

DAIRY PIPELINE

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Taxes? I'd Rather Think About Cash!

—Alex White, Instructor, Department of Dairy Science; axwhite@vt.edu

“Most businesses and households would be in better financial condition if finances were considered throughout the year.”

As a self-proclaimed finance geek I get upset that many people only think about their finances during tax season. Most businesses and households would be in better financial condition if finances were considered *throughout the year*. That said, here are a few tips for using your cash more effectively this year.

Make your tax year 2018 IRA contribution before April 15, 2019. If you had earned income (farm or non-farm) in 2018 you may be able to make a contribution to your IRA, SEP-IRA, or SIMPLE-IRA for tax year 2018.

Develop a household budget. This will help you think about your goals and the cost of your desired lifestyle. I preach to my students that every manager must know the cost of production (\$/cwt, \$/bu) for each enterprise. Well, let's consider the household one of your enterprises – what does your lifestyle cost you per day or per month? Try to find ways to reduce your “household cost of production” without impacting your lifestyle too much. Email me (axwhite@vt.edu) for a copy of my budget planner spreadsheet.

Adjust your W-4 exemptions from your non-farm job to increase your take-home pay. Claiming a larger number of exemptions on your W-4 reduces the amount withheld from each paycheck. This gives you more money to use for household expenses, farm expenses, or debt service each month. The drawback of this strategy is that you will get a smaller income tax refund or you may have to write a larger check to the IRS in April. But, it puts more cash in your pocket throughout the year to ease your cash flow pressures.

Talk to your lenders about lengthening the repayment term on your loans. This will reduce your periodic payments, which frees

cash for other use. Yes, it will increase your interest expense over the term of the loan; but, it will reduce the pressure on your cash flow. If you have extra cash on hand from higher milk prices or off-farm income, use a portion of that cash to make prepayments on your loans – this will reduce your interest cost and the term of the loan.

Invest in yourself before you make tax purchases. Do you realize that you have to spend \$4 to save \$1 in income taxes (assuming a 25% marginal tax bracket)? Instead of buying Section 179 assets or pre-paying/pre-purchasing your feed & fertilizer to reduce your taxes, think about these alternatives:

- Pay the \$1 of income taxes you owe and put the \$3 of “left-over cash” in your savings account. Build your liquidity to help get through the hard times instead of purchasing equipment (that you may need actually need) to reduce the amount you pay in taxes.
- Write a check to yourself, in the form of a retirement contribution to an IRA, SEP-IRA, or SIMPLE-IRA, BEFORE you write a check to the machinery dealer or the feed store. You will get significant tax advantages by using retirement plans AND you will be paying yourself before you pay anyone else.

When in doubt, maintain your liquidity. Yes, I know, money in your checking and savings accounts is not earning anything; however, having funds in your liquid accounts can “earn” a significant return when hard times hit. It allows you to stay current on your bills and payments; it allows you to take advantage of cash discounts (2/10 net 30); it protects you from having to borrow emergency funds at high interest rates (credit cards); and, in turn, it takes some emotional stress off your shoulders.



Upcoming Events

See [VTDairy](#) for details.

April 6, 2019
VA Spring Holstein Show

April 27, 2019
Little All-American

May 2, 2019
Next Generation Product
NutriTek with Diamond V

May 4, 2019
Dairy Judging 101
Rockingham Fairgrounds

May 11, 2019
State Youth Dairy Judging
Workshop

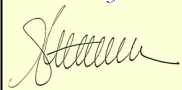
May 17, 2019
Eastview Farms dispersal

May 20, 2019
Hokie Cow Classic Golf
Tournament

For more VCE dairy events
visit www.vtdairy.dasc.vt.edu

If you are a person with a disability and require any auxiliary aids, services or other accommodations for any Extension event, please discuss your accommodation needs with the Extension staff at your local Extension office at least 1 week prior to the event.

For more information on Dairy Extension or to learn about current programs, visit us at VT Dairy—Home of the Dairy Extension Program on the web at: www.vtdairy.dasc.vt.edu.



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Teamwork Makes the Dream Work

—Dave Winston, Extension Dairy Scientist & Dairy Youth Program Coordinator; dwinston@vt.edu

To say that these are challenging times for Virginia's dairy farmers would be an understatement. Tight margins have caused many farmers to exit the business. How can those that remain best position themselves to be profitable now and in the long run? A team approach may be useful to identify ways to improve farm efficiency and profitability.

The North American Intercollegiate Dairy Challenge provides a model that can be implemented fairly easily. Farmers who serve as Dairy Challenge hosts receive much feedback from a panel of experts, as well as from students who compete in the contest. A typical judges panel consists of experts in financial management, nutrition, reproduction, herd health, and overall herd management. This list resembles those who typically advise dairy farmers: veterinarians, nutritionists, AI representatives, and ag lenders. Consultation with these advisors vary from farm to farm in frequency, duration, and depth of the visits. These consultants may or may not interact with one another. The purpose of the team approach is to provide an opportunity for the farm's consultants to be on the same page in order to prioritize management strategies in the short and long terms.

In a Dairy Challenge contest, the farmer provides data to judges and students. This data includes: a farm questionnaire that provides an overview of farm management, resources, protocols, and goals; farm map that provides information on building and land utilization; forage testing results and rations; DHIA records; milk plant tests; and financial information (net worth and profit-loss statements). After studying the data provided, participants inspect the farm to assess farm management. They observe milking procedures; feed storage, mixing, and delivery; feed bunks; water troughs; housing; manure handling and storage; maternity pens; body condition; and calves and heifers. Next they supplement what they have observed in the data and on the farm with a question and answer session with the farmer. The final product recognizes the strengths in the operation, but most im-

portantly identifies major opportunities to increase efficiency and improve farm profitability.

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An assessment may help answer a variety of questions. Is the farm financially viable? Are cows producing milk at an optimal level? What management steps could be taken to improve milk quality? Does the farm's labor supply match its needs? Should the farm rear its own heifers or consider contract rearing? What can be done to improve cow comfort? Are cows getting bred back in a timely manner? Are feed costs in line with industry benchmarks?

There are several important considerations in utilizing the team approach to evaluate farm management. First, a participating farmer must be willing to confidentially share information with a trusted team of advisors in order to receive honest feedback. Trust is key. Second, the farmer must be open to constructive feedback. Use of this feedback to develop a management plan will make the overall exercise a worthwhile activity. The management plan should include SMART goals. SMART goals are specific, measurable, attainable, rewarding, and timed. Developing written goals increases the likelihood of accomplishing those goals. Third, the consulting team can help determine how often the assessments should take place. Annual assessments may be right for most, but may be more or less frequent depending on overall health of the operation.

When one sees the same situation day after day, it can be hard to detect subtle changes that can lead to bigger problems. A team of consultants may be able to offer fresh eyes, as well as collective wisdom and experience, to identify and solve problems. It will certainly take an investment in time and, perhaps, money to yield positive results.

The Virginia Tech Department of Dairy Science has worked with numerous farms across the state in simulated Dairy Challenge activities to train students for competition at the regional and national levels. If you are interested in having your herd evaluated by a team of faculty and students, contact Dr. Alex White (axwhite@vt.edu) for additional information.

