-5 p.m.

Registration Fee: \$20, includes lunch

For more information or to register, please visit www.noble.org/agevents/ or call Tracy Cumbie at 580.224.6292. Preregistration is requested.

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