Leasing...an excellent tax management plan for dairy this year.

Dairy prices are on the rise this year following the 2005-2006 dairy cycle trough which was marked by depressed milk prices and increasing costs for feed and energy. The USDA NASS (all milk delivered to plants) price has increased from a $12 cwt. level in August 2006 to over $20 cwt. in June 2007. A natural, tactical response at the farm level to higher prices and profitability will be to replace and upgrade capital equipment and pay down debt.

Dairy producers will also potentially be facing higher 2007 tax bills resulting from higher milk prices. Producers should take advantage of every financial and tax management tool available to them to capitalize on current profitability levels and to be in a strong financial position to weather the next downturn in the cycle. This is especially important because input prices are likely to continue to increase.

Leasing – A Powerful Solution

A properly structured equipment lease can help address some of the tax management challenges for 2007.

1. A lease structured with an annual payment in advance will reduce taxable income for the 2007 tax year. In addition, a Step Down lease allows larger upfront payments placing the largest lease payment in the current tax year and lowering future lease payments compared to a level pay lease.

2. Leasing enables producers to access better equipment for lower payments compared with buying the equipment, which can improve cash flow. There is also the option to purchase the equipment at the end of the lease or return it. In general, larger buy out options translate into lower lease payments.

3. A lease typically provides 100% financing, preserving working capital for other needs. Producers with a preference for high liquidity find this advantage valuable.

4. Producers who purchased equipment in 2006/2007 and found that depreciating the asset was beneficial may also see the advantage of a "sale leaseback." This financing approach allows producers to sell their equipment to Farm Credit Leasing (FCL) and then lease the equipment back, expensing the lease payments as 100% operating expense. This strategy lowers taxable income while providing increased cash liquidity for other operating needs.

Leasing is used in more than 30% of all capital purchases in the U.S. economy. Leases are flexible, can address many different situations, and are structured to complement traditional loan products. The current dairy cycle recovery may be the right time to look at the lease financing alternative. With a focus on agriculture and rural America, FCL is the right partner for your leasing solutions.