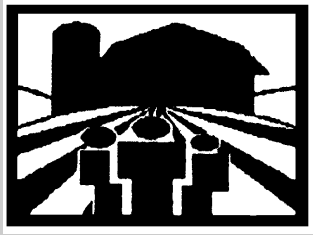


Virginia Cooperative Extension



Farm Business Management Update October – November 2002

To: Extension Unit Directors, Extension District Directors, Extension Program Directors, and Farm Management Agents, and ANR Specialists

Dear Co-Workers:

Farm Business Management Update is a joint effort of the Agricultural and Applied Economics faculty and the area farm management agents. Subject matter areas include timely information on farm management, marketing, tax management, finance, credit, labor, agricultural law, agri-business, estate planning, 4-H and economic education, natural resources, and CRD. Please use this information in your on-going Extension programs and circulate to all Extension staff. **Farm Business Management Update** is electronically accessible via the Virginia Cooperative Extension World Wide Web site (at <http://www.ext.vt.edu/>). To see the articles listed in the reverse chronological order, select "News," then select "Farm Business Management Update" listed under the heading "Periodicals."

Gordon E. Groover
Extension Economist, Farm Management
and Farm Management Coordinator

Karen Mundy
Rural Economic Analysis Program
Communications Specialist

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Small Business 2002 Challenges and Perspectives

By David M. Kohl, Heidi Baitis, Alicia Morris, Megan Green, and Zack Mundy

This year's small business and entrepreneurship class has 140 students from five colleges within Virginia Tech and 54 percent of the enrollment is females. Currently, 25 million small businesses operate in America - 38 percent of which are operated by females. Nearly 50 percent start with under \$20,000 in capital and 30 percent are initially financed by a credit card. Forty percent continue beyond 4 years. The United States is the world leader population being employed in personal enterprises, with over 5 percent of the adult population.

The students' first assignment was to interview small business managers and entrepreneurs to gain insight and perspectives in operating a personal enterprise.

Challenges

The students discovered that the current business climate is very challenging and that passion and energy for the business was critical. Many of the owners were working between 60 and 114 hours per week. Many businesses stated that increased health care premiums, government regulation, and paperwork are very burdensome in both startup and everyday operations. Furthermore, as one of the people surveyed indicated, in days of tight margins theft is one of the major reasons that a small business fails. One small business owner commented that these factors are hindering the economic recovery and could place the United States in another recession.

Labor continues to be a challenge. Finding capable, qualified individuals who have a commendable work ethic was noted as the most common headache of the small business owner.

Attracting and paying back loans was another challenge mentioned in operating a successful small business. Finding a lender that will talk one-on-one and knows your industry is very important. It's important to have a community bank that serves the community and invests back into the area. Many of the business owners interviewed said they had started up the business with a credit card. However, one businessman failed, and the resultant credit problem hindered his ability to obtain additional credit for nearly seven years.

A number of the small business owners surveyed are tracking customers and customer service via the computer. The information gained is being used to adjust product and service selection. Many are using the computer as a tool in inventory and receivables management. Some small businesses are using the computer data base system as a means of tracking employee output and employee security management. Marketing was frequently mentioned as the dividing line between whether a small business makes it.

Depending upon the business, one-fourth to one-third of a person's time must be focused on new customer or product and service development. As one owner stated, high-quality work can be as profitable as the prices you charge, so price is not everything.

More of this year's group of small businesses and entrepreneurs had gone through the formality of developing a business plan than in previous years. The benefits included not only being able to obtain capital, but also to provide a logical format in thinking through the business model process and taking the emotion out of the business decisions.

Finally, networking and education were key perspectives in operating a successful business. Attending trade shows, word-of-mouth, pamphlets, and even playing golf with the right people are the networking secrets that can give the businessperson the competitive edge.

As students embark on their final business plan projects in this class, they have taken the first critical step. One must survey the landscape, embrace the challenges, find what works, then match their resources with the business concept, and forge ahead.

Farmers' Legal Action Group Announces Shared Appreciation Agreement Web Page

Via L. Leon Geyer

ST. PAUL, MINN. — Farmers' Legal Action Group, Inc. (FLAG) announces the creation of a Shared Appreciation Agreement (SAA) information resources web page to assist farmers with questions about this USDA program. As of late 1988, whenever a farm loan borrower receives a write-down of debt owed to the Farmers Home Administration (FmHA)—now the Farm Service Agency (FSA)—the borrower must sign an SAA. An SAA is a contract between FmHA/FSA and the borrower in which the borrower promises to pay a certain amount of money in the future if the property securing the agreement increases in value, allowing FmHA/FSA to “recapture” all or a portion of the write-down amount.

The web page is intended to provide current and background information on SAAs, including federal laws, regulations, and notices; SAA case decisions; FLAG informational memos and fact sheets; and other informational resources. Please note that the SAA information is not intended to provide specific legal advice. Each borrower should carefully look at his or her own SAA agreement for specific requirements and should seek individual assistance for any problems or questions.

The SAA Information Resource web page site can be found at <http://www.flaginc.org/saa/saa.htm>.

FLAG is a nonprofit law center in St. Paul, Minnesota dedicated to providing legal services to family farmers and their rural communities in order to help keep family farmers on the land.

FLAG Contact: David Moeller - (651) 223-5400 or lawyers@flaginc.org

Managing Your Investments During a Down Market

By Alex White

Just look at recent headlines in newspapers: “DJIA closes down 150 points,” “NASDAQ at 6-year low,” “Economic reports drive down stock prices.” Then look at your monthly investment account statements – your investment is rapidly melting away. You really wonder why you listened to the “experts” and invested a portion of your income in the stock market when you could have reinvested in your farm or business. What a waste of money, right?

Good question, but a more relevant question is what should I do with my investments in this down market? In such a market, the temptation is to cut your losses, sell your stocks, and reinvest the money into the business. But before you do, you need to examine your financial goals and your reasons for investing in the first place. Four of the main reasons small business owners and consumers invest in the stock market are

1. Because they see their neighbors and friends “making a killing” in the market;
2. Because they hope for substantial short-term profits;
3. Because they seek the potential to earn long-term gains; and
4. Because they want to reduce their overall risk exposure through diversification.

If you fall into group 1 or 2 above, chances are you shouldn’t have money in the stock market at all, unless you can afford to lose that money. These types of people are gamblers (maybe speculators is a more politically-correct term) rather than investors. They are playing the market versus investing for their future. My advice to someone in these groups is cut your losses, and use the capital loss to reduce your income tax liability.

For those of you who fall into group 3 or 4, you have some more questions to answer:

Question: How much risk can I handle?

Hopefully, you were well aware of the inherent risk of investing in equities before you committed any funds. Stock prices can be extremely volatile over periods of time, causing a significant fluctuation in your paper net worth. But these losses are unrealized unless you decide to sell your stocks. In the long run, these volatile equities (especially corporate stocks) offer investors one of the best average rates of returns available. It’s the old risk-return tradeoff – to obtain higher returns you need to face higher risks.

Typically, investors with a longer planning horizon are more able to handle higher levels of risk because they have time on their side – time to make up for short-term losses. But some people just don’t like the day-to-day volatility associated with the stock market - and there’s nothing wrong with that! Every investor must identify his/her risk tolerance, and then invest in assets that are consistent with that tolerance. My rule of thumb on risk is, “If your investments are keeping you awake at night, you need less risk in your portfolio.” That is, replace the riskier assets that are causing you to lose sleep with more conservative assets. Life is too short to lose sleep over your investments!

Answer: If you are not comfortable with the amount of volatility in your current portfolio, you might want to replace your riskier assets with less volatile assets (such as blue chip stocks or high quality bonds). On the other hand, if you are comfortable with the volatility and you have a clear goal for the funds you have invested, remain disciplined and stick to your long-term investment plan.

Question: Is my portfolio well diversified?

Many investors have misguided views of diversification. To the average investor, a mutual fund that invests in 50-75 companies is well diversified. It may be diversified in terms of numbers of companies, but does it invest in companies from different sectors of the economy? Does it invest in income versus growth firms? Does it invest in bonds as well as stocks? Does it invest in foreign economies or only in domestic firms? Does it invest in large firms as well as small firms?

A well-diversified portfolio is capable of significantly reducing your risk exposure by investing in assets that have a low correlation. Assets with low correlations typically do not move in the same directions – when one asset is falling in value, the other asset may be holding constant or increasing in value. So while one investment may be losing value, your other investment assets may actually be increasing in value, thereby reducing your risk exposure. Theoretically, removing all non-systematic risk is possible by investing in two assets that are perfectly negatively correlated. But in the real world, it is virtually impossible to find two such assets.

An often-overlooked aspect of diversification is a strategy called asset allocation. Asset allocation refers to spreading your assets among different asset classes (stocks, bonds, real estate, etc.) in a manner consistent with your financial goals and risk tolerance. A well-diversified portfolio is not only invested in a wide range of domestic corporate stocks, but in domestic bonds (long and short term), foreign stocks and bonds, real estate, precious metals, and cash.

Answer: If your portfolio is not well diversified, you might want to take this opportunity to restructure your investments. This restructuring may significantly reduce the amount of investment risk to which you are exposed. For those of you who have a well-diversified portfolio, take this opportunity to rebalance your portfolio so that you will remain on course towards your financial goals.

Rebalancing is an extremely important aspect of diversification that is oftentimes forgotten. For example, during the incredible technology stock boom of the late 1990s, a portfolio could easily become over-weighted in technology stocks. With periodic rebalancing, the profits from the technology sector would have been redistributed among other sectors (foreign stocks, bonds, etc.) that were not performing quite as well at the time. But wait – doesn't rebalancing channel funds away from a good-performing asset and into an under-performing asset? The answer is yes, but you need to keep in mind the cyclical nature of the global economy. For example, US stocks (S&P 500) have had the highest annual rate of return only 5 years since 1972. Over this same time period, European/Asian stocks have lead the way in 7 years, while real estate has

outperformed in 10 of those years. When the technology sector bust occurred, a rebalanced portfolio would have redistributed the previous earnings amongst other assets and significantly reduced potential losses. What rebalancing accomplishes is simple – it channels funds away from an over-performing asset and into lower-priced assets, all the while keeping your desired allocations relatively constant. A portfolio should be rebalanced at least every quarter. However, be aware of any tax implications of rebalancing a non-tax-sheltered portfolio.

Question: When will I need the funds that I have invested in the stock market?

Answer: If you will need those funds within the next year or so, you may want to think about moving the funds to a more conservative asset, such as a certificate of deposit or a money market account. This action will reduce your risk exposure and will help to protect the value of your investment.

However, if you have a longer time horizon before you need the funds, the answer becomes less straightforward. Again, you need to re-evaluate your financial goals and risk tolerance. When you have these factors squared away, you need to determine if your current portfolio is consistent with your goals. If it is consistent and you are comfortable with the associated level of risk, try to remain disciplined and stick to your long-term financial plan - even in the face of falling asset prices. If you determine that your portfolio is not consistent with your long-term goals, you should consider making some changes in your portfolio. You may want to consult with a financial advisor on possible changes to your investment portfolio.

Question: What can I do today?

Answer: A down market can be depressing for investors. Watching the value of your investments fall from month to month can be hard. But the pain is more bearable if you have clear financial goals, understand your risk tolerance, and have a well-diversified investment portfolio. That being said, here are a few tips to make the down market a little less depressing and a little less painful:

1. Don't open your monthly account statements! Avoid the pain!
2. Resist the temptation to realize those "unrealized losses" by selling at a low price. However, selling at a loss can be a powerful tax strategy – consult a tax planning professional for more details.
3. Continue to dollar-cost average into proven investment assets. As my advisor told me, "It seems counter-intuitive, but the absolute best situation for your investments is for your mutual fund to stay at a very low price until the day before you want to take the money out of it. That way, you are buying at a low price up until the day you need the funds." Remember, dollar cost averaging helps reduce your average cost – and you don't even have to think about what you're doing! Just invest the same amount of money into the asset(s) every month!

4. Rebalance your portfolio. In extreme markets (up or down) your portfolio can easily get “out of whack.” Rebalancing offers a method of reducing your risk and maintaining your overall financial plan.
5. Consult a financial planning professional. Sound financial advice is just as important in down markets as it is in up markets! A financial planning professional can be a great resource for you in achieving your financial and life goals.

The Management Calendar

By Gordon Groover

The continuing drought and changes to farm programs are two big items that will impact Virginia’s farmers for a number of years. To keep up-to-date on changes to farm programs, and drought assistance programs, visit your local FSA office or frequently check the FSA web site (<http://www.fsa.usda.gov/>) for new information. You can locate contact information (phone numbers, address, and name and e-mail for the County Director) for your local FSA office by selecting your county from the following map

http://oip.usda.gov/scripts/ndisapi.dll/oip_agency/index?state=va&agency=fsa

Selective information you should be aware is as follows:

- Livestock Compensation Program for farmers suffering from drought in 2001 and/or 2002 season. The Livestock Compensation Program provides assistance for cattle, sheep, and buffalo producers in counties that have received primary disaster designation due to drought in 2001 and/or 2002. In addition, producers in counties which have disaster designation requests pending as of September 19, 2002 and which are subsequently approved will also be eligible to participate in the program. Sign up will begin Oct. 1 with payments made soon thereafter.
- Dairy producers should sign-up for the Milk Income Loss Contract (MILC) program. Check with your local FSA office for details. The Cornell Program on Dairy Markets and Policy (<http://dairy.cornell.edu/>) lists estimates of the MILC program payments for 9 months into the future based on Chicago Mercantile Exchange settlement prices for class III and class IV milk. These projected prices may help medium to large dairy producers choose the starting month to receive their MILC payments.
- Links to the daily county LDP rates and critical farm program dates are available at the FSA web site <http://www.fsa.usda.gov/>.

Farm business managers should consider putting the following activities on their management calendar for October-November.

- Summarize the third quarter cash flow and financial records, compare them to your projections, and watch for problems. Actual inflows or outflows that differ from your projections may not signal a problem, but understanding why there are differences helps you understand changes in the farm business. Drought conditions will lower many farmers net income for 2002. Begin brain storming and looking for alternatives to reduce costs and/or increasing income.

- Using the last three quarters of cash flow and financial records; estimate total farm expenses; income; and capital purchases and sales, and make an appointment with your tax advisor to plan year-end tax management strategies. Be sure to estimate crop insurance payments and any government payments that will appear on this year's taxes. To fully take advantage of year-end tax management strategies, farmers must make decisions before December 31, 2002. Be sure to review changes to state and federal tax laws with your tax advisor to make sure you have not missed deductions and/or credits.
- Be sure to keep crop records up-to-date during harvest, include yields, machine times and equipment used, identify weed problems, and differences in hybrids.
- Be sure to keep livestock records up-to-date during fall sales. At a minimum, include weight, grade, sale prices, and identification numbers of all calves sold and/or purchased.

Other useful information to farmers and professionals.

- **Software:** Beef cattle producers interested in selecting a software program to help in keeping production records should read the Oklahoma Cooperative Extension Service publication *Cow-Calf Production Record Software*. The full report can be obtained at <http://www.ansi.okstate.edu/exten/beef/WCR-3279/WCR-3279.pdf>
- **Virginia Statistics:** Virginia Agricultural Statistics Service has published their annual *Virginia Agricultural Statistics Bulletin* which is available at <http://www.nass.usda.gov/va/bulletin2002.pdf>. This publication summarizes a vast array of agricultural production and economic information for 2001.

Farm Bill Signup Begins

By Jim Pease

Producer signup for 2003 commodity programs under the new Food Security and Rural Investment (FSRI) will take place from October 1, 2002 to June 1, 2003. These programs provide payments to eligible producers of wheat, barley, corn, soybeans, cotton, peanuts, and a few other feedgrain and oilseed commodities. Payments under the FSRI commodity program take three forms:

1. Marketing loans/loan deficiency payments (LDPs)
2. Direct payments (DP)
3. Counter-cyclical payments (CCP)

The marketing loan program provides price protection by establishing a floor price for these commodities. Producers may elect to put their commodities under loan (and possibly forfeiting the commodity to the USDA as repayment) or to take an LDP. The loan rate varies by commodity and also between counties for the same commodity. In some years during the 1996 FAIR Act, LDPs were paid on nearly all of these commodities to producers in Virginia. All production receives the benefit of the price floor, but (as may be the case this year) if there is no production, there also is no benefit from the marketing loan program.

Direct payments are the second component of commodity programs. DPs are similar to the AMTA or PFC payments of the 1996 FAIR Act, and are decoupled from current production and

prices. Payments are made on 85% of the base acres times the base yield times the direct payment rate. With a direct payment rate of \$0.28 per bushel for corn, a 100-acre corn base acreage and a 100-bushel base yield, the direct payment would be $85\% * 100 \text{ acres} * 100 \text{ bushels/acre} * \$0.28/\text{bushel} = \$2,380$. Advance payment up to 50% of the total payment may be paid at the producer's option beginning in December of the year before harvest.

Counter-cyclical payments are the other component of commodity programs. CCPs are similar to deficiency payments prior to the 1996 FAIR Act. Like DPs, CCPs are paid on 85% of the base acres. Unlike DPs, CCPs yields may be partially updated to reflect more current historical yields. The CCP rate is equal to the difference between the target price and the effective market price plus the direct payment rate. The effective market price is the higher of 1) the 12-month marketing year average price of the commodity, and 2) the national loan rate for that commodity. The maximum CCP rate occurs when the market average price is at or below the loan rate plus the direct payment rate. For example, the 2002 target price for corn is \$2.60 per bushel, the loan rate is \$1.98 per bushel, and the direct payment is \$0.28 per bushel. If the marketing year average price is at or below \$2.26 per bushel (\$1.98 plus \$0.28), the corn CCP rate is at its maximum of $\$2.60 - \$2.26 = \$0.34$ per bushel. If the price is between the loan rate and the target price minus the direct payment rate (between \$1.98 and \$2.32), the CCP rate is correspondingly reduced. At or above a price of \$2.32 per bushel, there is no CCP. Using the same example as above, assume that the producer has 100 acres of corn base but has been able to update base yields to 110 bushels. If the marketing year price were \$2.20 per bushel, then the CCP rate would be $\$2.60 - \$2.20 - \$0.28 = \0.12 per bushel. The CCP would then be $85\% * 100 \text{ acres} * 110 \text{ bushels/acre} * \$0.12/\text{bushel} = \$1,122$. Producers may also receive advance CCP of up to 35% of the expected annual CCP beginning in October of the year of harvest. USDA announced on September 27 that its forecast of marketing year average price indicates that, because of generally high market prices, no CCP will be paid for any commodity in the program except for peanuts, rice, and upland cotton. USDA will re-estimate expected prices in January, and a second partial CCP may be paid in February depending on the result of that forecast. The final CCP is paid at the end of the marketing year for the crop. Final CCP are paid in July for wheat, barley, and oats, in September for upland cotton, and peanuts, and in October for corn, sorghum, and soybeans.

Upon signup, producers will receive the remainder of their 2002 direct payments, which will be the difference between 2002 AMTA payments (already received) and the total 2002 program direct payments. Producers and USDA face a formidable task as they prepare for signup. Since soybeans have been added by FSRI to the DP and CCP programs, and because the legislation permitted partial updates of base yields, producers must choose among options to update base acres and base yields. These options include retaining the 2002 PFC contract acres as the base, updating all bases on the farm using 1998-01 plantings, and three options that allow a producer to add oilseeds to existing PFC acres. A different option may be selected for each FSA-defined farm, but an option selected for one program crop on a farm applies to all such crops.

Programs to assist producers in making these decisions are available from such sources as the National Corn Growers' Association (<http://www.ncga.com/>). I have two spreadsheets that are not currently on the Web that include the ability to add peanut base. Please contact me at (540) 231-4178 or peasej@vt.edu if you are interested in obtaining these spreadsheets. The base

acres/yields options must be selected by April 1, 2003, or such acres/yields will default to the 2002 acres/yields. A related difficulty for producers involves the requirement that all landowners must agree in writing to any base update options. The landowner may sign the required USDA forms, or the producer may obtain a new power of attorney for this purpose from the landowner. In any case, this process will be very time-consuming for producers, landowners, and USDA personnel and may delay signup for weeks, if not months.

Included below are the national loan rates (Virginia county loan rates may vary), direct payment rates, and target prices under the FSRI Act

Virginia Loan Rates for 2002

County	Barley	Corn	Soybeans	Wheat
Caroline	\$1.53	\$2.20	\$5.16	\$2.47
Charles City		\$2.26		\$2.50
Essex		\$2.19		\$2.45
New Kent		\$2.23		\$2.47
King & Queen		\$2.20		\$2.51
King William		\$2.23		\$2.55
U.S.	\$1.88	\$1.98	\$5.00	\$2.80

National Loan Rates Under 1996 and 2002 Farm Bills

Commodity	1996 Farm Bill	2002 Farm Bill	
	2001 Rate	2002-2003	2004-2007
Corn (bu)	\$1.89	\$1.98	\$1.95
Soybeans (bu)	\$5.26	\$5.00	\$5.00
Wheat (bu)	\$2.58	\$2.80	\$2.75
Barley (bu)	\$1.65	\$1.88	\$1.85
Oats (bu)	\$1.21	\$1.35	\$1.33
Sorghum (bu)	\$1.71	\$1.98	\$1.95
Minor oilseeds (cwt)	\$9.30	\$9.60	\$9.30
Upland cotton (lb)	\$0.5192	\$0.52	\$0.52
Peanuts (Ton)		\$355	\$355

Direct Payment Rates Under 1996 and 2002 Farm Bills

Commodity	1996 Farm Bill 2002 Payment	2002 Farm Bill 2002-2007
Corn (bu)	\$0.261	\$0.28
Soybeans (bu)	--	\$0.44
Wheat (bu)	\$0.461	\$0.52
Barley (bu)	\$0.202	\$0.24
Oats (bu)	\$0.022	\$0.024
Sorghum (bu)	\$0.314	\$0.35
Minor oilseeds (cwt)	--	\$0.80
Upland cotton (lb)	\$0.0572	\$0.0667
Peanuts (ton)	--	\$36.00

Target Prices Under 1990 and 2002 Farm Bills

Commodity	1990 Farm Bill Target Price	2002 Farm Bill Target Prices	
		2002-2003	2004-2007
Corn (bu)	\$2.75	\$2.60	\$2.63
Soybeans (bu)	--	\$5.80	\$5.80
Wheat (bu)	\$4.00	\$3.86	\$3.92
Barley (bu)	\$2.36	\$2.21	\$2.24
Oats (bu)	\$1.45	\$1.40	\$1.44
Sorghum (bu)	\$2.61	\$2.54	\$2.57
Minor oilseeds (cwt)	--	\$9.80	\$10.10
Upland cotton (lb)	\$0.729	\$0.7240	\$0.7240
Peanuts (ton)	--	\$495	\$495

2002 Income Tax Conference - Ten Virginia Locations

By **L. Leon Geyer**

The Virginia Tech Income Tax Conferences are scheduled at ten Virginia locations this year. The conferences will occur in November and December 2002. They feature an intensive study of tax law and regulations governing individual, farm, and small business taxes. They are designed for people with income tax experience who assist taxpayers in preparing and filing income tax returns. Preparation of both federal and state taxes will be covered. The table that follows gives the schedule for general sessions and special sessions on farm and forestry taxation.

This year is the forty-second year that Virginia Cooperative Extension, Virginia Tech's Department of Agricultural and Applied Economics, the Virginia Department of Taxation, and the US Internal Revenue Service (IRS) have cooperated in bringing the program to the people who assist taxpayers in preparing and filing federal and state income tax returns. This conference is Virginia's largest workshop for tax practitioners.

Faculty from Virginia Tech, staff from the IRS, private tax practitioners, and the Virginia Department of Taxation will examine new tax laws and their implications and case studies to interpret new regulations. Topics for the major program will include

NEW TAX LEGISLATION

2002 legislation; 2001 legislation that is first effective in 2002 and later years

RULINGS AND CASES

Significant cases and rulings from this past year

INDIVIDUAL TAXPAYER ISSUES

Itemized deductions; long-term care insurance; AMT; community property issues; selling land for development; like-kind exchanges

SMALL BUSINESS ISSUES

Depreciation; purchase and sale of a business; split-dollar life insurance; leasing

OPPORTUNITIES AND OBSTACLES OF BUSINESS ENTITIES

Choosing a retirement plan; changing business entities; liquidation; personal holding company tax; debt basis of S-corporation

ISSUES FROM THE IRS

Electronic filing; practitioner errors; IRS procedural issues; federal and state symposiums; important tax updates; preparer penalties

RECAPTURE PROVISIONS

Depreciation recapture; recaptures under I. R. C. §179, §280F, §25A(i), §32(g), §45F(d), §71(f), §1231, §1231, §46, §465(e), §42(j)

EDUCATION PROVISIONS

Section 529 plans; education IRAs; education credits; higher education deduction; what scholarships are taxable; Pell grants

RETIREMENT

Catch-up for 2002; inherited accounts; distribution rules; choosing a beneficiary to stretch out distributions; splitting up IRAs in a divorce

FRINGE BENEFITS

Third party sick pay and donation of sick leave; employer side of fringe benefits: setting up and reporting; illegal aliens

FINANCIAL DISTRESS

Repossessed property; debt write down; NOL carryovers; personal bankruptcy; discharge of tax liability

ETHICS

Preparer penalties; circular 230 requirements for enrolled agents; ethics of ignoring Notice 2000-4

TAX RATES AND TABLES

Inflation adjusted items; table of phase-ins of 2001 Act provisions; depreciation tables; applicable federal rates for Nov. 2001 through Oct. 2002

AND MUCH MORE...

Brochures for the conferences have been mailed to tax practitioners, CPAs, lawyers, Commissioners of the Revenue, and other past attendees. Brochures are also available in Extension Unit and District Offices. Registration forms can be duplicated, or you may contact Brenda Chandler by phone: (540) 231-7936, fax: (540) 231-7417, or email: tax@vt.edu for further information. Our web site (<http://www.tax.vt.edu>) includes all conference information and an online registration form that can also be printed to mail or fax.

Special farm and forestry tax workshops are available to registered participants. Farm sessions take place from 5 - 7 p.m. at selected locations (see schedule). Virginia Tech agricultural lawyer, Leon Geyer, teaches the farm tax workshops. He will address

- Form 4797
- Peanut quota taxation
- Contracting
- Marketing rights in a cooperative with and without stock
- Recaptures under I. R.C. §2032A, §1255, §1252, §1254, §2032A
- Chapter 12: farm bankruptcy

Virginia Tech's Garland Gray Professor of Forestry, Harry Haney, will conduct the forestry workshops from 5 - 7 p.m. at selected locations (see schedule). He will cover

- A review of basic issues including
 - Tax decisions that affect a forestry investment
 - Capital investment expenditures and recovery
 - Operating and management expenses
 - Taxation of timber income - capital gains and depletion
- Recent developments in
 - Like-kind exchanges
 - Casualties and involuntary conversions
 - Fertilization
 - Conservation easements
- A review of Ag Handbook 718

The tax conference general sessions will run each day from 8:30 a.m. until 4:45 p.m. Pre-registration and pre-payment are required. The registration fee includes a textbook, reference material, refreshment breaks, two luncheons, the farm and forestry workshops, and the What's New tax update that is mailed in January. Lodging is not included. The 700+ page Income Tax textbook is a comprehensive study manual used in more than 45 states. It is written and reviewed by CPAs, tax attorneys, IRS agents, and tax practitioners.

Please contact the Income Tax Conference Registrar, the Continuing Education Center, phone: (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.

2002 Virginia Tech Income Tax Conference Dates And Locations

General Sessions

November 11-12

Richmond I

Wyndham Garden Hotel (Richmond Airport)
4700 S. Laburnam Ave. (804) 226-4300

November 13-14

Staunton

Holiday Inn Golf & Conference Center
Woodrow Wilson Parkway (800) 932-9061

November 18-19

Lynchburg

Holiday Inn Select
601 Main Street (804) 528-2500

November 20-21

Roanoke

**** NEW LOCATION ****

Clarion Hotel Roanoke Airport
3315 Ordway Drive, NW (540) 362-4500

November 25-26

Bristol

Holiday Inn Hotel and Suites - Convention Center
3005 Linden Drive (540) 466-4100

December 2-3

Dulles

Hyatt Dulles
2300 Dulles Corner Blvd. (703) 713-1234

December 4-5

Fredericksburg

Holiday Inn Select
2801 Plank Road (540) 786-8321

December 9-10

Williamsburg

Fort Magruder Inn (757) 220-2250 ext. 1160
Route 60 East (800) 582-1010

December 11-12

Chesapeake

**** NEW LOCATION ****

Holiday Inn Greenbrier
725 Woodlake Drive (757) 523-1500

December 16-17

Richmond II

**** NEW LOCATION ****

Richmond Marriott West
4240 Dominion Blvd. (Innsbrook) (804) 965-9500

Farm Sessions

5:00 pm to 7:00 pm at the following locations:

Richmond I—November 11
Staunton—November 13
Lynchburg—November 18
Roanoke—November 20
Bristol—November 25
Dulles—December 2
Fredericksburg—December 4
Williamsburg—December 9
Chesapeake—December 11

Forestry Sessions

5:00 pm to 7:00 pm at the following locations:

Bristol—November 26
Dulles—December 3
Chesapeake—December 16

Mid-Atlantic Direct Marketing Conference

By **Charlie Coale**

The Mid-Atlantic Direct Marketing Conference (MADMC) is scheduled for February 19-22, 2003 at the Holiday Inn Select, Timonium, Maryland. The theme of the conference is “Are You Ready to Follow the Winds of Change?” The program consists of workshops, tours, conference, and trade show. Ginny Rosenkranz, Extension Agent, Maryland is co-chair along with Joanne Webber, President of the Maryland Direct Marketing Association. More information will be available on the Extension intranet in December or on the web at <http://www.madmc.com>.

New Association Forms

By **Charlie Coale**

A new association, Virginia Grown Conference, has been formed in Virginia to bring comprehensive programming to fruit growers, specialty crops growers, and direct marketers. A concurrent meeting format will offer attendees the opportunity to select sessions of interest. A trade show will feature over 70 exhibitors and sessions for all three groups. The subject matter program will be published in December. The dates of the program is scheduled for January 27-29, 2003, at the Sheraton West, Richmond, Virginia. Please contact the Virginia State Horticulture Society, POB 2445, Winchester, VA 22604 or call Liz White at 540-667-9101 for program information.

New Publication From the Agricultural and Applied Economics Department

By **Karen Mundy**

On the REAP website (<http://www.reap.vt.edu>) are three new REAP Reports and one new REAP Policy Paper: *Price Risk Management in December Corn Futures* by Wayne Purcell; *Price Risk Management in July Wheat Futures* by Wayne Purcell; *Paying for Schooling in Rural Virginia* by George McDowell and Karen Mundy; and Policy Paper, *The Institutional Needs for Rural Development in Virginia* by George McDowell is also available.

The Price Risk Management reports by Wayne Purcell target those producers and processors already using the futures market to help control price risk. In these reports, Purcell describes the problems with technical chart analysis using trend lines. He then discusses how various moving averages perform.

Paying for Schooling in Rural Virginia is an expansion of the November/December 2001 *Horizons*, “The Story of Rural Schooling in Virginia.”

George McDowell’s Policy Paper, *The Institutional Needs for Rural Development in Virginia*, describes the need for three institutions in Virginia to deal with the problems of rural people and rural communities. These institutions are a Center that provides a voice for rural people and communities and facilitates and coordinates research and educational outreach. A policy analysis institute at a research university and an educational outreach and intervention program

housed at a research university complete the institutions needed. McDowell argues that each of these institutions has a unique role that the others cannot play and that the policy analysis and educational outreach cannot be done without the support of an entire cadre of campus faculty and graduate students and local educators associated with the research university. Market forces will not correct the problems of rural people and rural areas nor is a silver bullet available. Each community must find its own solutions with the help of the Center, policy analysis institution, and educational outreach and intervention program.

Inconvenience: We regret that only *Horizons* will continue to be printed and mailed. Due to state budget cuts we cannot continue to print and distribute copies of other REAP publications. If you are unable to print the publication you need, please contact the REAP office by phone: (540) 231-9443; by email: reap01@vt.edu; or on the web at <http://www.reap.vt.edu>, and we will send you a hard copy.

Calendar of Events

October

- 8 Farm Fence Issues in Virginia. Southwest VA 4-H Center, 7:30 p.m. Abingdon. For more information, call the Smyth County Extension Office at (276) 783-5175

November

- 11-12 2002 Virginia Tech Farm and Small Business Income Tax Conference, Wyndham Garden Hotel (Richmond Airport) 4700 S. Laburnam Ave. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.
- 13-14 2002 Virginia Tech Farm and Small Business Income Tax Conference, Holiday Inn Golf & Conference Center, Woodrow Wilson Parkway, Staunton. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.
- 18-19 2002 Virginia Tech Farm and Small Business Income Tax Conference, Holiday Inn Select, 601 Main Street, Lynchburg. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.
- 20-21 2002 Virginia Tech Farm and Small Business Income Tax Conference, Clarion Hotel Roanoke Airport, 3315 Ordway Drive, NW, Roanoke. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.
- 25-26 2002 Virginia Tech Farm and Small Business Income Tax Conference, Holiday Inn Hotel and Suites – Convention Center, 3005 Linden Drive, Bristol. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.

December

- 2-3 2002 Virginia Tech Farm and Small Business Income Tax Conference, Hyatt Dulles, 2300 Dulles Corner Blvd., Dulles. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.
- 4-5 2002 Virginia Tech Farm and Small Business Income Tax Conference, Holiday Inn Select, 2801 Plank Road, Fredericksburg. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.
- 9-10 2002 Virginia Tech Farm and Small Business Income Tax Conference, Fort Magruder Inn, Route 60 East, Williamsburg. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.
- 11-12 2002 Virginia Tech Farm and Small Business Income Tax Conference, Holiday Inn Greenbrier, 725 Woodlake Drive, Chesapeake. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.
- 16-17 2002 Virginia Tech Farm and Small Business Income Tax Conference, Richmond Marriott West, 4240 Dominion Blvd. (Innsbrook), Richmond. Contact: Income Tax Conference Registrar at the CEC by phone at (540) 231-2008, fax: (540) 231-3306 or e-mail: vttax@vt.edu for registration information.

February

- 19-22 Mid-Atlantic Direct Marketing Conference (MADMC), Holiday Inn Select, Timonium, Maryland. More information will be available December at <http://www.madmc.com>.

January

- 27-29 Virginia Grown Conference, Sheraton West, Richmond, VA. Contact the Virginia State Horticulture Society, POB 2445, Winchester, VA 22604 or call Liz White at 540-667-9101 for information.

February

- 19-22 Mid-Atlantic Direct Marketing Conference (MADMC), Holiday Inn Select, Timonium, Maryland. More information will be available December at <http://www.madmc.com>.