

# 10 Smart End-of-the-Year Investments During Good Dairy Years

COOPERATIVE  
EXTENSION  
SERVICE

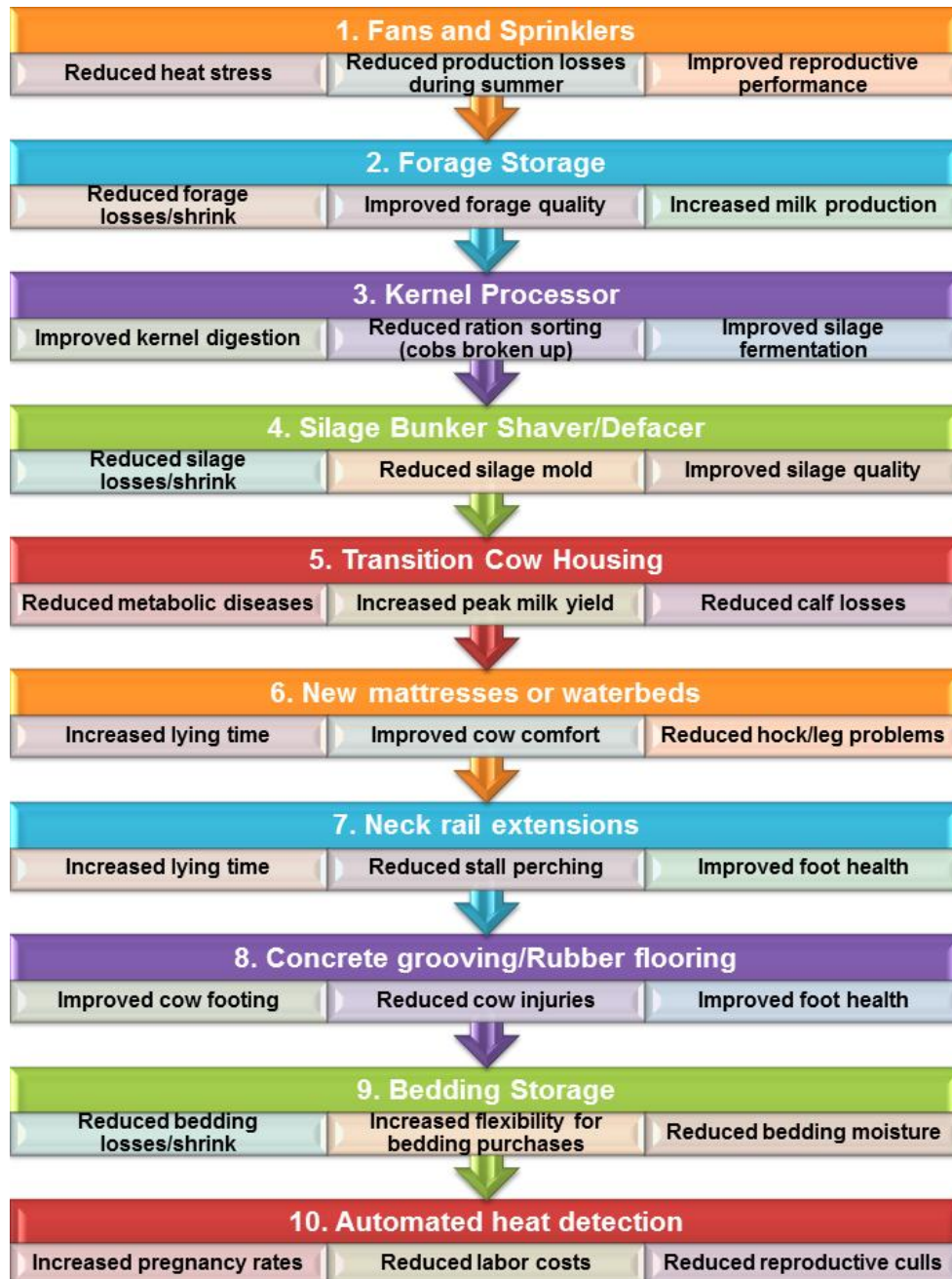


By: Jeffrey Bewley, Ph.D.

A few years ago, I had a fun debate with a dairy producer about ways to avoid paying taxes at the end of a good year. This producer just couldn't stand the thought of paying taxes at the end of the year and wanted to do everything he could to avoid it. My response to him was that it's actually a good thing when you have to pay taxes at the end of the year because that means you actually made money that year. It's been a few years since we could even have this kind of debate. But, I've talked with enough farmers to recognize that this is a valid question again this year. Yes, feed prices are ridiculously high and many farms are still digging out of a hole; but milk prices have been good this year. Farms with low debt loads and reasonably high milk production have made money this year.

So, the question is coming up again "what can I do to avoid paying taxes?" Perhaps the question should be rephrased to "what can I do to minimize my taxes?" Trying to avoid paying taxes might result in a change of address to a prison. However, minimizing tax obligations through legal, smart investments is good business. But, the first temptation is to buy a new truck or a new toy (boats, electronic gadgets, etc.). Remember that tax savings will never make an unprofitable investment profitable. While those purchases may fulfill the goal of minimizing tax obligations they often erode future financial success. A new truck or toy doesn't do much toward ensuring the future financial success of the operation. And, if they result in a new loan, they may even come back to haunt in future, leaner years. The key to minimizing tax obligations is to make smart end-of-the-year investments. Invest in productive assets that are going to increase future profitability. Look for items with a high return on investment. Ask yourself "how much more milk will I get if I invest in this?" Use the cushion created in a good year to minimize the pain in bad years. Following is a list of items that are likely to result in a high return on investment along with their potential benefits. These may be good options to consider purchasing at the end of the year. These may not fit every farm situation. And, there are many other possibilities to add to this list. This year challenge yourself to look for items that will add more money to your bottom line in future years while searching for those opportunities to spend a little money at the end of the year.

## 10 Smart End-of-the-Year Investments During Good Dairy Years



Educational programs of Kentucky Cooperative Extension serve all people regardless of race, color, age, sex, religion, disability, or national origin.