



What's and When's of Capital Purchases

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Over the last ten years, we have seen higher crop prices, higher costs, and greater expense election limits. What has this done to capital purchases? To determine this, we looked at capital purchases made by farms enrolled in Illinois Farm Business Farm Management (FBFM) from 2004 to 2013. This study contains all types of entities, but the purchases are based on the calendar year when they were acquired, not the entities fiscal year. For this study, we are defining capital purchases as items purchased to be used by the farm business and that fall into two categories, buildings or machinery.

What is being purchased?

For buildings, the top three assets purchased are field tile, grain and feed bins and machine sheds. Tile was thirty-one percent of the total number of building purchases while bins and machine sheds were fifteen and twelve percent, respectively. Figure 1 contains the top five machinery purchases. The other group includes assets that do not fit into the defined descriptions such as GPS equipment, seed tenders, header carts, conveyors and farm utility vehicles. Tractors averaged twelve percent of the total number of machinery purchases from 2004 to 2013.

When are purchases being made?

First, let's look at purchases by quarter. Figure 2 shows the number of purchases as a percent of the total by quarter. The graph shows two five-year averages, one for 2004 to 2008 and another from 2009 to 2013. The 1st quarter had the largest number of purchases in the first five-year average at twenty-nine percent. However, the 4th quarter had the largest number of purchases in the second five-year averages at twenty-nine percent. The 2nd and 3rd quarters stayed the same for the number of purchases.

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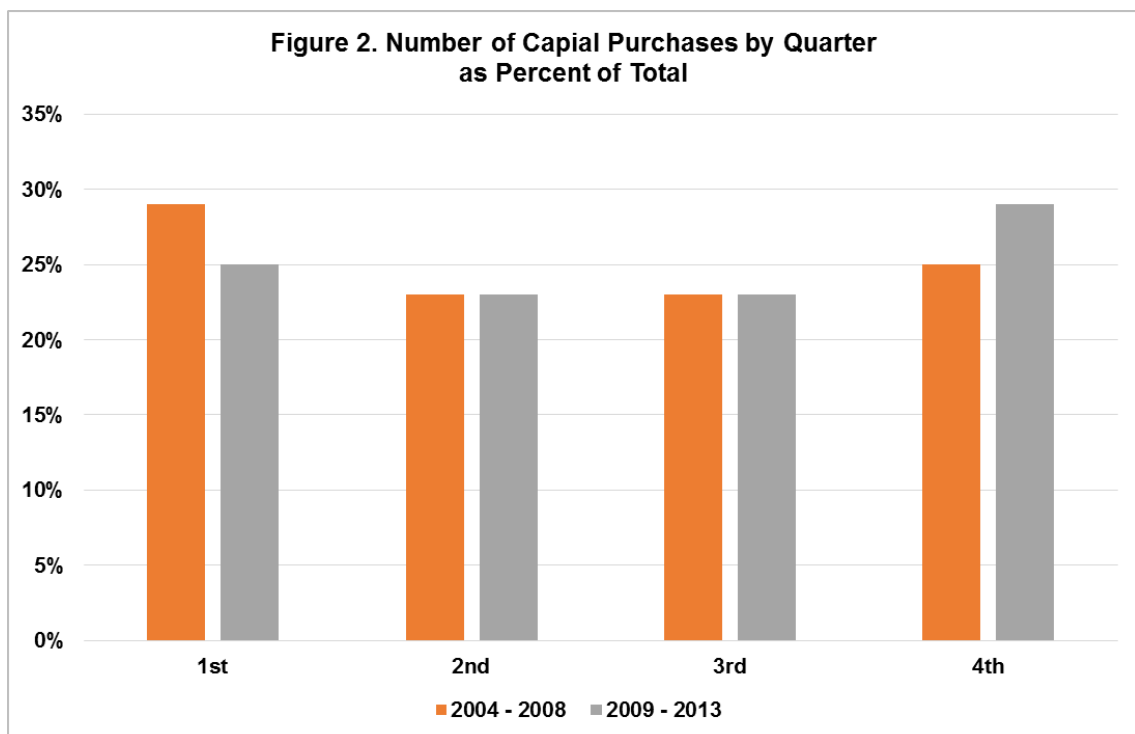
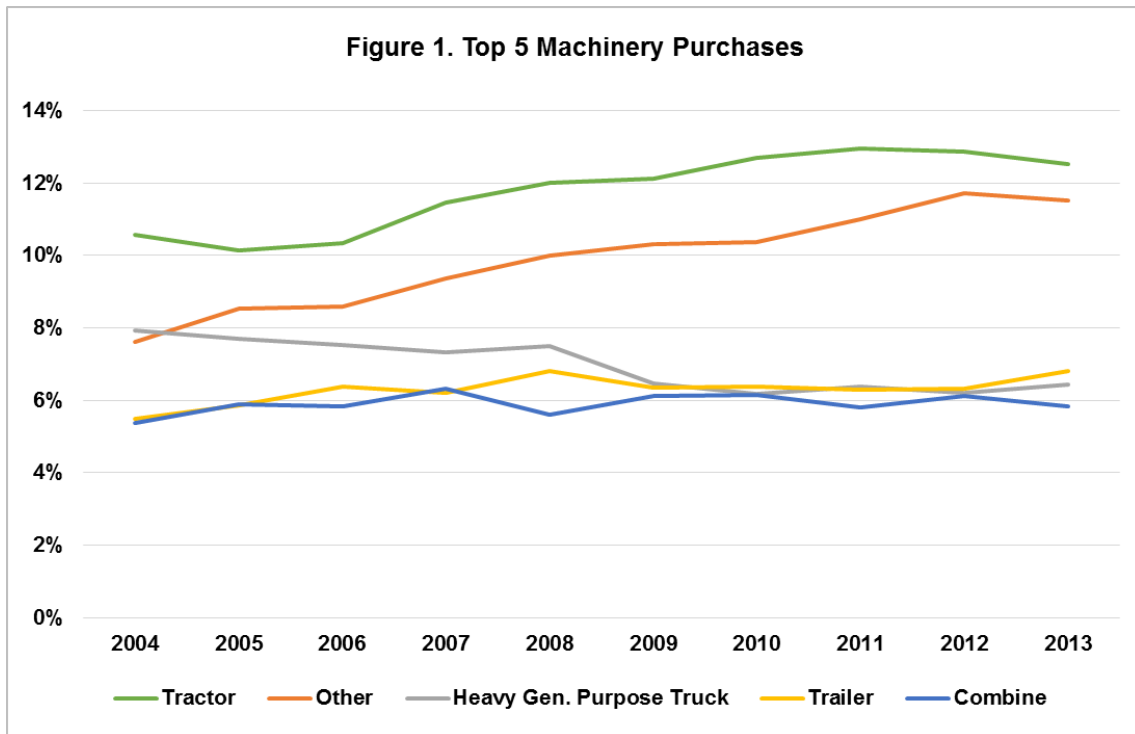
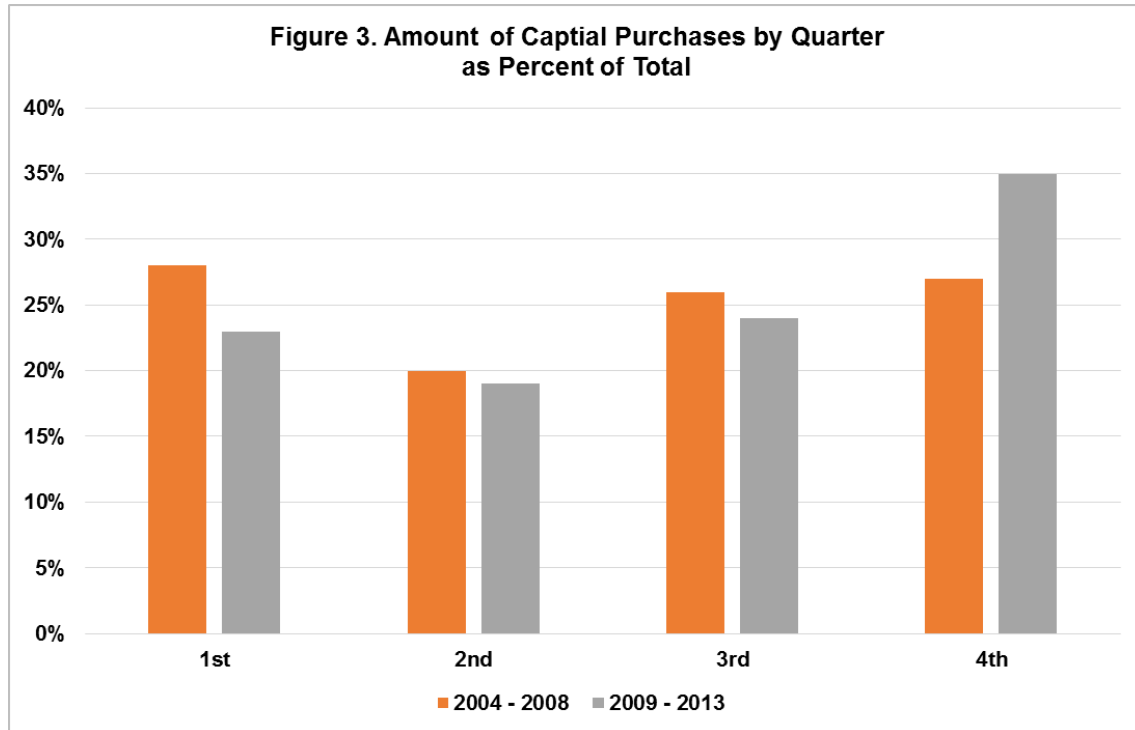


Figure 3 shows the total amount spent on capital purchases by quarter. We see a similar pattern in the decrease in the amount of purchases in the 1st quarter and the increase in the amount of purchases in the 4th quarter as was in Figure 2. The 1st quarter went from twenty-eight percent of the amount of purchases to twenty-three percent while the 4th quarter increased from twenty-seven percent to thirty-five percent. The increase was more significant in the 4th quarter when we looked at the amount spent on purchases.



When looking at capital purchases by month based on number of purchases, December has the greatest number of purchases from 2004-2013. Thirteen percent of the number of purchases made were in December while March and January account for 10% each. December is when many farmers are estimating their income tax liability, and some of these purchases could be due to optimizing their tax liability. January and March also have larger number of purchases. January's higher number of purchases may be partially due to the largest percentage of the corn and soybean crop being sold during this month (a little more than twenty percent on a ten-year average).

Summary

In the last ten years, we have seen many changes in agriculture. These changes have not had a large impact on the types of items most frequently purchased by farms enrolled in Illinois Farm Business Farm Management. The top purchases were the same in 2004 as they were in 2013. However, when we look at when the capital purchases are made, we see some changes. In the last five years, more capital purchases are being made in the last quarter of the year. Over the ten years in the study, December has primarily been the month with the highest number of purchases as well as the highest amount spent on purchases. However, over the last five years, there has been a trend of more purchases (number and amount) in the last quarter of the year, primarily December. Some of the reasons for this increase are higher farm incomes and increasing of the expense election to \$500,000 for every year since 2010. The higher expense election has allowed capital purchases to be utilized at the year-end to help farmers optimize their income tax liability.

The author would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 5,700 plus farmers and 60 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provide on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at www.fbfm.org.