

## Bob and Betty Workhorse<sup>1</sup> – A Western Ranch Case Study with Tax Returns\*

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Bob and Betty Workhorse own and operate a ranch near Bovine Falls, Wyoming. They were married one week after graduating from college in 1988, and purchased their first ranch in 1989. They have since expanded their operation with the purchase of more land and cattle.

Bob and Betty have three children: Robert was born in January 1997, and the twins (Lucille and Mario) were born in December 1998. Robert attended the University of Wyoming, where he earned a B.S. degree in farm and ranch management. He worked on other ranches in Montana and Oregon before returning to work for Bob and Betty in 2022. Lucille earned a degree in nursing and lives in

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<sup>1</sup> The Workhorse Ranch: A Case Study is an example of a western U.S. ranch. It does not represent any specific ranch, other agricultural business, nor any best management practices. All data used to create the documents and tax returns are strictly for educational purposes.

\* This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA21CPT0012032. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture. In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services.

Iowa. Mario has never been interested in the ranch. He is a neurosurgeon in Denver.

Bob and Betty own just more than 20,000 acres of pastureland, which provides grazing for 760 animal units (AUs), and they have a forest permit for 100 AUMs. A lease from Bob's aunt provides them with an additional 85 AUs of grazing, a house, and a small set of working corrals. Bob and Betty own 450 irrigated acres on which they grow grass hay, and 155 irrigated acres on which they grow alfalfa. The main house and ranch buildings are on an additional 7.5 acres. The ranch consists of pastureland and irrigated land used to grow grass hay and alfalfa. Most of the land varies between 4,500 and 7,500 feet in elevation. Annual precipitation averages 15.75 inches. Table 1 shows details of their land holdings.

Bob employed one full-time, year-round employee who received a monthly wage, a stipend for offsetting health insurance premiums, and a house for him and his family. Bob hires multiple people during calving season, summer months, and other critical times on the ranch. The three children are also hired to work on the ranch, including during the summers they were in college.

When Crisp P. Bacon retired in 2021, Robert returned to the ranch as a full-time employee.

Bob and Betty have the machinery, equipment, and buildings necessary to successfully operate the Workhorse Ranch. Bob keeps his machinery and equipment in good condition, so it functions longer than is typical for many of his neighbors.

**Table 1. Land Owned and Leased by Bob and Betty Workhorse.**

Description	Acres	Production	Year Purchased	Purchase Amount
<b>Owned Land</b>				
South Section	620	31 AUs <sup>1</sup>	1989	\$62,000
Home Place			1989	
• Pasture	320	155 AUs		\$32,000
• Alfalfa	155	736 tons <sup>2</sup>		\$31,000
• Headquarters	7.5			\$125,000
Miller Place			1990	
• Pasture	3,120	156 AUs		\$390,000
• Grass Hay	450	900 tons		\$936,000
Esquibel #1	7,500	300 AUs	1992	\$600,000
Esquibel #2	6,000	171 AUs	1992	\$480,000
Mountain Pasture	2,560	85 AUs	2010	\$512,000
<b>Leased Land</b>				
Forest Permit		100 AUs		
Bob's Aunt		85 AUs		
<b>Total</b>	<b>20,120</b>	<b>945 AUs</b> <b>1,636 tons</b>		

<sup>1</sup> AU equal "animal unit". 1 AU is the number of acres needed for the grazing of one animal unit or one beef cow. The South Section, Home Place, and Miller Place produce grass at a rate of 20 acres per 1 animal unit. Esquibel #1 has a rate of 25 acres per 1 animal unit. Esquibel #2 has a rate of 35 acres per animal unit. The Mountain Pasture has a rate of 30 acres per 1 animal unit.

<sup>2</sup> Historical average yields for grass hay on the Miller Place are 2.0 tons per acre and average yields for alfalfa on the Home Place are 4.75 tons per acre.

Bob raises his replacement heifers. He typically retains more heifer calves than he needs to replace the culled cows and those that died during the year. The replacement heifers are bred as yearlings and then culled each fall. Consequently, he sells a number of yearling heifers each year. Bob also upgraded his bull battery in 2016. Although the bulls cost more, weaning rates increased significantly.

The Workhorse Ranch experienced a drought in 2015. It was the second worst in Bob's memory (2002 was even drier). The cows produced less milk, conception rates were lower than normal for both 2015 and 2016, and weaning weights were lower than normal for two years. 2023 was another dry year, and the forecast indicated more than normal snow. Hence, Bob purchased an extra 50 tons of hay.

Robert convinced Bob and Betty that with high cattle prices in 2023 and a strong outlook for calf prices, Bob and Betty should feed their replacement heifers a higher quality ration. They might even choose to retain ownership of some of their calves to run as yearlings. Additionally, they could increase income from cull cow sales by feeding them and selling them in the summer. Hence, Bob and Betty invested in a used feed truck with a mixer, drill stem and pipe for building the pens, and a grapple bucket for moving the big hay bales. The pens and concrete were constructed in 2023.

In addition to helping Bob on the ranch, Betty works as an E.R. nurse at their small-town hospital. It is only about 20 miles from their house. She really enjoys the work and the health insurance is a great benefit. Her portion of the premiums are paid by the hospital, so she pays the additional premium for the rest of the family. In late 2015, Betty and Bob decided that she would work fewer days in order to spend more time with Robert and the twins before they left for college.

As of January 1, 2020, Bob and Betty had non-ranch assets valued at \$853,547 and no term debts. The value of their house is included with the ranch assets. Table 2 lists their non-ranch assets.

*Table 2. Non-Ranch Assets Owned by Bob and Betty Workhorse, 2020 January 01.*

Checking Account	\$12,000	Bob's Roth IRA	\$161,420
Savings, CDs, Other	118,300	Betty's Roth IRA	159,309
		Betty's 401(k)	402,193

Each month, Betty transfers money from the ranch account to their personal checking account to cover family living expenses. Their costs for electricity, propane, and the satellite dish are paid by the ranch, but the accountant does not deduct the entire amount. They also contribute to each child's College Savings Account each year. Table 3 lists their annual family living expenses.

*Table 3. Family Living Costs for Bob and Betty Workhorse, 2013-2023.*

	Year			
	2020	2021	2022	2023
Health Insurance <sup>1</sup>	\$4,800	\$4,800	\$4,800	\$4,800
Assisted Living Insurance <sup>2</sup>	2,510	2,510	2,510	2,510
Bob's Life Insurance	1,500	1,500	1,500	1,500
Medical Expenses	6,500	8,250	500	600
Charity/Church	5,200	5,200	5,200	5,200
CSAs	0	0	0	0
Electricity <sup>3</sup>	7,937	8,057	8,226	8,173
Propane <sup>3</sup>	838	800	1,000	950
Satellite Dish <sup>3</sup>	800	1,200	1,200	1,200
Other/Family Draw	60,000	60,000	60,000	72,000

<sup>1</sup> Betty has health insurance as a benefit of her job (even working half-time). The premium listed herein is the additional amount she has deducted from her paycheck to have family coverage.

<sup>2</sup> Bob and Betty each have an assisted living insurance policy.

<sup>3</sup> The entire utility bill is paid by the ranch. The amounts shown in this table are the portion of the total bill which is for personal use; electricity equals 50%, propane equals 25%, and satellite equals 50%.

Bob and Betty's tax returns for 2020 through 2023 are attached to this case study. The Schedule F and other tax forms list the annual business income, deductible expenses, depreciation and section 179 allowances, capital gains, and other tax related information for the ranch.

Additional details for 2013 through 2023 are available from Jeff Tranel (jtranel@colostate.edu).

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