



# Master Cattleman Quarterly

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As the end of 2020 draws near, it is time to finish the last bits of your operation tasks. Since many of these tasks include tax planning ramifications, here is a brief summary of some of the topics to discuss with your tax preparer before 2021 arrives.

## 1099s

As with every year, 1099s are a requirement by law. Farmers and ranchers are required to issue 1099s for any cumulative payments of \$600 or more made in the course of business to a specific entity. Corporations do not receive 1099s, including LLCs that are taxed as corporations. Sole Proprietors, Partnerships, and LLC Partnerships all need 1099s when they hit the monetary threshold. Taking time to gather the necessary identification numbers, EIN or SSN, and calculating amounts should move towards the top of the laundry list. Three of the most missed are for cash rent paid, attorney fees, and non-employee compensation. You can read more on the IRS website <https://www.irs.gov/forms-pubs/about-form-1099-misc>.

## Prepaid Expenses

If your projected farm income appears high for 2020, looking into prepaid expenses can help with tax planning. Three basic tests apply to availability. First, the expenditure must be for an actual purchase and cannot be a deposit to buy items in the future. Sec-

## Year-end Tax Planning

*Roger Sahs, Oklahoma State University Extension Specialist*

ond, the expenditure must be for a business purpose and not merely to avoid taxes. For example, contracting fertilizer due to the expectation of rising costs probably fits this test. The main point is that when asked about why you purchased this prepaid expense, you have a justified business purpose that drove the decision, not just wanting "to avoid paying taxes." Finally, the expenditure must not result in a material distortion of income. IRS [publication 225](#) goes into detail on the topic of prepaid expenses.

## Constructive Receipts

If you work in agriculture, something like this has likely happened to you at some point. On December 15, you send out an invoice for custom work you did for a neighbor. As you patiently wait for the check to arrive in the mail, time moves forward. January 1 rolls around and like the excellent bookkeeper you are, you finalize the prior year's books so you are ready to file taxes. Then on January 28, the unthinkable happens. Your neighbor sends a payment for the invoice you mailed him, but is dated December 31. He backdated the check. What do you do? You may think you need to go back and adjust all your prior year closing transactions to account for this payment. Oh, the agony! However, if you are a cash-basis taxpayer, there is a different way to manage this.



## Year End Tax Planning (Cont.)

If you do not have access to the payment, receipt of that payment can be postponed until you do have access. In our example the check was backdated to December; however, the custom operator did not have the ability to cash and use that check until January. Under constructive receipts, you can claim the payment as January income. Just make sure you keep the envelope it came in as a supporting document showing the date postmarked. The key to using a constructive receipt is understanding when the amount was made available without restriction. To read more about the topic, see [IRS section 1.451-2](#).

### Government Payments

This topic is somewhat complicated. With multiple direct payments, loans, and grants issued during 2020 it may take some time to sort it all out. You may have Coronavirus Food Assistance Program 1 and 2 payments to consider. Paycheck Protection Program, Economic Injury Disaster Loans, Employee Retention Credit, and Livestock Producer Stabilization Grants are also potential talking points. Some are grants with forgiven por-

tions, others are loans that must be paid back, and finally, some are direct payments. The IRS has made some comments on most of these, but a few of them are still being debated as to if they are treated as taxable income. It is a good idea to create a summary sheet of all the different types of payments received in 2020 with supporting documents in an easily accessible folder. Once a list is prepared and you have estimated production income and expenses for 2020, schedule a meeting with your tax preparer. Giving time to digest all of the gears and cogs that apply to 2020 will give you a better understanding of what tax planning tools need to be utilized that makes good business sense.

In summary, if you wish to get the most *bang-for-your-buck* out of taxes, try to get your information together early and schedule a meeting with your tax preparer. The time devoted to the effort will be worth it. Article excerpts provided by Austin Duerfeldt, University of Nebraska-Lincoln, "Tax Planning 2020", Cornhusker Economics Newsletter.

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## Beef Demand is a Mixed Bag in Late 2020

*Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist*

At the end of November, weekly wholesale Choice boxed beef price was \$243.35/cwt., up 4.8 percent year over year from \$232.36 one year ago. Current boxed beef prices indicate somewhat surprising strength in beef given the challenges that persist in food markets. Boxed beef markets have been quite volatile in the second half of the year with the current peak up from a recent low one month earlier of \$207.15/cwt. in late October. The October low was down from a late August peak of \$229.91/cwt., which followed from the yearly low of \$201.24/cwt. in mid-July.

The current strength of boxed beef prices, does however, mask some issues that remain in

food service markets. The pandemic in 2020 has dramatically highlighted the importance and differences in the twin branches of food service and retail grocery markets. Continued restrictions on food service and the stacking of beef demand on retail grocery has different impacts on various beef product markets. Winter beef demand is focused more on restaurant traffic, compared to summer grilling activities, along with roast and crock-pot cooking. Figure 1 shows how wholesale prices for selected beef products at the end of November compare to the same time last year. Percent changes in those prices are presented in Table 1.

Beef Demand is a Mixed Bag in Late 2020 (cont.)

Table 1. Wholesale Choice Beef Prices, Selected Products, End of November, Year over Year Change								
	Ribeye	Strip Loin	Chuck Roll	Sirloin Tri-Tip	Eye of Round	Petite Tender	Tenderloin	Brisket
% change YOY	+26	+21	+12	+21	+21	-23	-14	-11

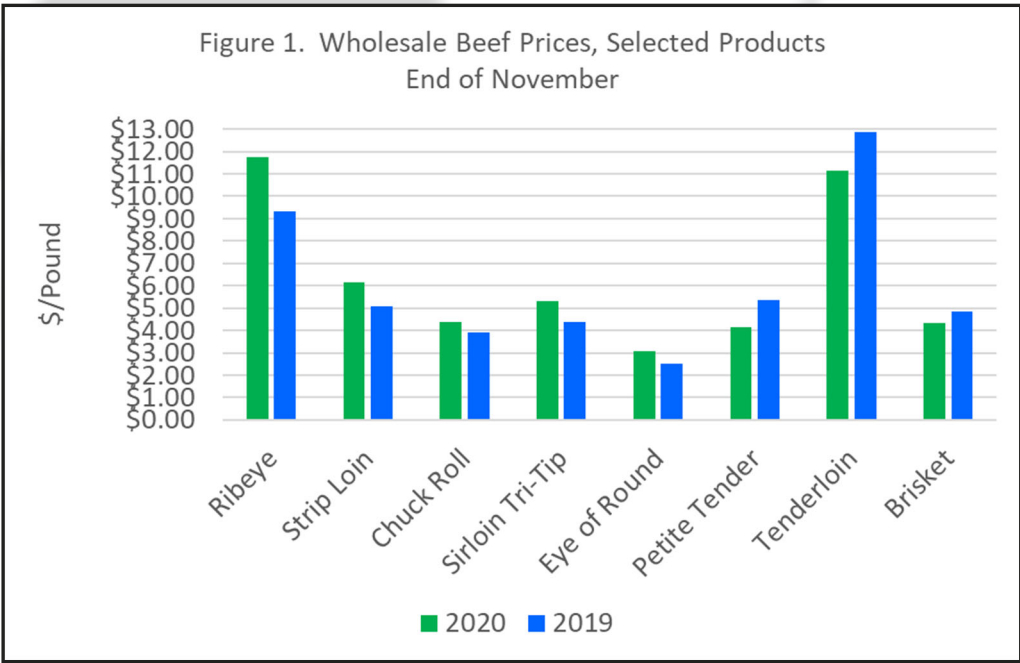
The ribeye market is a key beef demand indicator this time of year given the popularity of Prime Rib for the holidays. Ribeye prices are very strong, up 26 percent year over year. Ribeyes are important food service menu items but are also featured in retail grocery cases. Strip loins are popular steak items in retail grocery as well as food service and are up this year by 21 percent compared to last year. Similarly, sirloin is popular in retail grocery and is also up 21 percent year over year. End meats from the chuck and round are higher this year with, for example, chuck roll up 12 percent and eye of round up 21 percent compared to one year ago. This likely reflects stronger retail grocery demand for value cuts, roasts, and ground beef at supermarkets.

In contrast, Figure 1 and Table 1 show that beef products heavily dependent on food service demand are struggling at the current time. Beef

tenderloin is almost exclusively a restaurant menu item and is down 14 percent year over year.

Brisket, very popular in barbeque restaurants and for corned beef in delis, is down 11 percent from one year ago. The Petite Tender, a small steak from the shoulder clod used almost exclusively in food service, is down 23 percent year over year. It is interesting that strip loin and tenderloin, both from the loin primal show different prices compared to last year because one is more

of a retail grocery product and the other is mostly a restaurant menu item. It is also very interesting that price for the short loin, an alternative fabrication, which consists of the strip loin and the tenderloin in a



bone-in loin subprimal from which T-bone and Porterhouse steaks are cut, are up 6.2 percent year over year. This is likely because retail grocery is more inclined to sell tenderloin as T-bone or Porterhouse steaks rather than as boneless Filet Mignon.

## Body condition score at calving is key to young cow success

*Glenn Selk, Oklahoma State University Emeritus Extension Animal Scientist*

Body condition impacts the length of the post partum anestrus period, i.e. days from calving to first heat cycle. This, in turn, greatly affects the percentage of cows rebreeding in a defined 60 to 90 day breeding season.

Research data sets have shown conclusively that young cows that calve in thin body condition but regain weight and condition going into the breeding season do not rebreed at the same rate as those that calve in good condition and maintain that condition into the breeding season. The following table illustrates the predicted number of days between calving to the return to heat cycles depending on body condition of two-year olds at calving and body condition change after calving.

Notice that none of the averages for cows that calved in thin body condition were recycling in time to maintain a 12 month calving interval. Cows must be rebred by 85 days after calving to calve again at the same time next year. This data clearly points out that young cows that calve in thin body condition (BCS=3 or 4) cannot gain enough body condition after calving to achieve the same re-breeding performance as two-year old cows that calve in moderate body condition (BCS = 5.5) and maintain or lose only a slight amount of condition. The moral of this story is: "Young cows must be in

good (BCS = 5.5 or better) body condition at calving time to return to estrus cycles soon enough after calving to maintain a 365 day calving interval."

Oklahoma scientists used eighty-one Hereford and Angus x Hereford heifers to study the effects of body condition score at calving and post-calving nutrition on rebreeding rates at 90 and 120 days post-calving. Heifers were divided into two groups in November and allowed to lose body condition or maintain body condition until calving in February and March. Each of those groups was then re-divided to either gain weight and body condition post-calving or to maintain body condition post-calving.

Figure 1 illustrates the change in body weight of heifers that calved in a body condition score greater than 5 or those that calved in a body condition score less than or equal to 4.9. The same pattern that has been illustrated in the other experiments is manifest clearly with these heifers. Thin heifers that were given ample opportunity to regain weight and body condition after calving actually weighed more and had greater body condition by eight weeks than heifers that had good body condition at calving and maintained their condition into and through the

	Body Condition Score Change in 90 Days After Calving						
Condition score at calving	-1	-.5	0	+.5	+1.0	+1.5	+2.0
BCS = 3	189 d	173 d	160 d	150 d	143 d	139 d	139 d
BCS = 4	161 d	145 d	131 d	121 d	115 d	111 d	111 d
BCS = 5	133 d	116 d	103 d	93 d	86 d	83 d	82 d
BCS = 5.5	118 d	102 d	89 d	79 d	72 d	69 d	66 d

*Predicted number of days (d) from calving to first heat as affected by body condition score at calving and body condition score change after calving in two-year-old beef cows. (Body condition score scale: 1 = emaciated; 9 = obese) Source: Lalman, et al. 1997*



## Body condition score at calving is key to young cow success (cont.)

breeding season. However, rebreeding performance (on the right side of the legend of the graph) was significantly lower for those that were thin (67%) at parturition compared to heifers that were in adequate body condition at calving and maintained condition through the breeding season (91%). Again post-calving increases in energy and therefore weight and body condition gave a modest improvement in rebreeding performance, but the increased expense was not adequately rewarded. The groups that were fed to "maintain" post-calving condition and weight received 4 lb of cottonseed meal supplement (41% Crude Protein) per day. The cows in the "gain" groups were fed 28 lb/day of a growing ration (12%

CP). Both groups had free choice access to grass hay (personal communication). The improvement in reproductive performance (67% pregnant vs 36% pregnant) of the thin two-year-old heifers may not be enough to offset the large investment in post-calving feed costs. Pre

-calving feed inputs required to assure the heifers were in adequate body condition at calving would be substantially less than the feed cost per head that was spent on the thin heifers after calving.

These data sets have shown conclusively that young cows that calve in thin body condition but regain weight and condition going into the breeding season do not rebreed at the same rate as those that calve in good condition and maintain that condition into the breeding season. Make certain this winter that the supplement program is adequate for your young cows to be in good body condition next spring.

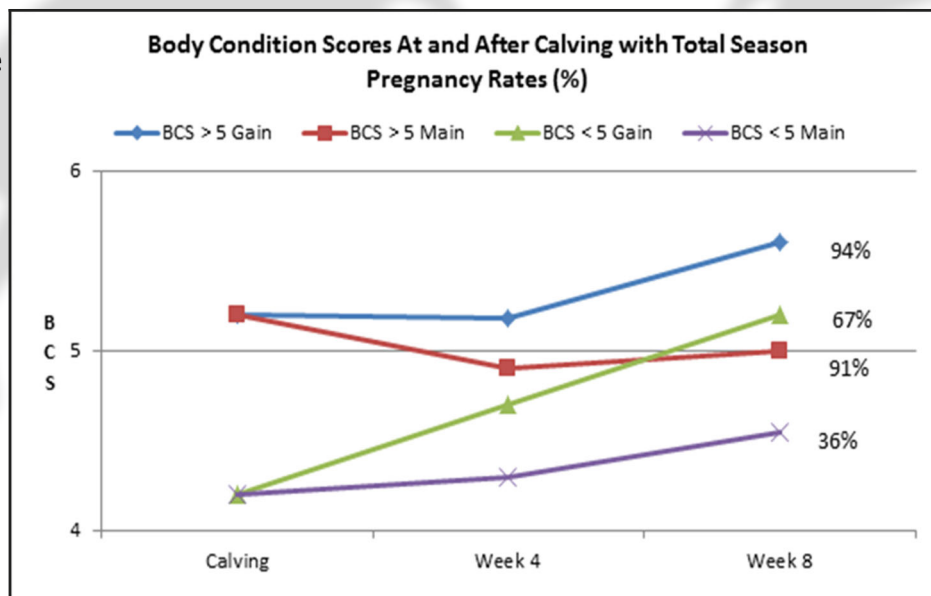


Figure 1. Post-calving body condition change of heifers with body condition >5 or <5 at calving and fed to gain or maintain weight. 120 day pregnancy rates (%) are indicated on the right side of the graph lines. Bell, et al. 1990

### Some amazing facts about cows:

- There are about 350 udder squirts in a gallon of milk.
- Cows have an excellent sense of smell and can detect odors up to six miles away.
- Cows like to sleep close to their families, and sleeping arrangements are determined by individuals' rank in the social hierarchy.
- Cattle have almost 360° panoramic vision. This helps them to see predators coming from any direction.

## Good Records and Benchmarking – An Opportunity

*Courtney Bir, Farm Management Extension Specialist and Kellie Curry Raper, Livestock Marketing Economist*

If you have received this newsletter for very long, you may have noticed that we discuss the importance of record-keeping at least once a year. Record-keeping on the farm is sometimes viewed as a hassle, but good record-keeping is good business. A good set of production, management and financial records can enhance decision making by providing production benchmarks and documenting impacts of management changes. What worked? What didn't? Benchmarking is the process of comparing your own organization, its operations or processes against other organizations in your industry. It enables a mindset and culture of continuous improvement. Good records also facilitate loan applications and reporting. Building good record-keeping habits also makes pulling together paperwork for programs such as the Coronavirus Food Assistance Program (CFAP), the Paycheck Protection Program (PPP) or the Livestock Indemnity Program (LIP) easier when the unexpected strikes and deadlines are short.

Chapter 4 in the Beef Cattle Manual, as well as other resources listed below, discuss important financial and production measures to track for cattle operations. Common financial measures such as liquidity, solvency, profitability, repayment capacity and efficiency can be evaluated to determine the financial health of your ranch. Detailed instructions for interpretation and calculations can be found in fact sheets AGE-790 and AGE-237. The beef cow-calf standardized performance analysis (SPA) can help you better understand your production stats and, when calculated correctly, can be used to compare your ranch's performance against others. SPA outlines how to determine pregnancy percentage, calving percentage, calf death loss, calf crop or weaning percentage, actual weaning weights, and some financial results. Financial results include investment per breeding cow, unit cost of weaned calf production, and economic return. Detailed instruction on SPA calculations can be found in fact sheets AGE-222 and AGE-232. Your results can be compared to oth-

ers in the Southwest which includes New Mexico, Oklahoma and Texas, available at <https://agecoext.tamu.edu/programs/management-programs/beef-cattle-standard-performance-analysis-spa/>.

FINBIN (<https://finbin.umn.edu>) is a free resource that allows you to compare your operation against other ranches for many of those same production measures as well as for financial statistics. FINBIN is one of the largest and most accessible sources of farm financial and production benchmark information in the world, providing detailed reports about whole farm, crop and livestock financials. Financial measurements that can be compared include direct expenses, overhead expenses, and cost of production. Production information for comparison includes pregnancy percentage, average weaning weight, death loss percentages and other important measures. FINBIN also supports benchmarking for many other farm or ranch enterprises, including beef operations beyond the cow-calf production stage.

There are many different ways to approach record-keeping ranging from low tech to high tech. Have a pen and notebook that you leave in your truck? You can use that to keep records. With many places currently decreasing face-to-face contact, the idea of having electronic records that can be easily sent to lenders and other parties has added appeal. There are many options for online or phone app related record-keeping. The important thing is to find one that works for you. Considerations when choosing a record-keeping option should extend beyond convenience. You should also ask questions regarding the level of technical support the company provides, what type of devices the tool runs on, and of course any associated costs. Some record-keeping sources are listed at <https://extension.okstate.edu/fact-sheets/cow-calf-production-record-software.html>, although there are many new options entering the market place. One free option for beginning

## Good Records and Benchmarking – An Opportunity (cont.)

balance sheets includes FINPACK which is available at <http://z.umn.edu/finpacklite>. Whichever service you decide to use, it is important to remain consistent within your own records.

Also, we are excited to announce that OSU Extension's State and Area agricultural economists with interest in farm financial analysis recently received grant funds and training in FINPACK to begin assisting producers with farm financial plans here in Oklahoma. These will ultimately become part of FINBIN database. (Note: Individual producer information is unavailable in FINBIN and is strictly protected.) The pilot program in Oklahoma includes helping farmers and ranchers complete beginning balance sheets. If interested, producers can also receive assistance in completing full financial plans that would be added to the FINBIN database, which should be very useful to Oklahoma producers, particularly as more producers in the state participate increasing the base of comparison. Beginning balance sheets are a great place to start because they are also useful for farmers and ranchers as they try to secure loans or support program funds. For more information or to take part in this farm financial support program, contact Dr. Courtney Bir at [courtney.bir@okstate.edu](mailto:courtney.bir@okstate.edu) or 405-744-9813.

Meanwhile, you've probably noticed that economists like to assign value to action (or inaction) whenever possible. While it might be difficult to assign a specific value to record keeping, it makes an important contribution to your operation. What useful information are you missing out on that might improve decision making – and ultimately the bottom line? What can you learn from comparing your operation's data to others? *Invest in knowledge* about your farm or ranch and reap the benefits. It can be a bit time consuming, but it is a critical task. So grab a notebook or a computer and get started!

*Beef Cattle Manual, Seventh Edition*, eds. D. Lalman and D. Doye, Oklahoma Cooperative Extension Service, Oklahoma State University, Stillwater, Oklahoma. November 2015.

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Doye, Damona. "Farm and Ranch Stress Test." Oklahoma Cooperative Extension Service Fact Sheet, AGE-237. May 2018. Available at <https://extension.okstate.edu/fact-sheets/farm-and-ranch-stress-test-2.html>

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"An investment in knowledge pays the best interest." – Benjamin Franklin

## Rancher's Thursday Lunchtime Series

*David Lalman, Beef Cattle Extension Specialist and Kellie Curry Raper, Livestock Marketing Specialist*

If you haven't yet tuned in to the live webinars of the OSU Beef Extension Team's **Rancher's Thursday Lunchtime Series**, we encourage you to check them out. Join our Beef Cattle Extension team, experienced livestock marketers and ranchers to learn and share beef cattle production, management and marketing tips. Webinars are conducted through the Zoom portal and are approximately 1 hour long. Previous series' topics have ranged from VAC45 program opportunities and considerations, forage management, alfalfa management for beef cattle production, cattle health, and cattle on wheat and small grains. Videos and presentation slides of previous presentations can be accessed for free at <http://beef.okstate.edu/ranchers-thursday-lunchtime-series>. The live webinars are also free, but registration is required. The current series topics focus on the latest in heifer selection, development and breeding. Pre-register for the

January webinars at <http://beef.okstate.edu/>

This will register you for the heifer development series and you will receive reminders about the seminars as well as information on upcoming series when those are announced. For more information, contact [Dave Lalman](#), Extension beef cattle specialist, 405-744-6060 or [david.lalman@okstate.edu](mailto:david.lalman@okstate.edu).

- Thursday, January 7, 2021 | 12:30 p.m. Sire Selection to Minimize Dystocia and Improve Performance- Mark Johnson, Oklahoma State University
- Thursday, January 14, 2021 | 12:30 p.m. The Latest in Synchronization and AI Tools/Systems - Jordan Thomas, University of Missouri
- Thursday, January 21, 2021 | 12:30 p.m. Managing First-Calf Heifers Through the Second Breeding Season- Dr. Adam Bassett, DVM, Oklahoma State University College of Veterinary Medicine



OSU EXTENSION  
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