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ESTIMATING AND USING CAPITALIZATION VALUES FOR RAISED DAIRY REPLACEMENTS

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by
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Since publication of this bulletin some people in IRS have objected to the use of marginal economic principles in determining the amount of raised dairy replacement costs to be capitalized. They argue for a complete cost account allocation based on use. *Table 2A.* on the reverse side of this page is similar to *Table 2.* of the bulletin but is constructed under the assumption that marginal principles can not be used. Each item is allocated according to use.

In calculating the values for *Table 2A.* the following procedures were used. The calf expense is allocated between the milk production and the calf generating activity on the basis of the value of production. The cost account farms, on which these data were based, produced an average value of milk per cow per year of $2,275 in 1983. Adjusting that for the normal 13 month calving interval implies an average milk production per calf generated of $2,465. The $105 calf (1983 prices) is 4.1 percent of the total value of milk and calf produced. Thus, the proportion of the calf to

Pasture, truck, tractor, equipment, breeding, building, manure hauling and "all other" costs were modified to include the total amount that was allocated to the calves using cost account procedures which allocate all cost to using enterprises based on use rather than the marginal contribution to cost. Except for the value of the calf (explained above) and the cost of milk and milk replacer this procedure includes the total allocated cost of raising replacements excluding equity interest and operator and family labor.

If IRS publishes a safe-harbor unit value for capitalizing dairy replacements, that value could substitute for the total amount in *Table 2A.* However, some farmers with high levels of equity, low hired labor costs or low total heifer raising costs may find it in their own best interest to make their own calculations. If IRS decides to allow accumulation of costs at the rate of 25 percent in year of birth, 50 percent in year two and 25 percent in year three, the record keeping worksheets in the publication can be employed by using a 24 month average age at freshening.

Table 2A. **Cost of Raising Replacements from Conception to Freshening**

	Total Cost		1987 Costs Deductible on Taxes With Proportionate Allocation of All Costs[g]	
	1983[a]	1987[b]	Average Farm	Family Farm
Value of Calf	$ 105	$ 93	$ 4	$ 4
Feed:				
Milk and Replacer	17	15	10	0
Grain	133	106	106	83 [c]
Hay (dry & silage)	72	57	57	57
Corn (silage & HMC)	100	79	79	79
Pasture	23	18	18	18
All Other	15	12	12	9 [f]
Labor:				
Direct	150	194	66 [d]	0
Indirect	87	112	38 [d]	0
Tractor, Truck	25	24	24	24
Equipment	16	18	18	18
Bedding	16	16	16	12
Breeding	16	16	16	16
Vet/Med.	11	11	11	11
Utilities	7	7	7	7
Insurance	6	6	6	6
Interest:				
Indirect	122	113	25 [e]	0
Buildings	23	23	23	23
Manure Hauling	19	19	19	19
All Other	34	34	34	34
Total	$1067	$1038	$ 603	$ 420
Total per Heifer Month	41	41	23.19	16.15

[a] Adapted from Snyder, D.P. *Livestock Costs and Returns from Farm Cost Accounts*. Agri. Econ. Res. 84-18, Cornell University, December 1984.

[b] 1983 values adjusted to 1987 level using Index of Prices Paid by New York Dairy Farmers (milk prices from New York - New Jersey blend price) from New York Economic Handbook 1988, Agri. Econ. Ext. 87-32. Cornell University, December 1987. Labor and interest portions of feed costs (except grain), tractor, equipment, building and manure hauling are subtracted from those categories and listed under indirect labor and interest.

[c] 70 percent of grains homegrown. Excludes labor and interest expense of growing. Calculated by adjusting Table 1 value of $105 to 1987 level of costs.

[d] 34 percent hired labor.

[e] 22 percent debt.

[f] Excludes labor and interest costs; 100 percent homegrown feeds. Calculated by adjusting the Table 1 value of $12 to the 1987 level of costs.

[g] Marginal cost concept not used. All fixed or joint costs are allocated proportionatly to use even if the marginal cost of the heifer enterprise is less (or zero).

ESTIMATING AND USING CAPITALIZATION VALUES FOR RAISED DAIRY REPLACEMENTS

E.L. LaDue and *D.P. Snyder**

The Tax Reform Act of 1986 indicates that farmers must either: (1) use straight-line depreciation over the longer Alternative MACRS recovery periods on all depreciable assets, or (2) capitalize the preproductive expenses for all applicable assets with preproductive lives in excess of two years and be allowed to use more rapid depreciation methods. The preproductive period is defined to start at conception or embryo transfer. This means that dairy farmers must either use the slower depreciation methods or capitalize the costs of raising youngstock.

An important element in this decision is the magnitude of costs to be capitalized. Few farmers keep enterprise records. Even if they did keep such records, many of the costs of raising replacements are joint costs that must be arbitrarily allocated to heifers, cows or other enterprises. The first objective of this paper is to provide some background information to assist in determining appropriate capitalization values.

The second objective of this paper is to provide farmers and their tax advisors with some ideas on how to do the record keeping required. Because costs change over time, some heifers are sold or die before freshening and the exact period from birth to freshening can vary widely in any herd, accurate record keeping is not a simple chore.

Estimating Capitalization Values

The basic data source for this analysis is the New York cost account data for 1983[1]. This is the last year for which cost account data were collected on New York dairy farms. Other states halted their cost accounting projects many years earlier, leaving few alternate sources of real farm data. The 1983 data were updated to 1987 cost levels using the index of prices paid by New York dairy farmers[2].

Since operator labor (for unincorporated farms) and equity capital costs are not tax deductible expenses, these expenses must be excluded from the amounts capitalized. To make this possible, the basic individual farm cost account data were used to determine the proportions of various expense items that are labor and interest expense (Table 1). For example, the tractor expense included in the costs of growing replacements includes interest on the tractor investment and labor for repair and maintenance of the tractor. Similarly, the costs of growing crops includes a land charge, much of which represents interest on the land investment. To make the

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*The authors would like to thank George Casler and Stuart Smith for constructive reviews of earlier drafts of this manuscript. However, the authors are responsible for any remaining errors or omissions.

1 Snyder, D.P. Livestock Costs and Returns from Farms Cost Accounts. Department of Agricultural Economics Research Bulletin 84-18, December 1984.

2 Extension Staff. New York Economic Handbook, 1987, Agricultural Situation and Outlook. Department of Agricultural Economics Extension Bulletin 86-35, December 1986.

analysis easier, all of the labor and interest costs have been removed from the tractor, equipment and similar categories, and included as separate indirect labor and interest categories.

The other basic question that must be addressed is whether farmers should capitalize expenses that, from an accounting sense, would be allocated to the heifers but would be incurred as a result of having a dairy herd regardless of whether or not heifers were raised. For example, liability insurance, farm magazines and accounting costs would normally be the same with or without a heifer enterprise. Also the basic cost of breeding a cow is necessary for milk production whether or not heifers are raised. It seems inappropriate to force farmers growing youngstock to capitalize expenses that a farmer without youngstock could write-off immediately.

Table 1. **Indirect Labor and Interest Costs to Raise a Dairy Heifer by Individual Cost Categories New York Cost Accounts, 1983**

Category	Total Cost	Labor[a/]	Interest[a/]	Net Cost
		--------Amount per Replacement--------		
Average Farm:				
Hay Crops	$126	$ 27	$ 27	$ 72
Corn Crops	159	26	33	100
Pasture	45	8	14	23
Tractor	33	2	6	25
Equipment	22	2	4	16
Manure Handling	35	12	4	19
Building	67	10	34	23
Total		$ 87	$122	
Additional for Family Farm:[d/]				
Grain	133	9 [b/]	19 [b/]	105
All Other Feed[d/]	15	1 [c/]	2 [c/]	12

a/ Data from crop raising and overhead accounts are used to determine the proportion of each category that are labor or interest cost.
b/ Assuming that 70 percent of the grain is homegrown.
c/ Assuming all is homegrown.
d/ These items are assumed to be 100 percent purchased for the average farm. See page 3 for definition of a family farm.

Table 2 presents the cost of raising replacements for different situations. The two total cost columns list the total costs of raising a replacement to freshening. The first column lists costs at 1983 prices and the second at 1987 prices. The third column indicates the marginal or additional cost of raising a replacement for an average farm. This farm has 22 percent debt which is average for New York State farms (New York Economic Handbook 1987). Also, 34 percent of the labor cost is hired labor as indicated for dairy herds averaging 61 cows (approximate state average) in the 1986 New York Dairy Farm Business Summary. The fourth column

indicates the marginal cost for a 100 percent equity family farm that uses no hired labor.

In the discussion that follows, the level of costs that are likely to be tax deductible and marginal cost for the youngstock enterprise are examined and the differences between the average farm costs and family farm costs are explained. What is referred to as a family farm is a farm that uses 100 percent operator and unpaid family labor and 100 percent equity financing, grows a high proportion of the grain needs for the heifers, and that employs other normal methods of reducing the cash costs of growing replacements. This is the type of farm that could be expected to have relatively low capitalization costs.

Value of Calf at Birth

For normal herds, the cow must be bred and fed to maintain pregnancy in order to give milk. Thus, there is no added cost of the replacement calf over and above that required for milk production (marginal cost is zero). Costs of embryo transplant or special semen designed to improve the quality of the offspring would represent costs of the replacement animal, however, and would have to be included.

Milk and Milk Replacer

In some herds, colostrum and unsalable milk would be used for the calves and, thus, would not represent an added cost. Farms that feed some combination of fresh, fermented or frozen colostrum may use no marketable milk or milk replacer for calves. Although this could be done on most any farm, the added time and effort implies that it would be most likely to occur on family farms using operator and family labor. Many farms would use colostrum and unsalable milk only for a portion of the feeding period. For our average situation, it is assumed that salable milk would be used for four of the normal six week feeding period.

Grain and Forage Fed

Grain listed is assumed to be entirely purchased feed for the average farm since this was all purchased grain on cost account farms. For the family farm, 70 percent of the grain is assumed to be homegrown, the rest purchased supplements. The labor and interest costs of growing the homegrown grain reduce the total tax deductible costs (Table 1).

The total costs listed for hay and corn crops exclude the interest and labor involved in growing, harvesting and storing the crop[3]. These non-labor and non-interest costs would be incurred for most situations, since forage would be purchased to feed the heifers if it were not homegrown.

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[3] Technically cost account procedures charge these feeds to the heifer enterprise at market value. The costs that can be deducted are the input costs such as fertilizer, lime, etc. However, since the cost account costs used show a cost of growing these feeds that equals or exceeds the market value, subtracting actual labor and interest cost from listed cost gives essentially the same result.

Table 2. **Cost of Raising Replacements from Conception to Freshening**

	Total Cost		1987 Costs Deductible on Taxes	
	1983[a]	1987[b]	Average Farm	Family Farm
Value of Calf	$ 105	$ 93	$ 0	$ 0
Feed:				
Milk and Replacer	17	15	10	0
Grain	133	106	106	83 [c]
Hay (dry & silage)	72	57	57	57
Corn (silage & HMC)	100	79	79	79
Pasture	23	18	7	7
All Other	15	12	12	9 [f]
Labor:				
Direct	150	194	66 [d]	0
Indirect	87	112	38 [d]	0
Tractor, Truck	25	24	18	12
Equipment	16	18	14	7
Bedding	16	16	16	12
Breeding	16	16	0	0
Vet/Med.	11	11	11	11
Utilities	7	7	7	7
Insurance	6	6	6	6
Interest:				
Direct	70	65	14 [e]	0
Indirect	122	113	25 [e]	0
Buildings	23	23	11	11
Manure Hauling	19	19	14	9
All Other	34	34	3	3
Total	$1067	$1038	$ 514	$ 313
Total per Heifer Month	41	41	19.77	12.04

[a] Adapted from Snyder, D.P. *Livestock Costs and Returns from Farm Cost Accounts*. Agri. Econ. Res. 84-18, Cornell University, December 1984.

[b] 1983 values adjusted to 1987 level using Index of Prices Paid by New York Dairy Farmers (milk prices from New York - New Jersey blend price) from New York Economic Handbook 1988, Agri. Econ. Ext. 87-32. Cornell University, December 1987. Labor and interest portions of feed costs (except grain), tractor, equipment, building and manure hauling are subtracted from those categories and listed under indirect labor and interest.

[c] 70 percent of grains homegrown. Excludes labor and interest expense of growing. Calculated by adjusting Table 1 value of $105 to 1987 level of costs.

[d] 34 percent hired labor.

[e] 22 percent debt.

[f] Excludes labor and interest costs; 100 percent homegrown feeds. Calculated by adjusting the Table 1 value of $12 to the 1987 level of costs.

Pasture

Much pasture used for heifers is that part of the farm that is not tillable for other crops. The taxes and other land costs considered with the pasture would be incurred whether heifers are raised or not. Added costs that should be charged include fencing, rent and fertilizer. These costs average 40 percent of total pasture costs excluding labor and interest on cost account farms. Therefore, 40 percent of heifer pasture costs should be capitalized.

Other Feed

All other feed costs include a wide variety of purchased and raised crops. For the family farm, these feeds would likely be replaced by homegrown grains or forages. Thus, the labor and interest cost of growing the feeds is excluded (Table 1).

Labor

If only operator and unpaid family labor are used on the farm, none of the labor cost represents a tax deductible expense. Further, on many farms with hired labor, the family (frequently the wife) cares for youngstock. In this case, none of the labor cost would be capitalized. On other farms some of the labor used to raise replacements would be hired and, thus, is an expense that would be capitalized. For an average size New York farm (61 cows) participating in New York's Farm Business Summary program, 34 percent of the labor is hired. This percentage is used for the average farm.

Tractor and Equipment

These categories include the costs of using such items as tractors, silo unloaders and feeding equipment. Most farms, particularly smaller ones, would use the same equipment items for heifers as is used for the dairy herd. In this case, only the increased fuel, oil and repair costs due to heifer use would be a clear charge to the heifers. If use of these machines for the heifers were great enough to cause more frequent replacement, then part of the allocated depreciation would logically be capitalized. At the extreme, for very large herds with totally separate heifer raising operations, all of these costs would be marginal costs of the heifer enterprise. In Table 2, it is assumed that only the added repair costs represent added cost of heifers for the family farm. This implies that some costs are incurred directly for heifers. It is assumed that 50 percent of tractor costs and 40 percent of equipment costs are chargeable to heifers. For the average farm it is assumed that 75 percent of total costs are chargeable to heifers.

Bedding

Some hay not eaten by cows and heifers would be used for bedding youngstock. The average amount of this is included in the costs listed. It is assumed that family farms would use this method to reduce total bedding cost by 25 percent.

Breeding

In some herds, a bull will be kept to breed either all the cows or those not conceiving through artificial insemination. If the same bull is used on the heifers, there would be no added breeding cost for the heifers. The bull must be maintained for the dairy herd. In other herds, only artificial insemination would be used on all animals, or a bull would be kept solely for the heifers. For these situations, the breeding charge or cost of maintaining the bull would be capitalized. Since use of a bull on heifers is a widely used practice, no breeding charge is included in either the average or family farm situation.

Vet and Medicine

These expenses are for medicine and hired veterinary treatment and would likely represent an added cost for the heifers in most situations.

Utilities and Insurance

These costs are incurred for the youngstock only and, thus, would be incurred by practically all farmers.

Interest

A cost accounting based interest charge includes both debt and equity interest costs. The equity interest cost is not deductible for tax purposes and, thus, would not be capitalized. For farms with 100 percent equity, this means that the entire interest charge would be excluded from capitalization. Since nearly half of all farm businesses have no debt, a large proportion of dairy farms would exclude all interest charge from capitalization. On January 1, 1986, the average New York farm business had 78 percent equity. Our marginal cost situation for the average farm, thus, includes 22 percent of the total interest cost.

Building Use

Some building costs represent allocation of part of the cow barn to heifers, particularly calves. In other cases, buildings used for heifers are old cow facilities that are no longer used by the milking herd, frequently obtained when purchasing land to which they added little value. Most of the cost for this space would be incurred regardless of whether heifers are grown. Further, some farms may provide little or no building shelter for bred heifers. It is assumed that most farmers would incur about 50 percent of these costs solely for the heifers.

Manure Hauling

This expense is primarily for equipment and tractor expense. Most farmers will have the equipment for manure hauling for the cows and, thus, only the marginal repair costs should be charged to heifers. The marginal share is assumed to be 75 percent of the total for the average farm and 45 percent (average of tractor and machinery) for the family farm.

All Other

This category includes such costs as liability insurance, office supplies, farm magazines and the farm pick-up. Most, if not all, of these expenses would be incurred regardless of whether heifers were grown or not. Only 10 percent of these costs are estimated to be truly marginal to the heifer enterprise.

Assumptions

While most of the numbers presented above are based on cost account records, assumptions were sometimes necessary. Since the costs involved are frequently joint costs with the dairy enterprise, the only way these costs can be separated is by use of assumptions. These costs, as individual separate entities, do not exist. Where ever assumptions have been made they are indicated as such. The assumed values are based on the authors best estimate of appropriate values. If alternate values are more appropriate for individual situations, appropriate adjustments should be made.

Farm to Farm Variability

The cost account farms from which these data were collected had total costs that ranged from 20 percent less to 50 percent more than average. Since 1983, the declining price of milk has forced many farmers to use cost cutting measures. A 30 percent lower level of costs, that might result from cost reduction measures on low cost farms, could result in average costs per heifer of $100 per year or about $8 per heifer month. Average farm costs were about $20 per month or $240 per heifer per year. A farm without enterprise records should be able to use Table 2 to estimate the expense for their individual situation by including that proportion of each expense item that is applicable to their situation and then multiplying the total by the proportion that their costs are of average farm costs.

Future Years

Once the cost of raising replacements is established for one year, the cost can be adjusted for use in future years by an annual index of the change in prices paid by dairy farmers. This index is estimated in the annual Agricultural Situation and Outlook report published each December by the Department of Agricultural Economics at Cornell. Similar indexes can be established in states other than New York from state or USDA data. Since an index does not allow for changes in heifer raising technology, the basic cost of raising replacements should be reestablished every few years.

Using Capitalized Values - Record Keeping

Any capitalization record keeping system must provide two basic items of information: (1) the total amount to capitalize each year which is to be subtracted from 1040F expenses, and (2) the amount to be depreciated for each heifer or group of heifers. When the heifer freshens for the first time the preproductive period ends and the capitalized costs that have been

accumulated while the heifer has been raised becomes the basis to be depreciated.

Earlier in this report, costs that are deductible on schedule F are calculated for two common situations, an average size dairy herd with hired labor and an average debt load and a family operated dairy farm with no hired labor and no debt. We suggest the use of one of these costs would be reasonable unless your situation is significantly different. In that case, make appropriate adjustments for the initial cost calculation and document your procedure.

An Individual Animal Alternative

Record keeping for capitalization of preproductive expenses could be quite burdensome. One way to handle the record keeping would be to keep track of each animal individually. Each year the amount capitalized for each individual would be the number of months the animal was on the farm as a heifer during the year multiplied by the average cost per month. Then the amount accumulated over all years prior to freshening would be depreciated starting in the year of freshening. This procedure has the advantage that the tax basis of the animal is known at any time. Also, year to year changes in the cost of raising replacements can be handled easily. The major disadvantage is the large amount of record keeping required.

The capitalization worksheet shown in Table 3 illustrates a format that could be used to calculate and accumulate preproductive costs for individual heifers. For each heifer, space is provided for entry and exit information. For each year, space is provided to record the change in prices paid and the cost per heifer month to be used. The $19.77 per month for 1987 comes from Table 2. If procedures other than those illustrated in Table 2 are used to calculate heifer raising costs, be sure that the number used is the average cost per heifer per month. The level of prices paid by dairy farmers was assumed to increase by 2.7, 3.0, 3.0 and 4.2 percent for 1987 through 1991, respectively. For real farm calculations the estimate of costs will not have to be made until the year is over so the actual change in costs will be known. The change in prices paid could be ignored if the heifer raising costs are recalculated each year. Also, space is provided for the number of months for which costs are accumulated and for the capitalized amount for the year. The total accumulated amount for each heifer from the heifer's entry date to freshening is the amount to be depreciated for that animal starting in the year of freshening. The amount to be capitalized for all heifers is totaled for each year. This is the annual amount to deduct from the farm expenses on form 1040F.

Table 3 illustrates these calculations for a variety of entry and exit methods for heifers of various ages on hand at the end of 1987 and several subsequent years. When a heifer leaves the herd, a note indicates where the total accumulated capital is used for tax purposes.

Records of preproductive costs kept on an individual basis may necessitate a lengthy and detailed record depending on the size of the heifer herd. A blank copy of the capitalization worksheet appears at the end of the publication. This can be copied or duplicated as desired.

Table 3.

Capitalization Worksheet

Preproductive Costs for Dairy Heifers, Individual Records

Name Example Farm

Hfr ID	Change in Prices Paid, % / Cost per Hfr Mo, $						1987			1988			1989			1990			1991		
	Entry				Exit			%			2.7 %			3.0 %			3.0 %			4.2 %	
	Date	Age	Meth	Cost	Date	Meth		19.77 /mo			20.30 /mo			20.91 /mo			21.53 /mo			22.43 /mo	
							Mo	Cap Amt	Accum Cap	Mo	Cap Amt	Accum Cap	Mo	Cap Amt	Accum Cap	Mo	Cap Amt	Accum Cap	Mo	Cap Amt	Accum Cap
		mo	a/	$		b/	no	$	$	no	$	$	no	$	$	no	$	$	no	$	$
101	11/84	0	R		4/87	F	4	79	79	($79 to 1987 DEPRECIATION SCHEDULE)											
Ellen	3/85	0	R		6/87	F	6	119	119	($119 to 1987 DEPRECIATION SCHEDULE)											
103	11/85	0	R		2/88	F	12	237	237	2	41	278	($278 to 1988 DEPR. SCH.)								
104	5/86	0	R		4/88	F	12	237	237	4	81	318	($318 to 1988 DEPR. SCH.)								
105	10/86	0	R		2/89	F	12	237	237	12	244	481	2	42	523	($523 to 1989 DEPR. SCH.)					
Hazel	1/87	0	R		12/88	F	11	217	217	12	244	461	($461 to 1988 DEPR. SCHEDULE)								
107	7/87	0	R		9/89	F	5	99	99	12	244	342	9	188	531	($531 to '89 DEPR. SCH.)					
108	9/87	1	P	125	3/88	D	3	59	184	0	0	184	(1988 CASUALTY LOSS)								
Ester	8/88	0	R		2/91	F				4	81	81	12	251	332	12	258	591	2	45	636
Abby	10/89	0	R		10/90	S							2	42	42	0	0	42	(to '90 form 4797)		
Annual Amount to Deduct from 1040F Expenses								1285			934			523			258			45	

a/ Entry methods: R = raised; P = purchased. b/ Exit methods: F = freshened; D = died; S = sold.

A Grouping Alternative

Farmers, and their tax preparers, may prefer not to keep track of individual animals. They would like a simple group method of determining the amount to be capitalized each year and the amount to be transferred to the depreciation schedule. Unfortunately, developing simple methods is difficult because of the many issues involved. Most simple methods would require IRS acceptance because they do not follow the letter of the law. The procedure presented below has not been evaluated by IRS but, in our judgment, should be acceptable since it uses conventions and assumptions frequently appearing in the tax code.

This system requires the farmer to keep track of groups of animals. Each group includes all animals born in a particular year. For example, those born in 1987 are one group. All animals born prior to 1987 are included in one group (see examples on pages 14, 15 and 16).

These worksheets are not designed to handle purchased animals. Most purchased animals would not be held for more than two years before freshening and, thus, capitalization would not be required. If animals were purchased at a very young age and expected to be held more than two years before freshening, these worksheets could be used but the basis of each group of animals at the time of death, sale or freshening would be the amount of capitalized expenses accumulated plus the purchase price of the animals.

The worksheets are designed to determine the amount to be capitalized each year and the tax basis to be depreciated for each group of animals as they freshen. One worksheet is used for each group. Each year additional information is added to each worksheet until all animals in that group have freshened, died or been sold. In the first year the top of the worksheet in completed down to the first dotted line. The next year the form is completed down to the next dotted line, etc.

A number of conventions and assumptions were used in developing these worksheets. First, a half year convention was used for the birth and freshening dates of animals. This is required to handle all animals born in one year as a group and avoids the necessity of keeping track of the month of birth and month of freshening of each individual animal. Second, the worksheet assumes that all animals freshen by the end of the third year following their birth. That is, animals born in December freshen within 36 months, those born in November freshen within 37 months, etc. Third, capitalization for all animals occurs in the number of months that would be appropriate for the average animal.

To illustrate use of these worksheets, a set has been completed for an example situation (pages 14 to 16). The annual data that would have to be provided are illustrated in Table 4 on page 13. This table lists the data required for each of four years for the example situation.

In the discussion that follows, the line numbers listed refer to the "Capitalization Schedule for Heifers Born in 1987" (page 15). Following that listing, in parentheses, is the corresponding line number for the "prior to 1987" form (for animals born prior to 1987).

Animals born during the year and not in the end of year inventory can be ignored since they obviously will not be held for over two years. If you did capitalize expenses for these animals, the amount capitalized would be the basis of the animals at the time of the death or sale. In case of death, the basis would represent a loss which would reduce taxable income. You would, therefore, be adding the same amount to expenses as a loss as you were subtracting from expenses for capitalization, resulting in no net effect on taxable income. Similarly, animals sold would result in reducing the income from the sale of the animal by the same amount that is subtracted from schedule F expenses (capitalized), again resulting in no effect on taxable income.

The same logic also applies to animals born prior to 1987 that died or were sold during 1987. These animals can be ignored for capitalization purposes. Making calculations for these animals will not influence taxable income and will only complicate calculations.

The capitalization value ($19.77 for the example) in line 1b. (1b.) is the average amount to be capitalized per animal *per month* for the period from conception of a calf to its first freshening. This is the value calculated in Table 2. If procedures other than those indicated for Table 2 are used to estimate the costs of raising replacements, be sure that the number used is the average cost per month. The capitalized values for future years are used in lines 3e. (4d.) and 9b. (10b.). In our example we assumed that the costs of raising replacements increased by 2.7 percent in 1988 and 3.0 percent in 1989 and 1990. For a real situation these numbers would be known by the time they need to be used.

The average age at freshening is the average age at which heifers in the herd freshen. It is measured in months. The average age at freshening for the farms on cost accounts was 26 months and 26 months is used in our example. However, this number could range from approximately 24 to 30 months. The average age at freshening is usually quite constant for most herds. Thus, once the number is established, it can be used until there is a basic change in heifer raising practices.

The worksheet indicates the *total amount capitalized* each year for each group. This is the amount of heifer raising costs to be subtracted from total expenses on schedule F for that group of animals. The total subtracted from schedule F expenses is obtained by adding the amounts for each group. In our example, the amount to be subtracted in 1987 is the total from line 1c. of the 1987 form and line 2d. of the "prior to 1987 worksheet". For 1988, the amount would be the sum of lines 6e. from "prior to 1987", 5e. from 1987 and 1c. from 1988.

The worksheet provides the tax basis for the animals that were sold or died for each year for each group. This includes no capitalization for the year of sale or death since such capitalization would just increase the basis which would be subtracted from the sale price to determine taxable gain or would add to the tax loss in case of death, both of which would just offset the capitalization value subtracted from expenses. The values calculated, for example on lines 2c. and 2e. on the 1987 form, is the total for the animals sold and died for that year. In this case, $355.86 is the

tax basis for three animals that died in 1988 and $237.24 is the tax basis for two animals that were sold in 1988. The footnotes indicate where the numbers are used for tax purposes.

For each year the tax basis of the animals freshening from each group is provided. For example, the tax basis of animals born in 1987 and freshening in 1988 is indicated in line 3g.; for our case situation this is $1,049.24. This is the amount that goes to the depreciation schedule. For depreciation purposes it is treated exactly like the purchase price for a group of heifers. You are in the same position as if you had purchased the number of heifers listed for the total tax basis listed. The total amount could be divided by the number freshening and the resulting number entered on the depreciation schedule for each animal (one line on the schedule for each animal). This may make it easier to handle when part of a group are culled, sold or die in any one year. This might require identification of individual animals. Alternately, the entire group can be placed on one line with the total tax basis entered for the group. This is the easiest procedure in the year the animals freshen but can get more complicated as part of the group leaves the herd each year.

These worksheets have the advantage that the amount depreciated always equals the amount capitalized. The worksheets are complex, but only a part of each worksheet must be completed each year. The data required could normally be developed by most diligent farmers. It also allows for change in the costs of growing replacements over time. The tax basis for the heifers in inventory is calculated and listed for each year. These can be used for cost basis balance sheets and for assessing the tax consequences of the sale of youngstock.

Table 4.
ANNUAL DATA

Name Example Farm

Average Age at Freshening (months)	26
1987 Data	
Capitalization value per animal month (conception to freshening)	19.77
Heifers born prior to 1987 and:	
Freshening in 1987	32
In 12/31/87 inventory (excluding those fresh in 1987)	55
Heifers born in 1987 and in 12/31/87 inventory	40
1988 Data	
Capitalization value per animal month	20.30
Heifers born prior to 1987 and in 12/31/87 inventory that:	
Died	2
Were sold	3
Freshened	35
Heifers born in 1987 and in 12/31/87 inventory that:	
Died	3
Were sold	2
Freshened	2
Heifers born in 1988 and in 12/31/88 inventory	45
1989 Data	
Capitalization value per animal month	20.91
Heifers born prior to 1987 and in 12/31/87 inventory that:	
Died	2
Were sold	2
Heifers born in 1987 and in 12/31/87 inventory that:	
Died	2
Were sold	4
Freshened	20
Heifers born in 1988 and in 12/31/88 inventory that:	
Died	1
Were sold	2
Freshened	2
Heifers born in 1989 and in 12/31/89 inventory	44
1990 Data	
Capitalization value per animal month	21.53
Heifers born in 1987 and in 12/31/87 inventory that:	
Died	1
Were sold	1
Heifers born in 1988 and in 12/31/88 inventory that:	
Died	2
Were sold	2
Freshened	25
Heifers born in 1989 and in 12/31/87 inventory that:	
Died	1
Were sold	2
Freshened	2
Heifers born in 1990 and in 12/31/90 inventory	47

CAPITALIZATION SCHEDULE FOR HEIFERS BORN PRIOR TO 1987 Name Example Farm

1987 Data

1a.	Number freshening in 1987	32 [f]		
b.	1987 capitalization value[a] 19.77 x 6	x 118.62		
c.	Basis of animals freshening in 1987 (1a. x 1b.)		3795.84 [f]	
2a.	Number born prior to 1987 and in inventory 12/31/87	55		
b.	1987 capitalization value[a] 19.77 x 12	x 237.24		
c.	Heifer basis 12/31/87[b] (2a. x 2b.)		+ 13,048.20	13,048.20
d.	Total amount capitalized for 1987 (1c. + 2c.)		= 16,844.04 [c]	

1988 Data

3a.	Basis per animal (from 2b.)	237.24		
b.	Number died in 1988	x 2		
c.	Basis of animals died in 1988 (3a. x 3b.)		- 474.48 [d]	
d.	Number sold in 1988	x 3		
e.	Basis of animals sold in 1988 (3a. x 3d.)		- 711.72 [e]	
4a.	Number freshening in 1988	35 [f]		
b.	Basis per animal (2b.)	x 237.24		
c.	12/31/87 basis of freshening animals[b] (4a. x 4b.)	8303.40	- 8303.40	
d.	1988 capitalization value[a] 20.30 x 6	121.80		
e.	1988 capitalization of freshening animals (4a. x 4d.)		+ 4263.00	
f.	Basis of animals freshening in 1988 (4c. + 4e.)		= 12,566.40 [f]	
5.	Basis prior to 1988 capitalization (2c.-3c.-3e.-4c.)			= 3558.60
6a.	Number in inventory 12/31/88 (2a.-3b.-3d.-4a.)	15		
b.	1988 capitalization value[a] 20.30 x 12	x 243.60		
c.	1988 capitalization of remaining animals[b] (6a. x 6b.)	= 3654.00	+ 3654.00	
d.	1988 capitalization of freshening animals (4e.)	+ 4263.00		
e.	Total amount capitalized for 1988 (6c. + 6d.)	= 7917.00 [c]		
7.	Heifer basis 12/31/88 (5 + 6c.)			= 7212.60

1989 Data

8a.	Basis per animal (7/6a.)	480.84		
b.	Number died in 1989	x 2		
c.	Basis of animals died in 1989 (8a. x 8b.)		- 961.68 [d]	
d.	Number sold in 1989	x 2		
e.	Basis of animals sold in 1989 (8a. x 8d.)		- 961.68 [e]	
9.	Basis prior to 1989 capitalization (7-8c.-8e.)			= 5289.24
10a.	Ave. age at freshening (mo) 26 minus 24	2		
b.	1989 capitalization value[a] 20.91 x line 10a.	41.82		
c.	Number freshening in 1989 (6a.-8b.-8d.)	x 11 [f]		
d.	Total amount capitalized for 1989 (10b. x 10c.)		+ 460.02 [c]	
11.	Basis of animals freshening in 1989 (9 + 10d.)			= 5749.26 [f]

[a] Per animal, per month; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depr. sch.

CAPITALIZATION SCHEDULE FOR HEIFERS BORN IN 1987 — Name Example Farm

1987 Data					
1a.	Number born in 1987 and in inventory 12/31/87			40	
b.	1987 capitalization value[a] 19.77 x 6		x	118.62	
c.	Total amount capitalized for 1987 (1a. x 1b.)				4744.80 [c]
1988 Data					
2a.	Basis per animal (from 1b.)			118.62	
b.	Number died in 1988		x	3	
c.	Basis of animals died in 1988 (2a. x 2b.)				- 355.86 [d]
d.	Number sold in 1988		x	2	
e.	Basis of animals sold in 1988 (2a. x 2d.)				- 237.24 [e]
3a.	Number freshening in 1988	2 [f]			
b.	Basis per animal (from 1b.)	x 118.62			
c.	12/31/87 basis of freshening animals[b] (3a. x 3b.)			237.24	- 237.24
d.	Ave. age at freshening (mo) 26 minus 6	20			
e.	1988 capitalization value[a] 20.30 x line 3d.	406.00			
f.	1988 capitalization of freshening animals (3a. x 3e.)		+	812.00	
g.	Basis of animals freshening in 1988 (3c. + 3f.)		=	1049.24 [f]	
4.	Basis prior to 1988 capitalization (1c.-2c.-2e.-3c)				= 3914.46
5a.	Number in inventory 12/31/88 (1a.-2b.-2d.-3a.)			33	
b.	1988 capitalization value[a] 20.30 x 12		x	243.60	
c.	1988 capitalization of remaining heifers[b] (5a. x 5b.)			8038.80	+ 8038.80
d.	1988 capitalization of freshening animals (3f.)		+	812.00	
e.	Total amount capitalized for 1988 (5c. + 5d.)		=	8850.80 [c]	
6.	Heifer basis 12/31/88 (4 + 5c.)				= 11,953.26
1989 Data					
7a.	Basis per animal (6/5a.)			362.22	
b.	Number died in 1989		x	2	
c.	Basis of animals died in 1989 (7a. x 7b.)				- 724.44 [d]
d.	Number sold in 1989		x	4	
e.	Basis of animals sold in 1989 (7a. x 7d.)				- 1448.88 [e]
8.	Basis prior to 1989 capitalization (6-7c.-7e.)				= 9779.94
9a.	Ave. age at freshening (mo) 26 minus 18			8	
b.	1989 capitalization value[a] 20.91 x line 9a.			167.28	
c.	Number of heifers remaining (5a.-7b.-7d.)		x	27	
d.	Total amount capitalized for 1989 (9b. x 9c.)				+ 4516.56 [c]
10.	Total basis (8 + 9d.)				= 14,296.50
11a.	Number freshening in 1989			20 [f]	
b.	Basis per animal (10/9c.)		x	529.50	
c.	Basis of animals freshening in 1989 (11a. x 11b.)				- 10,590.00 [f]
12a.	Number in inventory 12/31/89 (9c. - 11a.)			7	
b.	Heifer basis 12/31/89 (10 - 11c.)				= 3706.50
1990 Data					
13a.	Basis per animal (12b./12a.)			529.50	
b.	Number died in 1990		x	1	
c.	Basis of animals died in 1990 (13a. x 13b.)				- 529.50 [d]
d.	Number sold in 1990		x	1	
e.	Basis of animals sold in 1990 (13a. x 13d.)				- 529.50 [e]
14a.	Number freshening in 1990 (12a.-13b.-13d.)			5 [f]	
b.	Basis of animals freshening in 1990 (12b.-13c.-13e.)				= 2647.50 [f]

[a] Per animal, per month; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depr. sch.

CAPITALIZATION SCHEDULE FOR HEIFERS BORN IN 1988 — Name Example Farm

1988 Data

1a. Number born in 1988 and in inventory 12/31/88 — 45
b. 1988 capitalization value[a] 20.30 x 6 — x 121.80
c. Total amount capitalized for 1988 (1a. x 1b.) — 5481.00 [c]

1989 Data

2a. Basis per animal (from 1b.) — 121.80
b. Number died in 1989 — x 1
c. Basis of animals died in 1989 (2a. x 2b.) — - 121.80 [d]
d. Number sold in 1989 — x 2
e. Basis of animals sold in 1989 (2a. x 2d.) — - 243.60 [e]

3a. Number freshening in 1989 — 2 [f]
b. Basis per animal (from 1b.) — x 121.80
c. 12/31/88 basis of freshening animals[b] (3a. x 3b.) — 243.60 - 243.60
d. Ave. age at freshening (mo) 26 minus 6 — 20
e. 1989 capitalization value[a] 20.91 x line 3d. — 418.20
f. 1989 capitalization of freshening animals (3a. x 3e.) — + 836.40
g. Basis of animals freshening in 1989 (3c. + 3f.) — = 1080.00 [f]

4. Basis prior to 1989 capitalization (1c.-2c.-2e.-3c) — = 4872.00

5a. Number in inventory 12/31/89 (1a.-2b.-2d.-3a.) — 40
b. 1989 capitalization value[a] 20.91 x 12 — x 250.92
c. 1989 capitalization of remaining heifers[b] (5a. x 5b.) — 10,036.80 + 10,036.80
d. 1989 capitalization of freshening animals (3f.) — + 836.40
e. Total amount capitalized for 1989 (5c. + 5d.) — = 10,873.20 [c]

6. Heifer basis 12/31/89 (4. + 5c.) — = 14,908.80

1990 Data

7a. Basis per animal (6/5a.) — 372.72
b. Number died in 1990 — x 2
c. Basis of animals died in 1990 (7a. x 7b.) — - 745.44 [d]
d. Number sold in 1990 — x 2
e. Basis of animals sold in 1990 (7a. x 7d.) — - 745.44 [e]

8. Basis prior to 1990 capitalization (6.-7c.-7e.) — = 13,417.92

9a. Ave. age at freshening (mo) 26 minus 18 — 8
b. 1990 capitalization value[a] 21.53 x line 9a. — 172.24
c. Number of heifers remaining (5a.-7b.-7d.) — x 36
d. Total amount capitalized for 1990 (9b. x 9c.) — + 6200.64 [c]

10. Total basis (8 + 9d.) — = 19,618.56

11a. Number freshening in 1990 — 25 [f]
b. Basis per animal (10/9c.) — x 544.96
c. Basis of animals freshening in 1990 (11a. x 11b.) — - 13,624.00 [f]

12a. Number in inventory 12/31/90 (9c.-11a.) — 11
b. Heifer basis 12/31/90 (10 - 11c.) — = 5994.56

1991 Data

13a. Basis per animal (12b./12a.) — Completed when ave 1991 data available.
b. Number died in 1991 — - [d]
c. Basis of animals died in 1991 (13a. x 13b.) — x
d. Number sold in 1991 — - [e]
e. Basis of animals sold in 1991 (13a. x 13d.) — [f]

14a. Number freshening in 1991 (12a.-13b.-13d.) — = [f]
b. Basis of animals freshening in 1991 (12b.-13c.-13e.)

[a] Per animal, per month; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depr. sch.

Appendix A

Blank Worksheets

The blank worksheets that follow can be used or copied in any manner that is useful to farmers and their tax preparers.

The first worksheet is a form that can be used for individual heifer records. Sample entries are shown in Table 3.

The remaining worksheets are for use with the grouping alternative. They include a form for annual data and a form for heifers grouped by year of birth.

Name________________________

Capitalization Worksheet

Preproductive Costs for Dairy Heifers, Individual Records

Hfr ID	Change in Prices Paid, % / Cost per Hfr Mo, $						1987 ____% ____/mo			1988 ____% ____/mo			1989 ____% ____/mo			1990 ____% ____/mo			1991 ____% ____/mo		
	Entry				Exit																
	Date	Age	Meth	Cost	Date	Meth	Mo	Cap Amt	Accum Cap	Mo	Cap Amt	Accum Cap	Mo	Cap Amt	Accum Cap	Mo	Cap Amt	Accum Cap	Mo	Cap Amt	Accum Cap
		mo	a/	$		b/	no	$	$	no	$	$	no	$	$	no	$	$	no	$	$
Annual Amount to Deduct from 1040F Expenses								____			____			____			____			____	

a/ Entry methods: R = raised; P = purchased. b/ Exit methods: F = freshened; D = died; S = sold.

CAPITALIZATION SCHEDULE FOR HEIFERS BORN PRIOR TO 1987 Name_____

1987 Data

1a.	Number freshening in 1987		[f]	
b.	1987 capitalization value[a] _____ x 6	x		
c.	Basis of animals freshening in 1987 (1a. x 1b.)		[f]	
2a.	Number born prior to 1987 and in inventory 12/31/87			
b.	1987 capitalization value[a] _____ x 12	x		
c.	Heifer basis 12/31/87[b] (2a. x 2b.)	+		
d.	Total amount capitalized for 1987 (1c. + 2c.)	=	[c]	

1988 Data

3a.	Basis per animal (from 2b.)			
b.	Number died in 1988	x		
c.	Basis of animals died in 1988 (3a. x 3b.)			- [d]
d.	Number sold in 1988	x		
e.	Basis of animals sold in 1988 (3a. x 3d.)			- [e]
4a.	Number freshening in 1988		[f]	
b.	Basis per animal (2b.)	x		
c.	12/31/87 basis of freshening animals[b] (4a. x 4b.)			-
d.	1988 capitalization value[a] _____ x 6			
e.	1988 capitalization of freshening animals (4a. x 4d.)	+		
f.	Basis of animals freshening in 1988 (4c. + 4e.)	=	[f]	
5.	Basis prior to 1988 capitalization (2c.-3c.-3e.-4c.)			=
6a.	Number in inventory 12/31/88 (2a.-3b.-3d.-4a.)			
b.	1988 capitalization value[a] _____ x 12	x		
c.	1988 capitalization of remaining animals[b] (6a. x 6b.)	=		+
d.	1988 capitalization of freshening animals (4e.)	+		
e.	Total amount capitalized for 1988 (6c. + 6d.)	=	[c]	
7.	Heifer basis 12/31/88 (5 + 6c.)			=

1989 Data

8a.	Basis per animal (7/6a.)			
b.	Number died in 1989	x		
c.	Basis of animals died in 1989 (8a. x 8b.)			- [d]
d.	Number sold in 1989	x		
e.	Basis of animals sold in 1989 (8a. x 8d.)			- [e]
9.	Basis prior to 1989 capitalization (7-8c.-8e.)			=
10a.	Ave. age at freshening (mo) _____ minus 24			
b.	1989 capitalization value[a] _____ x line 10a.			
c.	Number freshening in 1989 (6a.-8b.-8d.)	x	[f]	
d.	Total amount capitalized for 1989 (10b. x 10c.)			+ [c]
11.	Basis of animals freshening in 1989 (9 + 10d.)			= [f]

[a] Per animal, per month; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depr. sch.

CAPITALIZATION SCHEDULE FOR HEIFERS BORN IN 1987 Name_____

1987 Data

1a. Number born in 1987 and in inventory 12/31/87 _____

b. 1987 capitalization value[a] _____ x 6 x_____

c. Total amount capitalized for 1987 (1a. x 1b.) _____ c

1988 Data

2a. Basis per animal (from 1b.) _____

b. Number died in 1988 x_____

c. Basis of animals died in 1988 (2a. x 2b.) -_____ d

d. Number sold in 1988 x_____

e. Basis of animals sold in 1988 (2a. x 2d.) -_____ e

3a. Number freshening in 1988 _____ f

b. Basis per animal (from 1b.) x_____

c. 12/31/87 basis of freshening animals[b] (3a. x 3b.) _____ -_____

d. Ave. age at freshening (mo) ____ minus 6 _____

e. 1988 capitalization value[a] _____ x line 3d. _____

f. 1988 capitalization of freshening animals (3a. x 3e.) +_____ f

g. Basis of animals freshening in 1988 (3c. + 3f.) =_____

4. Basis prior to 1988 capitalization (1c.-2c.-2e.-3c) =_____

5a. Number in inventory 12/31/88 (1a.-2b.-2d.-3a.) _____

b. 1988 capitalization value[a] _____ x 12 x_____

c. 1988 capitalization of remaining heifers[b] (5a. x 5b.) _____ +_____

d. 1988 capitalization of freshening animals (3f.) +_____ c

e. Total amount capitalized for 1988 (5c. + 5d.) =_____

6. Heifer basis 12/31/88 (4 + 5c.) =_____

1989 Data

7a. Basis per animal (6/5a.) _____

b. Number died in 1989 x_____

c. Basis of animals died in 1989 (7a. x 7b.) -_____ d

d. Number sold in 1989 x_____

e. Basis of animals sold in 1989 (7a. x 7d.) -_____ e

8. Basis prior to 1989 capitalization (6-7c.-7e.) =_____

9a. Ave. age at freshening (mo) ____ minus 18 _____

b. 1989 capitalization value[a] _____ x line 9a. _____

c. Number of heifers remaining (5a.-7b.-7d.) x_____

d. Total amount capitalized for 1989 (9b. x 9c.) +_____ c

10. Total basis (8 + 9d.) =_____

11a. Number freshening in 1989 _____ f

b. Basis per animal (10/9c.) x_____

c. Basis of animals freshening in 1989 (11a. x 11b.) -_____ f

12a. Number in inventory 12/31/89 (9c. - 11a.) _____

b. Heifer basis 12/31/89 (10 - 11c.) =_____

1990 Data

13a. Basis per animal (12b./12a.) _____

b. Number died in 1990 x_____

c. Basis of animals died in 1990 (13a. x 13b.) -_____ d

d. Number sold in 1990 x_____

e. Basis of animals sold in 1990 (13a. x 13d.) -_____ e

14a. Number freshening in 1990 (12a.-13b.-13d.) _____ f

b. Basis of animals freshening in 1990 (12b.-13c.-13e.) =_____ f

---

[a] Per animal, per month; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depr. sch.

CAPITALIZATION SCHEDULE FOR HEIFERS BORN IN 1988 Name _____

1988 Data

1a. Number born in 1988 and in inventory 12/31/88 _____

b. 1988 capitalization value[a] _____ x 6 x _____

c. Total amount capitalized for 1988 (1a. x 1b.) _____ c

1989 Data

2a. Basis per animal (from 1b.) _____

b. Number died in 1989 x _____

c. Basis of animals died in 1989 (2a. x 2b.) - _____ d

d. Number sold in 1989 x _____

e. Basis of animals sold in 1989 (2a. x 2d.) - _____ e

3a. Number freshening in 1989 _____ f

b. Basis per animal (from 1b.) x _____

c. 12/31/88 basis of freshening animals[b] (3a. x 3b.) _____ - _____

d. Ave. age at freshening (mo) ____ minus 6 _____

e. 1989 capitalization value[a] _____ x line 3d. _____

f. 1989 capitalization of freshening animals (3a. x 3e.) + _____

g. Basis of animals freshening in 1989 (3c. + 3f.) = _____ f

4. Basis prior to 1989 capitalization (1c.-2c.-2e.-3c) = _____

5a. Number in inventory 12/31/89 (1a.-2b.-2d.-3a.) _____

b. 1989 capitalization value[a] _____ x 12 x _____

c. 1989 capitalization of remaining heifers[b] (5a. x 5b.) _____ + _____

d. 1989 capitalization of freshening animals (3f.) + _____

e. Total amount capitalized for 1989 (5c. + 5d.) = _____ c

6. Heifer basis 12/31/89 (4. + 5c.) = _____

1990 Data

7a. Basis per animal (6/5a.) _____

b. Number died in 1990 x _____

c. Basis of animals died in 1990 (7a. x 7b.) - _____ d

d. Number sold in 1990 x _____

e. Basis of animals sold in 1990 (7a. x 7d.) - _____ e

8. Basis prior to 1990 capitalization (6.-7c.-7e.) = _____

9a. Ave. age at freshening (mo) ____ minus 18 _____

b. 1990 capitalization value[a] _____ x line 9a. _____

c. Number of heifers remaining (5a.-7b.-7d.) x _____

d. Total amount capitalized for 1990 (9b. x 9c.) + _____ c

10. Total basis (8 + 9d.) = _____

11a. Number freshening in 1990 _____ f

b. Basis per animal (10/9c.) x _____

c. Basis of animals freshening in 1990 (11a. x 11b.) - _____ f

12a. Number in inventory 12/31/90 (9c.-11a.) _____

b. Heifer basis 12/31/90 (10 - 11c.) = _____

1991 Data

13a. Basis per animal (12b./12a.) _____

b. Number died in 1991 x _____

c. Basis of animals died in 1991 (13a. x 13b.) - _____ d

d. Number sold in 1991 x _____

e. Basis of animals sold in 1991 (13a. x 13d.) - _____ e

14a. Number freshening in 1991 (12a.-13b.-13d.) _____ f

b. Basis of animals freshening in 1991 (12b.-13c.-13e.) = _____ f

---

[a] Per animal, per month; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depr. sch.

INTENTIONALLY
BLANK

CAPITALIZATION SCHEDULE FOR HEIFERS BORN IN 19___ Name_____

19___ Data

1a. Number born in 19___ and in inventory 12/31/___

b. 19___ capitalization value[a] _____ x 6

c. Total amount capitalized for 19___ (1a. x 1b.) = _____ c

19___ Data

2a. Basis per animal (from 1b.)

b. Number died in 19___

c. Basis of animals died in 19___ (2a. x 2b.) - _____ d

d. Number sold in 19___

e. Basis of animals sold in 19___ (2a. x 2d.) - _____ e

3a. Number freshening in 19___ _____ f

b. Basis per animal (from 1b.) x _____

c. 12/31/___ basis of freshening animals[b] (3a. x 3b.) _____ - _____

d. Ave. age at freshening (mo) ___ minus 6 _____

e. 19___ capitalization value[a] _____ x line 3d. _____

f. 19___ capitalization of freshening animals (3a. x 3e.) + _____

g. Basis of animals freshening in 19___ (3c. + 3f.) = _____ f

4. Basis prior to 19___ capitalization (1c.-2c.-2e.-3c) = _____

5a. Number in inventory 12/31/___ (1a.-2b.-2d.-3a.)

b. 19___ capitalization value[a] _____ x 12

c. 19___ capitalization of remaining heifers[b] (5a. x 5b.) + _____

d. 19___ capitalization of fresh animals (3f.) + _____

e. Total amount capitalized for 19___ (5c. + 5d.) = _____ c

6. Heifer basis 12/31/___ (4 + 5c.) = _____

19___ Data

7a. Basis per animal (6/5a.)

b. Number died in 19___

c. Basis of animals died in 19___ (7a. x 7b.) - _____ d

d. Number sold in 19___

e. Basis of animals sold in 19___ (7a. x 7d.) - _____ e

8. Basis prior to 19___ capitalization (6-7c.-7e.) = _____

9a. Ave. age at freshening (mo) ___ minus 18

b. 19___ capitalization value[a] _____ x line 9a.

c. Number of heifers remaining (5a.-7b.-7d.)

d. Total amount capitalized for 19___ (9b. x 9c.) + _____ c

10. Total basis (8 + 9d.) = _____

11a. Number freshening in 19___ f

b. Basis per animal (10/9c.)

c. Basis of animals freshening in 19___ (11a. x 11b.) - _____ f

12a. Number in inventory 12/31/___ (9c.-11a.)

b. Heifer basis 12/31/___ (10 - 11c.) = _____

19___ Data

13a. Basis per animal (12b./12a.)

b. Number died in 19___

c. Basis of animals died in 19___ (13a. x 13b.) - _____ d

d. Number sold in 19___

e. Basis of animals sold in 19___ (13a. x 13d.) - _____ e

14a. Number freshening in 19___ (12a.-13b.-13d.) f

b. Basis of animals freshening in 19___ (12b.-13c.-13e.) = _____ f

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[a] Per animal, per month; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depr. sch.

ANNUAL DATA Name_____

Average Age at Freshening (months) _____

1987 Data

Capitalization value per animal month (conception to freshening) _____
Heifers born prior to 1987 and:
  Freshening in 1987 _____
  In 12/31/87 inventory (excluding those fresh in 1987) _____
Heifers born in 1987 and in 12/31/87 inventory _____

1988 Data

Capitalization value per animal month _____
Heifers born prior to 1987 and in 12/31/87 inventory that:
  Died _____
  Were sold _____
  Freshened _____
Heifers born in 1987 and in 12/31/87 inventory that:
  Died _____
  Were sold _____
  Freshened _____
Heifers born in 1988 and in 12/31/88 inventory _____

1989 Data

Capitalization value per animal month _____
Heifers born prior to 1987 and in 12/31/87 inventory that:
  Died _____
  Were sold _____
Heifers born in 1987 and in 12/31/87 inventory that:
  Died _____
  Were sold _____
  Freshened _____
Heifers born in 1988 and in 12/31/88 inventory that:
  Died _____
  Were sold _____
  Freshened _____
Heifers born in 1989 and in 12/31/89 inventory _____

1990 Data

Capitalization value per animal month _____
Heifers born in 1987 and in 12/31/87 inventory that:
  Died _____
  Were sold _____
Heifers born in 1988 and in 12/31/88 inventory that:
  Died _____
  Were sold _____
  Freshened _____
Heifers born in 1989 and in 12/31/89 inventory that:
  Died _____
  Were sold _____
  Freshened _____
Heifers born in 1990 and in 12/31/90 inventory _____