I have money left over; what do I do with it?

David Bekedam for *Progressive Dairyman*

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If you are making milk these days, then you are making money. It definitely feels good for a change, and optimism that these prices may be around for a while is everywhere. So now that there is some extra cash left over in the bank account, the question is: What to do with it? The answer is: "It depends." So let's discuss a few alternatives and how to possibly take advantage of the margins now to better your position later.

Many dairies have not yet fully recovered from 2009. If you find that you are pushing the upper limits on your loan-to-values (LTVs), an immediate priority may be to improve your position with the bank. This means paying down debt and feed payables. Bringing feed vendors current is a great place to start as some vendors charge high rates of interest on amounts outstanding over 30 days.

When paying off bank debt, the focus may be to pay down your highest-interest debt first in order to get the most savings from your dollar. However, this debt is typically equipment and real estate debt. Consequently, paying down this debt will not immediately improve your LTVs. Second, you need to consider that you're probably going to have a tax problem this year. While a welcome problem to have for a change, it is a problem nonetheless. It will be important to pay down operating debt that can be revolved back in order to prepay expenses for tax planning.

If improving loan-to-values is not an immediate need, then your first priority with prices at these record levels may be to improve production and efficiencies. Let's discuss some things you might look at in order to make this happen. The first thing you should consider is your nutrition program. Getting the most milk possible from your cows is not always the best answer. There is a high cost to high production. If you have any doubt that you are not optimizing your current income over feed costs, it may be time to get a second opinion. This may mean hiring a consultant. Talk to your accountant or financial consultant to find out how your results compare to operations similar to yours.

You might also look at cow comfort as an area that will improve production; many times it is not that great of an expense. One area may be cow cooling. In the heat of the summer months, this is crucial. Improvements in your cooling systems, whether upgrading old fans and misting systems or adding shades, could have an immediate effect on improving production and a surprisingly short cost recovery period at these milk prices. Again, consult with experts in order to ensure the money you're spending is working its hardest for you.

Consider changes in your breeding programs. Getting your cows and heifers bred as soon as they come into heat is critical. A.I. synchronization programs can help with early heat detection and have enormous positive effects on increasing pregnancy rates. The sooner that cow is successfully bred, the sooner it is back in production and making money. A.I. synch programs can also help with maintaining a consistent heifer herd, as fewer heats will be missed. These programs, while time and management intensive, can provide a real cost savings. Time spent with an A.I. breeder and veterinarian will decrease, and time spent feeding a non-producing animal will decline.

If you own farmland and grow feed for your cows, you may consider putting some money into those crops to improve yields. Many dairymen have been forced to cut their farming costs since 2009. Now, with the extra money available, spending a little more on fertilizer, weed control, etc., could pay off in terms of increased yields and better-quality feed.

You might consider replacing old equipment or making other capital improvements, but do this only if completely necessary. The tax

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incentives for investing in fixed assets expired on December 31, 2013. The 50 percent bonus depreciation for certain qualified property is no longer available for most types of property, and the Section 179 depreciation deduction has reverted back to $25,000 from $500,000 in previous years.

The Section 179 deduction begins to phase out dollar for dollar when purchased qualifying property exceeds $200,000. This being said, the Senate Finance Committee has passed a tax extender bill that proposes extending both the 50 percent bonus depreciation provision for new qualifying asset purchases and the increased Section 179 expensing limits through the end of 2015. Congress is expected to pass this bill, and it is likely to be signed by the president in 2014. It will be important to consider the status during your year-end tax planning, which will probably need to start a little earlier this year (like right now).

This may be a good year to consider keeping some money aside to potentially pay some tax. If you are still carrying forward any net operating losses from previous years, you will be able to use them this year to offset ordinary income. This may mean having to pay some tax on self-employment income. This is income subject to Social Security and Medicare tax at 15.3 percent of the first $117,000 of self-employment income and 2.9 percent of self-employment income above that threshold.

With a strong outlook for 2015, managing your taxable income this year will be extremely important. I'm aware this idea is not going to win any popularity contests, but it needs to be addressed. I would suggest early planning in order to avoid creating a monster in 2015. I would also stress the importance of having an accountant or tax preparer with expertise in your industry. As tax situations are vastly different for each operation or individual, it is key to communicate with your tax adviser to be sure you are not blindsided come tax time.

In times like this, it is important to assess your immediate needs and determine what will have the most significant impact on improving your margins. Improving your position with the bank and changes in your operations and management that have positive effects on milk production and efficiencies will make you stronger when the next downturn inevitably occurs. And as previously mentioned, while optimism is high and intermediate to long-term outlooks are positive, many of the same situations are occurring now that led up to the crash in 2009.

Farmland prices have been driven up, heifer and replacement cow values are sky high, optimism is high, expansions are occurring, and banks are eager to lend money. Use these periods of high profitability wisely to position your operation to be sustainable through the good times and the bad. **PD**

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