DETERMINATION AND USE OF CAPITALIZATION VALUES
FOR RAISED DAIRY REPLACEMENTS
AFTER SAFE HARBOR RULING

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ABSTRACT

The Internal Revenue Service has provided safe harbor values that may be used by dairy farmers electing to capitalize preproductive costs for raised dairy replacements. The options provided by the safe harbor rules are reviewed along with factors affecting the capitalization decision. Procedures for determining and using values from own-farm data as well as the safe harbor values are suggested. Completed sample forms illustrate the calculations and blank forms are provided for field use.

DETERMINATION AND USE OF CAPITALIZATION VALUES FOR RAISED DAIRY REPLACEMENTS AFTER SAFE HARBOR RULING

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This publication replaces an earlier paper[2] on the capitalization of preproductive costs as related to dairy replacements. The publication of Notice 88-24 in the Internal Revenue Bulletin on March 16, 1988, provided revised regulations on capitalization methods, including the use of safe harbor values, available to farmers. Using the safe harbor values will remove taxpayer and preparer concern over IRS acceptance of the capitalization values used, and the simpler calculations will reduce tax preparation costs for farmers who capitalize. Farmers may elect to capitalize by filing an amended 1987 return by September 12, 1988.[3]

The first objective of this paper is to provide some background information to assist in making the capitalization decision and in determining appropriate capitalization values.

The second objective is to provide farmers and their tax advisors with a procedure and forms that may be used to record, use and report data to be capitalized and subsequently recovered as tax returns are completed.

New Options Provided by Safe Harbor Rules

With the issuance of the safe harbor rules, the following important points should be kept in mind:

1. A farmer who had no preproductive expenses in 1987, should ignore the capitalization decision on line G, schedule F. The decision would be made in the first taxable year after 1986 in which such expenses occurred.

2. A farmer who had preproductive expenses for animals in 1987, must make the capitalization decision on schedule F of the 1987 return.

3. A farmer who made no election or elected not to capitalize preproductive expenses in 1987 (i.e., those expenses were deducted on schedule F), may revoke such election only to adopt the use of the safe harbor rules. However, the farmer must also capitalize preproductive expenses for all other applicable plants or animals produced in 1987. The change must be made by amending the 1987 return by September 12, 1988.

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4. If the 1987 return has been filed and an election made to capitalize
    preproductive expenses, the election may be changed by amending.
    However, there are two choices to adopt the safe harbor values.

    a. Amend the 1987 return (by September 12, 1988) to use the safe
        harbor values only. No other change can be made in capitalization
        values used, nor may the election to capitalize be revoked.

    b. If there is no desire to amend the 1987 return, the safe harbor
        values may be used starting in 1988 without changing the amounts
        capitalized in 1987 as long as a reasonable method was used. The
        change to the safe harbor may not be made after 1988 and, once
        made, must be continued.

5. Safe harbor values may not be used by taxpayers required to use accrual
    accounting.

6. Taxpayers electing to use the safe harbor rules may discontinue their
    use only with permission from the Commissioner.

    The safe harbor provides values that can be used as an alternative to
the taxpayer calculating his own reasonable preproductive costs for raising
animals to production. Calculating such costs is likely to be time
consuming. Unless there is a strong possibility that costs will be
significantly less than the safe harbor, we suggest the use of the safe
harbor values.

The Capitalization Decision

    The Tax Reform Act of 1986 indicates that farmers who have
preproductive expenses must either; (1) deduct preproductive expenses and
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 either use the slower depreciation methods
and current expensing or capitalize the costs of raising youngstock and
recover the costs over time.

    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.
With the issuance of the safe harbor rules, the farmer now has two
alternatives: (1) use the pre-established capitalization values published
as part of the safe harbor rules, or (2) calculate values for his own farm
based on the costs for the taxpayer's own operations.

    In the following discussion, these two sources of capitalization
values are explained and their use described. Either capitalization value
may be used in the blank forms provided in the appendix. The filled-in
forms make use of the safe harbor values for raised dairy replacements.

Safe Harbor Capitalization Values

On March 16, 1988, Notice 88-24 was published in the Internal Revenue Bulletin. This notice describes an elective safe harbor unit capitalization value that may be used by dairy farmers. The value is $540 per head for dairy cattle. Taxpayers may choose to use this value in place of capitalized values calculated using their own costs or market prices.

The use of the safe harbor value is entirely optional. It provides a convenient value that can be used with no justification or calculation. It is suggested that farmers use this value unless tax advantages provide a compelling reason to use another reasonable value calculated from their own data.

For raised cattle, one-quarter of the safe harbor value is capitalized in the taxable year of birth, one-half in the taxable year following the year of birth, and one-quarter in the second taxable year following the year of birth. The Treasury Department will, as appropriate, adjust the safe harbors to reflect changes in production costs in future years.

The safe harbor rules apply regardless of when, in the taxable year, the heifers are actually born. For heifers on hand at the end of the taxable year ending December 31, 1987 (and to which the capitalization rules apply), the amounts to capitalize would be as follows: one-quarter of the total value per head ($135) would be capitalized for each animal born in 1985; one-half of the value ($270) for animals born in 1986, and one-quarter of the value for animals born in 1987. In 1988, no additional amount would be capitalized for animals born in 1985; one-quarter of the value would be capitalized for animals born in 1986; one-half for those born in 1987, and one-quarter of the value for those born in 1988.

If safe harbor values are elected, purchased animals held over two years before freshening must be capitalized. The purchase date would be treated as its birthdate. The amount capitalized in the purchase year would be the greater of the purchase price or the safe harbor amount provided for the birth year. Amounts capitalized in subsequent years would be the same as for raised animals. However, unless the animal was purchased at a young age and bred at an older age than usual, most purchased animals would have a preproductive period of less than two years and, therefore, their preproductive expenses would not be capitalized.

Determining Capitalization Values from Own-Farm Data

The following data and procedures are suggested as guidance for farmers who choose to develop their own capitalization values rather than use the IRS safe harbor values. At the time it published the safe harbor rules, the IRS also clarified what is to be included in capitalized values calculated from a farmer's own farm data. All direct and indirect costs related to the production of preproductive property must be included. Thus, capitalized costs are not limited to marginal increases in costs but rather also include portions of fixed costs not affected by the preproductive property. As a result, capitalization costs presented in

this analysis include all tax deductible heifer production costs.

The basic data source for this analysis is the New York cost account data for 1983[4]. 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[5].

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 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.

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 tax deductible costs 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. The last column provides a place for the reader's own costs to be entered.

In the discussion that follows, the level of costs that are likely to be tax deductible 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 base costs of growing replacements. This is the type of farm that could be expected to have relatively low capitalization costs.

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

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

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
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 4 for definition of a family farm.

Value of Calf at Birth

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 be allocated to the replacement is 4.1 percent. 4.1 percent of the 1987 price per calf of $93 equals $3.80; this rounds to $4. 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.

Table 2. Cost of Raising Replacements from Conception to Freshening

	Total Cost		1987 Tax Deductible Costs[g]		
	1983	1987	Average Farm	Family Farm	My Farm
Value of Calf	$ 105	$ 93	$ 4	$ 4	$____
Feed					
Milk & Replacer	17	15	10	0	____
Grain	133	106	106	83 [c]	____
Hay (dry & silage)	72	57	57	57	____
Corn (silage & HM)	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/Medicine	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	23	23	____
Manure Hauling	19	19	19	19	____
All Other	34	34	34	34	____
TOTAL COST	$1,067	$1,038			
TOTAL CAP. VALUE			$603	$420	$____

a/ Adapted from Snyder, D.P. "Livestock Costs and Returns from Farm Cost
   Accounts." Cornell University, AE Res 84-18, December 1984.
b/ 1983 values adjusted to 1987 level using index of prices paid by NY
   dairy farmers (milk prices from NY/NJ blend price) from NY Economic
   Handbook 1988. Cornell University, AE Res 87-32, 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/ Seventy percent grains homegrown. Excludes labor and interest expense
   of growing. Calculated by adjusting Table 1 value of $105 to 1987
   level of costs.
d/ Thirty-four percent hired labor.
e/ Twenty-two percent debt.
f/ Excludes labor and interest costs; 100% 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
   proportionately to use even if the marginal cost of the heifer
   enterprise is less (or zero).

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 or milk replacer 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[6]. 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.

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. Although these are fixed costs they are included along with costs for fencing, rent and fertilizer.

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).

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6 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.

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, Truck and Equipment

These categories include the costs of using such items as tractors, silo unloaders and feeding equipment. The costs shown in Table 2 include all variable and fixed costs allocated 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

The basic breeding cost to cause the heifer to produce milk is included as a capitalized cost. However, the costs of special semen or embryo transplants are not necessary to cause a heifer to freshen and therefore, should not be included.

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. Although most of the cost for this space would be incurred regardless of whether heifers are grown, these fixed costs are to be included.

Manure Hauling

This expense is primarily for equipment and tractor expense. As with similar costs above, the total of these costs charged to heifers are included even though most farmers would have this equipment whether or not they raised replacements.

All Other

This category includes such costs as liability insurance, office supplies, farm magazines and the farm pick-up. The total of these costs allocated to heifers is included.

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 estimates 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 which would affect current deductible production costs. 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 re-established every few years.

Using Capitalization Values

Whether the capitalization values used are the safe harbor values or values determined from own-farm data, record keeping is necessary to provide heifer number data and keep track of the capitalized values used. The forms shown in Tables 3 through 6 illustrate how such records could be kept. The forms include an annual year end data form and capitalization schedules for each birth year group from 1985 to 1987. The 1987 form can be used for all future years by modifying year numbers.

The 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 amounts to be recovered through casualty losses, sales and depreciation procedures. When a heifer leaves the preproductive herd by loss, sale or freshening (becomes productive), the capitalized costs that have been accumulated become the basis to be recovered.

The suggested forms provide a simple method to determine and keep track of these two items of information. Data are recorded for each group of heifers. Each group includes all dairy heifers born in a particular year. For example, those born in 1985 are one group, those born in 1986 are another group, etc. 1985 and 1986 are transition years for which only partial capitalization will be achieved before freshening. Using safe harbor values, only $135 will be capitalized in 1987 for heifers born in 1985. For those born in 1986, capitalization per heifer will include $270 in 1987 and $135 in 1988. The group of heifers born in 1987 is the first group that will experience the capitalization of the full value per heifer. The forms provide annual data for the amounts to be capitalized and recovered each year for each birth year group.

These worksheets are not designed specifically for 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 are purchased at a very young age and expected to be held more than two years before freshening, these worksheets could be used. However, the capitalization will be the larger of the purchase price or $135 for the purchase year. Second and third year capitalization will be $270 and $135, respectively.

The worksheets are designed to determine the amount to be capitalized each year and the tax basis to be recovered for each group of animals as they leave the preproductive herd. One worksheet is used for animals born in one year. 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 is completed down to the first dotted line. The next year the form is completed down to the next dotted line, etc.

Regardless of whether the capitalization values are safe harbor values or are developed from the farmer's own costs, one-quarter of the total value is capitalized in the birth year, one-half in the second taxable year and one-quarter in the third taxable year.

To illustrate use of these worksheets, a set has been completed for an example situation (pages 13 to 16). The annual data on heifer numbers that would have to be provided are illustrated in Table 3 on page 13. This table lists the data required for each of four years for the example situation and follows the 1987 birth year group through to final disposition. In the discussion that follows, the line numbers listed refer to the "Capitalization Schedule for Heifers Born in 1987" (page 16).

In completing the Heifer Inventory Data Sheet for each year, it is suggested that the following procedure be used.

1. Only the end inventory numbers are needed for the first year (1987).

2. For 1988, enter the beginning of year information from the end of year line on the prior year Data Sheet. For example, at the end of 1987 (12/31/87) there were 43 heifers on hand that were born in 1986. Thus, the beginning of 1988 number is 43.

3. Enter the number of heifers for each birth year group on hand at the end of the year (the last line).

4. Enter the number for each birth year group that freshened, died and were sold during the year. Enter the number of heifers raised and on hand at the end of the current year.

5. Check to be sure that the beginning inventory minus the number died, sold or fresh, plus the number raised and on hand at the end of the year, equals the end of year number for each group.

Animals born during 1987 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 in 1986 or 1985 that died or were sold prior to, or 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 ($135 for the example) on line 1b. (page 16) is the safe harbor value for the applicable year. It is suggested that the one-quarter, one-half, one-quarter allocation would also be reasonable for

capitalized values calculated from a farmer's own records.

The worksheets indicate 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 for the year 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, line 1c. of the "Born in 1986" form and line 1c. of the "Born in 1985" form.

The worksheets provide 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, are the totals for the animals sold and died for that year. In this case, $405 is the tax basis for three animals that died in 1988 and $270 is the tax basis for two animals that were sold in 1988. The footnotes indicate where the numbers are used for tax purposes. When the disposition of all heifers has occurred, the amount capitalized will equal the amount recovered through deaths, sales and freshenings.

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 3f.; for our case situation this is $810. 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.

Name   SAMPLE

Table 3.   Heifer Inventory Data Sheet
                               Raised Heifers (1987-90)

1987 Data	Total Heifers	Heifers Born in		
		1987	1986	1985
End Inventory 12/31/87	95	40	43	12

1988 Data	Total Heifers	Heifers Born in			
		1988	1987	1986	1985
Beg. Inventory 12/31/87	95		40	43	12
No. died in 1988	5		3	1	1
sold in 1988	5		2	2	1
fresh in 1988	37		2	25	10
raised in 1988	45	45			
End Inventory 12/31/88	93	45	33	15	0

1989 Data	Total Heifers	Heifers Born in			
		1989	1988	1987	1986
Beg. Inventory 12/31/88	93		45	33	15
No. died in 1989	5		1	2	2
sold in 1989	8		2	4	2
fresh in 1989	33		2	20	11
raised in 1989	44	44			
End Inventory 12/31/89	91	44	40	7	0

1990 Data	Total Heifers	Heifers Born in			
		1990	1989	1988	1987
Beg. Inventory 12/31/89	91		44	40	7
No. died in 1990	4		1	2	1
sold in 1990	5		2	2	1
fresh in 1990	32		2	25	5
raised in 1990	47	47			
End Inventory 12/31/90	97	47	39	11	0

Name _____ SAMPLE _____

Table 4.   **CAPITALIZATION SCHEDULE FOR HEIFERS** *BORN IN 1985*

1987 Data

1a. Number born in 1985 and in inventory 12/31/87   __12__

  b. 1987 capitalization value[a]   x __135__

  c. Total amount capitalized for 1987 (1a. + 1b.)   __1620__ [b]

- -

1988 Data

2a. Basis per animal (1b.)   __135__

  b. Number died in 1988   x __1__

  c. Basis of animals died in 1988 (2a. x 2b.)   - __135__ [c]

  d. Number sold in 1988   x __1__

  e. Basis of animals sold in 1988 (2a. x 2d.)   - __135__ [d]

3a. Number freshening in 1988   __10__ [e]

  b. Basis per animal (1b.)   x __135__

  c. Basis of animals freshening in 1988 (3a. x 3b.)   = __1350__ [e]

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[a] Per animal
[b] To form 1040F
[c] To form 4684
[d] To form 4797
[e] To depreciation schedule

Name _____ SAMPLE _____

Table 5.   CAPITALIZATION SCHEDULE FOR HEIFERS <u>BORN IN 1986</u>

1987 Data

1a.	Number born in 1986 and in inventory 12/31/87		43
b.	1987 capitalization value[a]	x 270	
c.	Total amount capitalized for 1987 (1a. x 1b.)		11610 [c]

1988 Data

2a.	Basis per animal (1b.)		270	
b.	Number died in 1988		x 1	
c.	Basis of animals died in 1988 (2a. x 2b.)			- 270 [d]
d.	Number sold in 1988		x 2	
e.	Basis of animals sold in 1988 (2a. x 2d.)			- 540 [e]
3a.	Number freshening in 1988	25 [f]		
b.	Basis per animal (from 1b.)	x 270		
c.	12/31/87 basis of freshening animals[b] (3a. x 3b.)		6750	- 6750
d.	1988 capitalization value[a]	135		
e.	1988 capitalization of freshening animals (3a. x 3d.)		+ 3375	
f.	Basis of animals freshening in 1988 (3c. + 3e.)		= 10125 [f]	
4.	Basis prior to 1988 capitalization (1c.-2c.-2e.-3c)			= 4050
5a.	Number in inventory 12/31/88 (1a.-2b.-2d.-3a.)	15		
b.	1988 capitalization value[a]	x 135		
c.	1988 capitalization of remaining heifers[b] (5a. x 5b.)		2025	+ 2025
d.	1988 capitalization of freshening animals (3e.)		+ 3375	
e.	Total amount capitalized for 1988 (5c. + 5d.)		= 5400 [c]	
6.	Heifer basis 12/31/88 (4 + 5c.)			= 6075

1989 Data

7a.	Basis per animal (6/5a.)		405	
b.	Number died in 1989		x 2	
c.	Basis of animals died in 1989 (7a. x 7b.)			- 810 [d]
d.	Number sold in 1989		x 2	
e.	Basis of animals sold in 1989 (7a. x 7d.)			- 810 [e]
8a.	Number freshening in 1989		11 [f]	
b.	Basis per animal (7a.)		x 405	
c.	Basis of animals freshening in 1989 (8a. x 8b.)			= 4455 [f]

[a] Per animal
[b] Enter on both lines
[c] To form 1040F
[d] To form 4684
[e] To form 4797
[f] To depreciation schedule

Name **SAMPLE**

Table 6. CAPITALIZATION SCHEDULE FOR HEIFERS <u>BORN IN 1987</u>

1987 Data

1a.	Number born in 1987 and in inventory 12/31/87		40	
b.	1987 capitalization value[a]		x 135	
c.	Total amount capitalized for 1987 (1a. x 1b.)			5400 [c]

1988 Data

2a.	Basis per animal (1b.)			135	
b.	Number died in 1988			x 3	
c.	Basis of animals died in 1988 (2a. x 2b.)				- 405 [d]
d.	Number sold in 1988			x 2	
e.	Basis of animals sold in 1988 (2a. x 2d.)				- 270 [e]
3a.	Number freshening in 1988	2 [f]			
b.	Basis per animal (1b.)	x 135			
c.	12/31/87 basis of freshening animals[b] (3a. x 3b.)		270		- 270
d.	1988 capitalization value[a]	270			
e.	1988 capitalization of freshening animals (3a. x 3d.)		+ 540		
f.	Basis of animals freshening in 1988 (3c. + 3e.)		= 810 [f]		
4.	Basis prior to 1988 capitalization (1c.-2c.-2e.-3c.)				= 4455
5a.	Number in inventory 12/31/88 (1a.-2b.-2d.-3a.)	33			
b.	1988 capitalization value[a]	x 270			
c.	1988 capitalization of remaining heifers[b] (5a. x 5b.)		8910		+ 8910
d.	1988 capitalization of freshening animals (3e.)		+ 540		
e.	Total amount capitalized for 1988 (5c. + 5d.)		= 9450 [c]		
6.	Heifer basis 12/31/88 (4 + 5c.)				= 13365

1989 Data

7a.	Basis per animal (6/5a.)		405	
b.	Number died in 1989		x 2	
c.	Basis of animals died in 1989 (7a. x 7b.)			- 810 [d]
d.	Number sold in 1989		x 4	
e.	Basis of animals sold in 1989 (7a. x 7d.)			- 1620 [e]
8.	Basis prior to 1989 capitalization (6-7c.-7e.)			= 10935
9a.	1989 capitalization value[a]		135	
b.	Number of heifers remaining (5a.-7b.-7d.)		x 27	
c.	Total amount capitalized for 1989 (9b. x 9c.)			+ 3645 [c]
10.	Total basis (8 + 9c.)			= 14580
11a.	Number freshening in 1989		20 [f]	
b.	Basis per animal (10/9b.)		x 540	
c.	Basis of animals freshening in 1989 (11a. x 11b.)			- 10800 [f]
12a.	Number in inventory 12/31/89 (9b. - 11a.)		7	
b.	Heifer basis 12/31/89 (10 - 11c.)			= 3780

1990 Data

13a.	Basis per animal (12b./12a.)		540	
b.	Number died in 1990		x 1	
c.	Basis of animals died in 1990 (13a. x 13b.)			- 540 [d]
d.	Number sold in 1990		x 1	
e.	Basis of animals sold in 1990 (13a. x 13d.)			- 540 [e]
14a.	Number freshening in 1990 (12a.-13b.-13d.)		5 [f]	
b.	Basis of animals freshening in 1990 (12b.-13c.-13e.)			= 2700 [f]

[a] Per animal; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depreciation schedule

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 to record annual heifer data to be used on the capitalization schedules for each birth year group. Once the data on the capitalization schedules are calculated for each group for a year, the footnotes indicate which numbers are to be transferred to IRS forms for capitalization and cost recovery.

HEIFER INVENTORY DATA SHEET
RAISED HEIFERS (1987-90)

1987 Data	Total Heifers	Heifers Born in 1987	1986	1985
End Inventory 12/31/87	_____	_____	_____	_____

1988 Data	Total Heifers	1988	Heifers Born in 1987	1986	1985
Beg. Inventory 12/31/87	_____		_____	_____	_____
No. died in 1988	_____		_____	_____	_____
sold in 1988	_____		_____	_____	_____
fresh in 1988	_____		_____	_____	_____
raised in 1988	_____	_____			
End Inventory 12/31/88	_____	_____	_____	_____	_____

1989 Data	Total Heifers	1989	Heifers Born in 1988	1987	1986
Beg. Inventory 12/31/88	_____		_____	_____	_____
No. died in 1989	_____		_____	_____	_____
sold in 1989	_____		_____	_____	_____
fresh in 1989	_____		_____	_____	_____
raised in 1989	_____	_____			
End Inventory 12/31/89	_____	_____	_____	_____	_____

1990 Data	Total Heifers	1990	Heifers Born in 1989	1988	1987
Beg. Inventory 12/31/89	_____		_____	_____	_____
No. died in 1990	_____		_____	_____	_____
sold in 1990	_____		_____	_____	_____
fresh in 1990	_____		_____	_____	_____
raised in 1990	_____	_____			
End Inventory 12/31/90	_____	_____	_____	_____	_____

HEIFER INVENTORY DATA SHEET
RAISED HEIFERS (AFTER 1990)

19__ Data	Total Heifers	Heifers Born in			
		19__	19__	19__	19__
Beg. Inventory 12/31/__	_____		_____	_____	_____
No. died in 19__	_____		_____	_____	_____
sold in 19__	_____		_____	_____	_____
fresh in 19__	_____		_____	_____	_____
raised in 19__	_____	_____			
End Inventory 12/31/__	_____	_____	_____	_____	_____

19__ Data	Total Heifers	Heifers Born in			
		19__	19__	19__	19__
Beg. Inventory 12/31/__	_____		_____	_____	_____
No. died in 19__	_____		_____	_____	_____
sold in 19__	_____		_____	_____	_____
fresh in 19__	_____		_____	_____	_____
raised in 19__	_____	_____			
End Inventory 12/31/__	_____	_____	_____	_____	_____

19__ Data	Total Heifers	Heifers Born in			
		19__	19__	19__	19__
Beg. Inventory 12/31/__	_____		_____	_____	_____
No. died in 19__	_____		_____	_____	_____
sold in 19__	_____		_____	_____	_____
fresh in 19__	_____		_____	_____	_____
raised in 19__	_____	_____			
End Inventory 12/31/__	_____	_____	_____	_____	_____

CAPITALIZATION SCHEDULE FOR HEIFERS *BORN IN 1985*

1987 Data

1a. Number born in 1985 and in inventory 12/31/87 _____

  b. 1987 capitalization value[a] x_____

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

- -

1988 Data

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

  b. Number died in 1988 x_____

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

  d. Number sold in 1988 x_____

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

3a. Number freshening in 1988 _____ e

  b. Basis per animal (1b.) x_____

  c. Basis of animals freshening in 1988 (3a. x 3b.) =_____ e

---

[a] Per animal
[b] To form 1040F
[c] To form 4684
[d] To form 4797
[e] To depreciation schedule

CAPITALIZATION SCHEDULE FOR HEIFERS <u>BORN IN 1986</u>

1987 Data

1a.   Number born in 1986 and in inventory 12/31/87   _____

b.   1987 capitalization value[a]   x _____

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

1988 Data

2a.   Basis per animal (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.   1988 capitalization value[a]   _____

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

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

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 _____

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

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

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

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

8a.   Number freshening in 1989   _____ f

b.   Basis per animal (7a.)   x _____

c.   Basis of animals freshening in 1989 (8a. x 8b.)   = _____ f

[a] Per animal
[b] Enter on both lines
[c] To form 1040F
[d] To form 4684
[e] To form 4797
[f] To depreciation schedule

CAPITALIZATION SCHEDULE FOR HEIFERS <u>BORN IN 1987</u>

1987 Data

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

b. 1987 capitalization value[a] x_____

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

- -

1988 Data

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

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

d. 1988 capitalization value[a] _____

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

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

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_____

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

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

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

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. 1989 capitalization value[a] _____

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

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

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

11a. Number freshening in 1989 _____ f

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

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

12a. Number in inventory 12/31/89 (9b. - 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; [b] Enter on both lines; [c] To form 1040F; [d] To form 4684; [e] To form 4797; [f] To depr. sch.