

# Master Marketer Newsletter

[Http://mastermarketer.tamu.edu](http://mastermarketer.tamu.edu)

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Texas Cooperative Extension, The Texas A&M University System

## Master Marketer Highlights

### Amarillo Master Marketer Program

The third Amarillo Master Marketer class will be almost completed when you read this newsletter. This will bring the total number of Amarillo Master Marketer graduates to about 170. The Master Marketer program continues to have a strong influence on the high plains region of Texas.

### Master Marketer for Ag Lenders in San Antonio in June

The Master Marketer for Ag Lenders will be taught for the second time this June. It is an in-depth risk management program designed specifically for lenders who work with agricultural producers and agribusinesses. It will focus on understanding price risk and the tools that can be used to manage it.

The four-day course will be presented in San Antonio at the St Anthony Hotel in two sessions of two days each (June 12-13, June 26-27, 2002). On June 11, the day prior to the first session, an optional futures and options workshop will be offered for anyone who wants to increase or refresh their understanding of futures and options before the start of the course.

This course was taught in Amarillo in June 2001 and will be offered in the future at some location around the state each year. You will be receiving a letter and a brochure about the program as we hope you will help encourage agricultural lenders in your area to attend.

### Vernon\Abilene Update Meeting

On March 6, 2002, Mr. Dave Weaber, will be the headline speaker for the Master Marketer Update program in Vernon at the A&M Research and Extension Center. This program is specifically designed for Master Marketer graduates but is open to anyone interested. Mr. Weaber is the Director for Research and Special Projects with CattleFax in Denver, Colorado. There will be market updates for wheat and grains by Dr. Mark Waller as well as a presentation on the current status of the farm bill by Dr. Joe Outlaw. Advanced registration is required and the registration fee is \$50. Interested persons can mail their check to: Stan Bevers, Extension Economist, P.O. Box 2159, Vernon, TX 76385. For more information, please call Stan or Rob Borchardt at (940) 552-9941.

### Evaluation of 2000 Lubbock Program

The graduates of the Lubbock Master Marketer class of 2000 will be asked to help evaluate the impact of the Master Marketer program on them. During the summer of 2002, all the Lubbock 2000 graduates will receive a questionnaire to fill out and return. The results will be used to measure the economic and educational impact of the program. It is very important that these questionnaires are completed and mailed back. The Master Marketer program will be returning to Lubbock for the third time in the winter of 2003.

### Tomorrow's Top Ag Producers (TTAP)

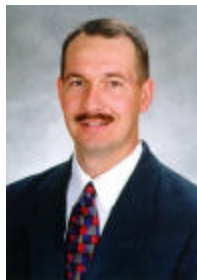
The first TTAP course will be offered over a 15 month period (4 sessions) beginning in November 2002. This will be a very in-depth program for new producers to help develop their business management skills. You will be hearing more about this ambitious new program.

### Advanced Topics Series

In the winter of 2003, another new component of the overall Master Marketer plan will be initiated. Each year, a set of in-depth workshops addressing some selected issues will be offered at multiple locations around the state. Workshops such as advanced technical analysis or advanced futures and options will be selected and developed to meet the needs of Master Marketer graduates and other producers who are already well-versed in the subject area.

### **Marketing Club Corner**

By Rob Borchardt  
Statewide Marketing Club  
Coordinator  
P.O. Box 2159  
Vernon, TX 76385-2159  
(940) 552-9941



First of all, let me say a word of thanks to all of you who have worked so hard to develop marketing clubs in your county. I have had the privilege of working with some fantastic producers and county Extension agents who have helped educate others and multiplied the efforts of the Master Marketer Program. For every Master Marketer graduate that I have worked with, there are many more that have gone out on their own to start or be involved in marketing a club activity. With today's hectic business and personal schedules, it takes a tremendous amount of commitment to be involved in volunteerism of any kind. Thanks again for fulfilling your commitment and proving to our sponsorship that their money was well spent!

Recently, an informal survey of successful marketing clubs was conducted in Texas, Montana and Minnesota. The goal of this survey was to determine the characteristics of "successful" marketing clubs and what similarities exist among these clubs. The clubs in each state were selected based on their longevity and educational focus. While the results were not surprising, they did confirm what we suspected. A summary of the results is presented in the following table.

	<b>TX</b>	<b>MT</b>	<b>MN</b>	<b>All</b>
Ave. number of years the club has been meeting	8.5	10	4	7
Ave. number of members on the role	14	26	20	20
Ave. number of regular attendees	9	13	12	11
Ave. length of meetings (hours)	1.5	2	1.5	1.5
Ave. frequency of meetings per month	2.4	1.2	1.8	1.8
Number of clubs that traded as a group	3	1	1	5
Ave. success rating of trading as a group (scale 1-7)	4	5	7	4.8
Ave. success rating of the role of the facilitator	6	6.2	6.4	6.2
Ave. success rating of their increase in knowledge (scale 1-7)	6.6	6.3	6.4	6.4

There are several interesting characteristics that are worth pointing out. First, while the average club in all states has met for 7 years, almost 60% of all clubs surveyed have met for less than 3 years. The point is that while clubs that have met for a long time would most likely be considered "successful", there are also many "successful" clubs that serve their purpose in a much shorter timeframe. The range in Texas is 2 years to 20 years. Second, these successful clubs meet about every other week. It should also be pointed out that, for the most part, these clubs do not meet all year long. In general, they don't meet during planting or harvesting, but once the field and livestock work is done, they meet more frequently rather than less. Finally, it should be noted that while the individuals surveyed generally were the club leaders, they still indicated a high degree of increase in knowledge as a result of being a part of a marketing club.

Let me close by reminding you about the award that has been established for county Extension agents. The **Master Marketer Team** is sponsoring an annual **\$500 cash award** to a county Extension agent who has significantly enhanced marketing education at the county level by facilitating one or more marketing clubs. Financial support for the award will be provided by Aventis. The purpose of this award is to recognize Extension agents who have developed and/or supported innovative educational programs through their involvement with county-based marketing clubs. If you would like to nominate your Extension agent, go to the Master Marketer website at <http://mastermarketer.tamu.edu> and follow the link to **Agent Award for Marketing Clubs**. Print the nomination form and mail or e-mail it to me by April 30, 2002.

## Guest Column

Wayne Hayenga  
Professor and Extension Economist  
Department of Ag. Economics  
Texas A&M University  
College Station, TX 77813-2124

### Tax Issues of Hedging and other Marketing Transactions

Tax regulations allow farmers to treat a commodity market transaction as a hedge as long as it reduces risk the producer faces in the farming business.

To qualify a commodity futures or option contract as a hedge, the taxpayer must identify it as a hedge on the date of the transaction. Because the identification of a hedging contract is required, farmers who hedge should use a separate account for their “hedging account”, as different from their “speculative contract” account.

A hedge is an opposite and equal position in the futures market that offsets a physical commodity such as growing grain, grain in storage, or feed needed for livestock. The quantity hedged should not exceed anticipated production by a producer or expected usage by a feeder. Timing of hedging contracts should correspond to activities in physical, or cash market. Finally, failure to lift a hedge after a transaction in the cash market makes the contract speculative.

The important tax issue is if a commodity market transaction is treated as a hedge, the gain or loss on the commodity transaction is treated as ordinary income or deduction and is reported on Schedule F (Form 1040). Therefore, any losses on the futures contract can be deducted from other taxable income.

But, if the commodity market transaction is treated as a speculative contract, tax rules require the taxpayer to report the increase or decrease in the value of the contract at the end of each year, with forty percent treated as short-term capital gain or loss, and sixty percent treated as long-term capital gain or loss. Losses from speculative contracts are included with other capital losses for purposes of applying the limit of deducting \$3,000 of capital losses from ordinary income each year. So, the major problem for farmers with speculative contracts is they may have a loss on the futures contracts they cannot deduct.

<b>Transaction Guide for Common Hedging Transactions</b>	
<b>Transaction</b>	<b>Classification</b>
1. Short sale of commodity contract by producer of commodity a. Just before planting the crop b. While crop is growing c. After crop is harvested and sold	Hedging Hedging Speculation
2. Purchase of commodity contract (long position) by producer of commodity a. Just before planting the crop b. While crop is growing c. After crop is harvested (store-on-the board transaction)	Speculation Speculation Speculation
3. Purchase of Put Option (right to sell) by producer of commodity a. Just before planting the crop b. While crop is growing c. After crop is harvested and sold	Hedging Hedging Speculation
4. Purchase of Call Option (right to buy) by producer of commodity a. Just before planting the crop b. While crop is growing c. After crop is harvested	Speculation Speculation Speculation
5. Short sale of commodity contract by user of commodity	Speculation
6. Purchase of commodity contract (long position)	Hedging
7. Purchase of Put Option (right to sell)	Speculation
8. Purchase of Call Option (right to buy) by user of commodity	Hedging
9. Reversing transaction (commodity market position) to reduce risk in the business	Hedging
10. Multiple commodity transactions during the growing season—all part of a program that reduces risk.	Hedging
11. Partial risk reduction	Hedging
12. Hedging price support payments	Hedging

Tax regulations recognize that options contracts may be part of a risk reduction plan and therefore qualify as hedging. Also, a transaction will be treated as a hedge even though it does not reduce all of the taxpayer's risk. A transaction that counteracts or reverses another hedging transaction can be treated as a hedging transaction.

Frequently entering into and closing futures transactions is not relevant in determining whether the transactions are hedging. Risk Management is not hedging. Risk reduction is hedging. The IRS specifically rejected risk management as a definition of hedging.

If a producer sells a crop and buys an equivalent amount of commodity future contracts to sell later, commonly called a “store on the board” transaction, the futures contracts will *not* be treated as a hedge because they are increasing rather than reducing risk.

If farmers operate with several legal entities (proprietorship, partnership corporation, LLC or trust), each entity must be able to demonstrate that these commodity market transactions are reducing risk of price changes with respect to the respective entity’s farming activity. Therefore, a separate hedging account is necessary for each entity.

To summarize, the tax issues are not difficult; but the bookkeeping requirements require great care to keep the transactions straight. Just keeping records on the dashboard of the pickup will probably not work.

## **Other Tax Issues**

### **Self-employment Tax Savings Possibility**

Recently the 8<sup>th</sup> Circuit Court of Appeals ruled that rental payments made by a farm corporation to a taxpayer (who was the owner/employer of the corporation) was not subject to self-employment taxes. There were a few restrictions, the primary one was that the “rent” be reasonable. This may be a time to think about a change in the legal way you do business.

### **CRP Payments**

Recent decisions indicate that for farmers who put land in CRP when they are actively farming, the CRP payments should be reported on Schedule F, and are thus subject to social security tax. If, though, the owner was not materially participating in the farming trade or business, the CRP payment would be rental income reported on Schedule E.

### **Farm Income Averaging Rules Changed**

New rules were announced making it possible for more farmers to use income averaging. If a farmer had “negative taxable income when he averaged in ‘98 or ‘99”, or did not average income because of a “negative taxable income” year in the past, it may be possible to revisit those past returns to recover some tax.

Amended returns can be filed for 1998 and 1999 to apply the new interpretation. Taxpayers who elected income averaging on the 1998 and/or 1999 return can use the new rules to calculate their income tax on an amended return. They can change the amount of elected farm income on that amended return. Taxpayers who did not make the election can file an amended return on which they make the election and apply the new rules to calculate their income tax.

Income that is eligible for the income averaging election is any income that is attributable to a farm business. Farm income includes items of income, deduction, gain and loss attributable to the individual’s farming business. Therefore, electible farm income includes: net Schedule F (Form 1040) income, an owner’s share of net farm income from an S corporation, partnership, or limited liability company and wages received by an S corporation shareholder from the S corporation, and gain from the sale of assets used in the farming business and reported on Form 4797 and/or Schedule D (Form 1040), but gain from the sale of land or timber is not eligible for income averaging.

Income averaging is not a simple calculation. It may be necessary to have your tax advisor work on this for you.

## **Texas Risk Management Education Program Update**

## **New Risk Management Specialist in Central Texas**

A new risk management specialist has been hired to serve the Central Texas area which is based in Stephenville (Extension District 8). Jaret Schulte, who grew up on a farming and stocker operation in Nazareth, started with the Texas Cooperative Extension in January

Jaret holds a bachelors degree in Ag Business from Texas Tech University and a masters degree in Agricultural Economics from Texas A&M University. Jaret brings a strong combination of first-hand crop and livestock experience and strong analytical skills to the risk management team. His activities focus on analyzing the financial performance and associated risk of alternative financing, investing, and operational decisions for crop and livestock producers in District 8. "I am very excited about working with agents and producers in the region on long range strategic planning and analyzing alternative strategies. This program is a tremendous tool that has proven to benefit producers," said Schulte. Jaret can be reached at (254) 968-4144.

Prepared by:

Dean McCorkle  
Extension Economist-Risk Management  
Department of Ag. Economics  
Texas A&M University  
College Station, TX 77843-2124

Jackie Smith also contributed to this issue.