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Nevertheless, beginning in the early 1970s, Saudi Arabia adopted a policy with the goal of developing an agricultural sector capable of achieving food self-sufficiency. While still importing food and feed products from barley and rice to apples and bananas, Saudi agriculture has made great strides over the last 30-40 years.

Supported by policies that provide up to 1,000 acres of free land as well as machinery and equipment discounts of up to 50 percent, Saudi farmers have increased agriculture's share of GDP from 1.3 percent in 1970 to more than 7 percent in 2002. The area under cultivation has increased from under 400,000 acres in 1976 to more than 9 million acres today. Agriculture also supplies significant employment opportunities. Today 12 percent of the Saudi workforce is employed in the agricultural sector.

In addition to help with land and equipment, the Saudi government has embarked on water impoundment projects to make sure that they get full use of the four inches of rainfall they receive. Water is also obtained from deep wells and large desalinization projects. The goal of these water projects is to provide sufficient

water for human as well as agricultural and industrial uses. Treated wastewater is used for industrial and agricultural purposes. As a result of these water projects, large tracts of desert have been transformed into fertile farmland.

The Saudi government has also established agricultural research stations as well as an extension service to help farmers figure out how to adapt their farming methods to the harsh desert climate. While Saudi Arabia once imported large amounts of wheat, today the country is nearly self-sufficient in wheat production, importing specialty flours and exporting surplus production. In comparison to the U.S. average wheat yield of 40 bu./ac., Saudi farmers reap 70 bu./ac. Of course, the larger yields do not necessarily mean that it wouldn't be cheaper overall to import the wheat. But, food security is a part of national security.

Saudi agriculture faces a number of challenges. One of the most serious challenges is the issue of water. The underground aquifers are being drawn down faster than the recharge rate. As a result, the rapidly growing population may end up competing with agriculture for scarce water resources.



When Are Livestock Exchanges "Like-Kind"?

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Although less common than like-kind exchanges of real estate or machinery, exchanges of livestock appear to be occurring more frequently in recent years. Except for the statutory bar for exchanges of livestock of different sexes, the rules governing livestock exchanges are less well known. The regulations adopted in 1991 have provided more definitive guidelines for like-kind exchanges of livestock (and other assets) than were available previously.

Regulation guidance

The regulations specify that depreciable tangible personal property can satisfy the like-kind requirement in two ways—(1) by showing that the property in question is exchanged for property that is of a *like class* or (2) by showing that the property in question is exchanged for property of a *like-kind*.

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- In determining whether property meets the test of being "like-kind," all facts and circumstances are to be considered.
- Depreciable tangible personal property can satisfy the like-kind requirement if it is exchanged for property of a like class. Depreciable tangible personal property is a "like class" to other depreciable tangible personal property if the exchanged properties are either within the same general asset class or the same product class. Livestock are not listed in the 13 general asset classes.

As for product classes, the regulations specify that a single property cannot be classified within more than one product class and that the property's product class is determined as of the date of the exchange. A product class consists of depreciable personal property that is listed in a product class in the *Standard Industrial Classification System Manual (SIC)* (1987), prepared by the Office of Management and Budget. Under the SIC system, dairy cattle are listed with a classification of 0241; beef cattle are given a classification of 0212. Therefore, an exchange of beef cows for dairy cows is not a like-kind exchange.

The SIC system has been replaced with the *North American Industrial Classification System (NAICS)*; however, the Internal Revenue Service has not issued guidance on using the NAICS for federal income tax purposes and has advised that taxpayers should continue to use the four digit SIC system until guidance is published.

Other classifications under the four-digit SIC system include:

Property	Classification
Hogs	0213
Poultry	0259
Sheep and goats	0214
Horses	0272
Rabbits, fur-bearing animals	0271

Cases predating the regulations

In the 1967 case of *Woodbury v. Commissioner*, the parties entered into a multi-party, multi-step transaction whereby 225 cows and calves and 425 mixed yearlings were exchanged. The tax court agreed that the 225 cows with calves by side were held for breeding purposes rather than for sale but only 103 of the mixed yearlings received were held for breeding purposes; the rest of the mixed yearlings were held primarily for sale.

In the 1968 case of *Wylie v. United States*, the taxpayer traded 49 head of steer calves ranging in age from 7 to 11 months of age (which were not held for sale in the ordinary course of business) for registered Aberdeen-Angus cattle. The court held that income was not realized (or recognized) on the exchange.

In a case decided in 1978, half-blood heifers and three-quarter blood heifers were held to qualify as like-kind. In that case, the taxpayer agreed to deliver 12 three-quarter blood heifers in exchange for 12 one-half blood heifers. The three-quarter blood heifers were the offspring of artificial insemination of the 12 half-blood heifers which had been received earlier. Since the taxpayer had deducted the costs of raising the three-quarter blood heifers, giving the animals a zero basis, the half blood heifers received in exchange were ineligible for investment tax credit, despite the higher value placed on the three-quarter blood heifers. The court said the fair market value of the three-quarter blood heifers was without significance.

In conclusion

For livestock, the major concern at present is in accessing the classification reference, the *Standard Industrial Classification System Manual (1987)*. After guidance is issued by IRS, the problem will be in accessing the *North American Industrial Classification System (2002)*.

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