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Machinery Capital Invested on the Farm

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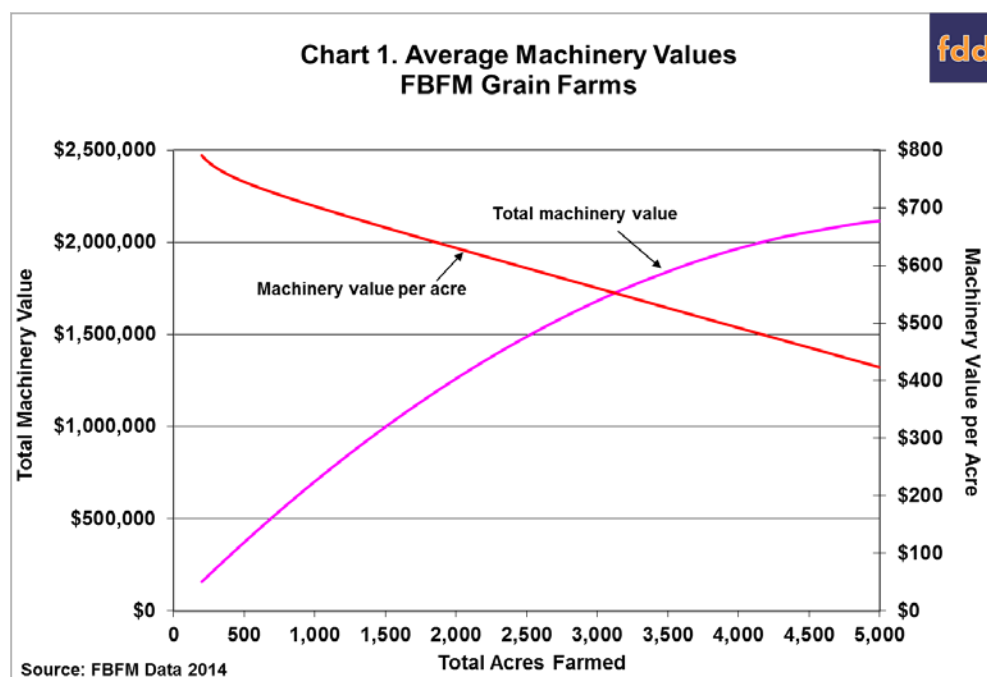
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The value of machinery on farms changes considerably over time. Data from a group of grain farm operators who are members of the Illinois FBFM Association details this aggregated data as seen in Chart 1 for 2014. One would expect that as acreage increases, the value of the complement of machinery needed to till, plant, and harvest those acres to increase as well. Review Chart 1 using the scale on the left side to see that as farm size in acres increases so does the total machinery value as measured by market value. For example, a 2,500 acre farm has a corresponding machinery value of near \$1,500,000 while a 1,000 acre farm operation has a corresponding machinery value of near \$1,000,000.



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When viewed on a 'per acre' basis (use the right side scale) the 2014 data reveals that farms operating fewer acres range have a higher per acre machinery cost as one would suspect. A 1,500 acre farm has a machinery value per acre of approximately \$675 while a 2,500 acre farm shows an approximate \$600 machinery value per acre. Even for a smaller farm, there is a basic complement of machinery needed to operate that farm.

Summary

While farm size in acres is obviously a factor other factors involved as well. The price of new machinery has increased markedly pressuring the value of used machinery upward as well. The present period of lower margins has in many cases provided a pause in the upward trend of the value of used machinery. Both of these factors in addition to farmer-friendly tax policy in the form of Bonus Depreciation and the IRS Code Section 179 Expense Election have likely accelerated the level of capital purchases on the farm in the past. Bonus Depreciation was set in place in 2001 at a 30% rate; at the present Bonus Depreciation at a 50% rate expired on 12/31/2014. The 2000 Section 179 Expense Election limit was \$20,000; by 2010 the limit has increased by 25 times the 2000 level and was \$500,000. The IRS Code Section 179 Expense Election expired on 12/31/2014. Many of us anxiously await action from our legislators that will extend both the Bonus Depreciation and the IRS Code Section 179 Expense Election. It was mid-December 2014 when both provisions were extended for 2014 leaving only a two-week window of opportunity.

The authors 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 5,500 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 along with 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.