



## Capital Purchases Over the Years

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Capital purchases have been at high levels for a number of years. The last three years (2008, 2009, and 2010) have seen capital purchases at levels not experienced previously – an average of around \$90,000 per farm here in Illinois. The two years previous to those three, (2006 and 2007) had average levels of capital purchases that were records as well. (See the table, Line 1).

The group of farms from which this data is drawn varies significantly in terms of size and type (grain, livestock, etc.). The average is likely influenced by those larger farms with larger levels of capital purchases. Farms with more acres or a high concentration of livestock might have a need to purchase a larger amount of capital items or items with a larger price tag (i.e. 24 row planters).

While the average level of capital purchases may have been at record levels, the median level of expenditures provides a different story . The median is the point where half of the farms had a greater level of capital purchases and half of the farms had a lower level of capital purchases. This is different that summing all the capital purchases for all farms and dividing by the number of farms which is the average. The table below leads one to the conclusion that a small number of farms with large purchases are pulling up the average.

Another interesting perspective of this story is to look at capital purchases relative to Net Farm Income. From the table below, capital purchases as a percent of net farm income (See the table, Line 3) range from a low of 30.1% in 2007 to a high of 106.4% in 2009. The other three years in the five year history show some stability in the 40%-45% range. It would be interesting to review historical data to see how this might compare to the past and if there are patterns or trends present.

A contributing factor could also be that the IRS Code Section 179 Expense Election limit increased markedly (See table, Line 4). As recent as 2002, the Expense Election was \$24,000; this is compared to \$500,000 for 2010. It is possible that the capital purchase noted in the recent past may be nothing more than production agriculture taking advantage of tax policy and reducing taxable income.

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	2006	2007	2008	2009	2010
1) Average Capital Purchases	\$45,659	\$62,951	\$90,381	\$89,589	\$90,381
2) Median Capital Purchases	\$22,861	\$37,932	\$61,500	\$55,150	\$53,480
3) Capital Purchases/NFI	44.20%	30.10%	42.70%	106.40%	44.20%
4) Expense Election Limit	\$108,000	\$125,000	\$250,000	\$250,000	\$500,000

The authors would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations in Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 5,500 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](http://www.fbfm.org).