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RightRisk™

RightRisk News

*How Much Risk is Right for You?*

## Retaining Feeder Cattle? Tax, Cash Flow, and Market Considerations

Few decisions impact the financial outcomes of today's cattle operations as much as the timing of cattle sales. While market prices are important, the tax implications of when to sell can significantly influence an operation's bottom line. This article explores how the timing of sales—particularly the choice between December and January—can create opportunities for strategic tax management when aligned with favorable market conditions.

### Understanding the Core Tax Impact

Think of an operation's income as water flowing into a bucket, with each tax year represented by a separate bucket. The timing of sales determines which bucket receives the income. A sale in December fills the current year's bucket, while waiting until January starts filling the next year's bucket. This simple difference in timing opens the door to strategic tax planning opportunities.

Consider a typical scenario to illustrate how this works in practice: Suppose an operation generated $80,000 in net income (revenue less expenses) by November through the sale of weaned calves. Managers are planning to sell an additional 27 head of weaned calves weighing 550 lbs. to generate approximately $50,000 in added net income. Here's how the timing affects the tax situation, Table 1.

### Cash Flow Implications of Tax Planning

The timing of cattle sales also affects an operation's cash flow. A December sale provides immediate cash for year-end expenses or equipment purchases but comes with a relatively quick tax payment deadline on March 1 of the following year.

In contrast, a January sale delays cash receipt by just a few weeks but pushes the tax obligation out by 13 months. Aligning the timing of sales with the operation's cash flow needs can help maintain financial stability. Any changes in sales strategy should be discussed with a tax advisor and lenders to ensure sufficient cash flow is available to meet tax obligations.

### Assessing Market Potential for December-to-January Retention

Tax considerations are one compelling reason to shift cattle sales between December and January, but the

**Table 1. Considerations for December Versus January Feeder Cattle Sale**

| | December Sale | January Sale |
|---|---|---|
| Weaned Calves Net Income | $80,000 | $80,000 |
| Additional Weaned Calves Net Income | +$50,000 (current year) | +$50,000 (next year) |
| Current Year Net Income | $130,000 | $80,000 |
| Next Year Net Income | $0 | $50,000 |
| Tax Timing Impact | All income taxed in single year; may push into higher tax bracket | Income split between two tax years; potential to maintain lower tax bracket |
| Cash Flow Timing | Immediate income (December); tax payment due March 1st following year | Delayed income (January); tax payment due March 1st of subsequent year |
| Tax Planning Flexibility | Less time for tax planning strategies | Additional months for tax planning |

market's willingness to pay for additional weight gain is another key factor. In our example, the market was indifferent to the timing of sales, offering the same net return in both December and January.

However, in reality, markets do care about when specific types of cattle are brought to market. This is reflected in a calculation known as the Value of Gain (VOG). VOG combines the price-weight slide, the CME Feeder Cattle Index, and a local historical basis to calculate a distinct value for each location, season, and cattle type.

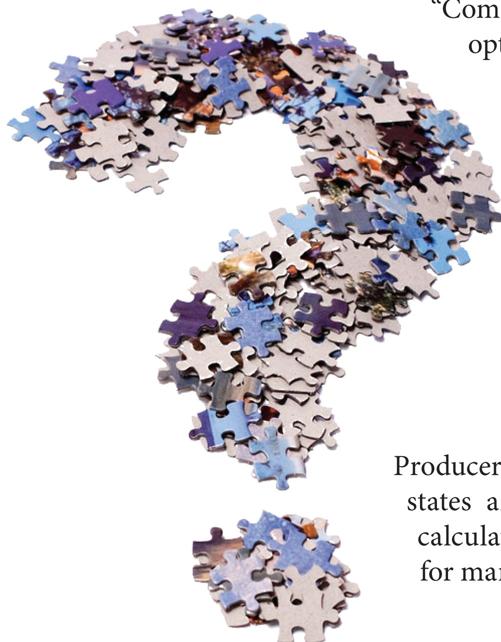
For example, a producer might compare two options:

1. Selling a 550-pound weaned steer in December, or
2. Adding 100 pounds through a 60-day backgrounding program, ending in January.

For simplicity, let's assume there is no added risk, such as death losses or lower-than-expected weight gains due to sickness. In this scenario, the calculated VOG might be $157 per cwt in Year 1 and $113 per cwt in Year 2. If the VOG exceeds the cost of feed, there is potential for profit by retaining the cattle longer.

This calculation can help producers determine whether delaying sales from December to January is economically advantageous, going beyond tax and cash flow considerations.

**Integrating Tax and Market Strategy**



"Combining tax planning, cash flow management, and market signals can lead to optimal decision-making, but this requires a holistic approach with annual adjustments.

One method for integrating these factors is as follows:

1. Calculate the expected Value of Gain (VOG) for different sale dates and weights in January.
2. Compare the VOG with your Cost of Gain (COG) to determine potential profitability.
3. Evaluate your operation's cash flow needs, such as planned equipment purchases, debt payments, or other year-end expenses.
4. Consider the tax implications of sale timing, including how it aligns with projected expenses, deductions, and its effect on your overall tax bracket.

Producers can either calculate VOG on their own or access current VOG data for various states and auction markets at www.beefbasis.com. This online tool simplifies the calculations, enabling producers to focus on informed decision-making that accounts for market conditions, cash flow needs, and tax planning.

**The Key to Success: Professional Guidance**

While delaying sales can reduce the tax burden, this strategy may be counter-productive if market conditions do not support the additional weight gain or if it unduly restricts cash flow. The most profitable approach aligns tax efficiency, cash flow needs, and market opportunities. Achieving this balance requires careful planning and collaboration with a qualified tax advisor and banker who understand your specific operation.

It's important to remember: tax planning isn't about avoiding taxes—it's about making informed business decisions to optimize your operation's current and future financial position.

***[Note: This article provides general information and should not be considered tax advice. Always consult with a qualified tax professional about your specific situation.]***

## ~ Other RightRisk News ~

### News Release - December 5 | RightRisk

**Federal Reserve Beige Book Summary on the Agricultural Sector**

ECONOMIC ACTIVITY rose slightly in most Districts. Three regions exhibited modest or moderate growth that offset flat or slightly declining activity in two others. Though growth in economic activity was generally small, expectations for growth rose moderately across most geographies and sectors . . .

### News Release - December 18 | RightRisk

**Key Insights from Bureau of Labor Statistics Data on Agriculture for the Federal Reserve Tenth District in 2023**

THE AGRICULTURE SECTOR reported employment of 50,535 workers across 7,158 establishments in the Tenth Federal Reserve District, offering an average annual wage of $20,746. While this is much lower when compared to other sectors like health care (813,185 workers) or retail trade (671,813 workers), agriculture is a key driver of rural employment, supporting communities where other industries are less prevalent . . .

### News Release - December 20 | RightRisk

**BLS Data on Agricultural Wages at the County Level in CO, NE and WY**

The BUREAU OF LABOR STATISTICS compiles data on the number of establishments, monthly employment, and quarterly wages. Reports for NAICS agricultural sector codes have recently been compiled and released, providing county-level data for Colorado-Q1, Nebraska-Q2, and Wyoming-Q2 . . .

**For more see: RightRisk.org\News**

## Highlighted Recording:
### *Risk Concepts - Organizational Structures for Business*

RISK CONCEPTS are a series of recently completed 4-page, 4-color bulletins covering seven common forms of business ownership. In addition, a series of recorded presentations was recently posted covering Sole Proprietorships, Partnerships, Limited Liability Companies (LLC), and Corporations.

To read more or to access the recordings, see:
**RightRisk.org > Resources > Recorded Presentations**
**RightRisk.org > Resources > Risk Concepts**

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**December 3 | Social Media Post**
*What are U.S. VISA Requirements for Agricultural Workers?*

**December 5 | Social Media Post**
*Cultivating Prosperity: Unlocking the Six Factors of Profit with RD Financial*

**December 10 | Social Media Post**
*Risk Scenario Planning*

**December 12 | Social Media Post**
*Courses in Risk Management | RightRisk*

**December 17 | Social Media Post**
*What are the U.S. Regulations for Child Labor in Agriculture?*

**December 19 | Social Media Post**
*Estimating Custom Rates and Machinery Costs*

**December 24 | Social Media Post**
*Management Succession: Where Are We?*

**December 26 | Social Media Post**
*Forage Harvester Purchase – Machine Share Arrangements*

**December 31 | Social Media Post**
*¿Cuáles son los requisitos para conseguir visa de Estados Unidos para trabajadores agrícolas?*

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*How much risk is right for you and your operation?*

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