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Beef-on-Dairy Calf Production in Virginia

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Beef-on-dairy calf production has exploded across the United States in the last five years. As people hear about high prices being paid for calves, interest in producing beef-on-dairy calves explodes. If you are considering producing beef-on-dairy calves you need to adjust your thinking to that of a beef farmer. Considerations for producing beef-on-dairy calves starts with marketing. Simply producing beef-on-dairy calves will not result in Virginia farmers getting the $450-$650 prices for week old calves that are reported from various locations across the country.

Before considering beef-on-dairy production, you must determine the dairy heifer replacement needs for your operation going forward. After figuring out this number you can calculate how many cows you need to breed each month to dairy bulls and how many you can breed to beef bulls. This number is dependent on whether you are using female sexed semen dairy bulls are not. After selecting the *number* of cows to breed to beef semen you then need to work out *which* cows to breed to beef semen. There are many good resources to work with for this process. Your semen supplier, veterinarian, and herd consultant are good resources to work with on this decision-making step. The most important thing to remember is that milk production is the primary revenue source of the operation and replacement heifers provide the future source of this milk. Above all else, your plan must ensure enough replacement heifers. Regularly monitor replacement heifer numbers to confirm that you are meeting your dairy goals.

Breeding Holstein cows to beef semen and marketing them through the local livestock market will produce an animal that is slightly more valuable than a purebred dairy calf but much less desirable to the buyers than a beef calf without dairy influence. This will not result in the targeted prices. The current beef-on-dairy industry is still in its infancy and is undergoing rapid change as a result. The industry has moved from simply producing a generic beef cross calf to an integrated system producing a calf that is optimal for this segment of the industry. Participating in this segment of the industry is relatively difficult for many Virginia producers. For very large dairies and those located in concentrated dairy areas marketing options for these calves have become relatively easy. The size of the average Virginia operation together with the distance between dairy pockets in the state makes marketing beef-on-dairy calves the largest hurdle to overcome. Semen companies have taken the lead in many aspects of the development of the current beef-on-dairy industry. In addition to providing the semen to produce these calves, they are often the best source to help with a marketing plan for the calves.

Timing of marketing is also important. Deciding on the timing of marketing involves a combination of farm resources and pinpointing at what age the calf will bring the greatest net profit. Health is of paramount performance for the purchasers of these calves. If selling calves as baby calves it is relatively simple. Treat the beef cross calves exactly like your replacement heifers. Colostrum and a clean calving environment are of paramount importance. If you are retaining calves for a longer period of time, minimizing the cases of bovine respiratory disease complex (BRDC) while you own them becomes very important as well. BRDC is known to have many long-term negative impacts on beef calves. Calves treated for BRDC have been shown to have decreased weight gain, decreased feed conversion, and decreased marbling when slaughtered. In addition to a proper herd health program to prevent disease on your farm, these calves need to be properly vaccinated to protect them as they move to the buyer. Poor health and performance of purchased calves will result in the loss of market for a dairy's calves robbing them of premiums. Consult your veterinarian in developing a herd health plan for these calves.

Producing beef-on-dairy calves can result in an additional revenue stream for dairy producers. If a producer is considering implementing it, a plan should be put in place to maximize profitability for the operation.

Cash-basis Schedule F Income Statement—Friend or Foe?

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As the tax deadline approaches, it's time to have a heart-to-heart discussion about the Schedule F income statement. Is it a powerful decision-making aid or is it one of the most misunderstood and misused financial tools? Let's take a closer look at the Schedule F.

The intent of the Schedule F is to estimate your net farm income that is subject to income taxes. That, by itself, means that a Schedule F can be a biased statement from an analysis standpoint. Over the past 50 years we've been conditioned to take actions to minimize income taxations. Accountants tell us to reduce our revenues and increase our expenses to reduce our income tax liability: delay depositing checks until early January; prepaying expenses, or making year-end Section 179 purchases. They say we should try to make our net farm income as low as possible to lower our tax burden. The name of the game is "how can we look as unprofitable as possible". This advice can have adverse impacts on our farms and businesses – think before you take this advice!

To reduce taxes, most farmers use cash-basis accounting when filling out their Schedule F. Cash-basis accounting allows us to recognize revenues and expenses when the cash actually changes hands. This enables us to artificially manipulate profits for tax purposes. Accrual-basis accounting matches the revenues and expenses to the time period when they are used. An accrual accounting system much more accurately shows the true profitability of the farm.

Let's look at how cash-basis accounting will impact an example farm's profitability. The farmer held off on depositing $100,000 of year-end milk checks, prepaid $100,000 of feed expenses, and purchased a $50,000 asset to write off using Section 179.

Category	Cash Basis	Accrual Basis
Revenues	$600,000	$700,000
Expenses	$500,000	$400,000
Interest & Depreciation	$100,000	$60,000
Net Farm Income	$0	$240,000
Operating Exp / Receipt Ratio	83%	57%
Rate of Return on Assets (ROA)	2.4%	28%

Table 1. Cash basis vs. accrual basis impact on profitability.

Using cash accounting, this farm has net farm income of $0 due to tax strategies. The tax moves saved the farmer over $50,000 in income taxes (but what did these moves do to the liquidity and cash position of the farm?). When we use accrual-based accounting, the true profitability of the farm is $240,000. That's a big difference! But look at how the Operating Expense/Receipt Ratio and the Rate of Return on Assets (ROA) are impacted by cash accounting. These are two of the main financial measures we use to gauge the financial efficiency and profitability of a farm. Cash accounting greatly overstates your Operating Expense/Receipt Ratio. This can falsely lead a manager to think that they have a cost control problem on the farm. It also greatly understates your ROA, leading you to think you have a profitability problem. The accrual-based ratios are much more meaningful to a manager. This farm is actually doing quite well with cost control and profitability.

To recap, using cash accounting for tax purposes may help you significantly reduce your tax burden. However, the cash-basis Schedule F is a terrible indicator of the true profitability and financial efficiency of the farm. It will give you inaccurate financial ratios and point you towards problems that do not exist. Your Schedule F can be a good friend in reducing taxes, but it is a no-good, lying double-crosser when it comes to making management decisions.

"But, Doc White, which form of accounting should we use?" My advice is that you use accrual-based accounting to make your management decisions. It provides accurate information and will help you make better long-term decisions for your farm. The only added task associated with accrual accounting is that it requires you to construct beginning of year balance sheets every year – you should already be doing this anyway! You can still use cash-based accounting for your tax purposes – just promise me that you won't use your cash-based income statement to make management decisions. The information it contains is artificial and should not be trusted for long-term decisions.

As an aside on tax management, I strongly advise you to have a year-long tax plan instead of a year-end tax plan. Knee-jerk tax moves at year end can have long-term harmful impacts on your farm. Anyone who blindly tells you, "you need to buy something so you don't show a profit" does not have your best interests at heart.

Upcoming Events

March 30, 2024
Youth Farm Safety Day

April 13, 2024
Hokie Dairy Day (Youth)

May 3, 2024
Dairy Skillathon (Youth)

May 4, 2024
VA Spring Holstein Show

May 4, 2024
VA Spring Holstein Show

July 8-11, 2024
Southeast Youth Dairy Retreat
Florida

August 1, 2024
State Dairy Judging Contest (Youth)

If you are a person with a disability and require any auxiliary aids, services or other accommodations for any Extension event, please discuss your accommodation needs with the Extension staff at your local Extension office at least 1 week prior to the event.

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