

Notes on avocado tree depreciation

This information has been adapted from an article by George E. Goodall, Farm Advisor, Santa Barbara County, appearing in the 1971 California Avocado Society Yearbook. It has been updated to include current costs and information sources.

As a sequel to the article *Useful Life of Avocado Trees in Commercial Orchards in California*, a few additional implications and notes on depreciation seem to be in order. These points are intended to be pragmatic - suggestions on how depreciation on avocado trees might be handled by orchard owners and their tax advisors.

The theory of depreciation for trees that has been usually used is described as "straight-line procedure for the age-life method." The annual rate is simply calculated by taking the value when new, subtracting the salvage value, if any, at the end, and dividing this figure by the number of years of estimated life. But as Murray says, "The major difficulty...is the establishment of a reliable useful life figure" (3).

The "Useful Life..." article concluded by presenting the best useful life information available for the California avocado industry as a whole. It is up to the individual to estimate his own situation.

The measured average removal rate of 3% is greater than has usually been considered typical for avocados. The straight-line removal rate from the outset was also somewhat unexpected. However, both effects can be explained by the widespread incident of the root rot disease and the high land values in California, both factors causing tree removals regardless of tree age. What do these facts mean to Southern California avocado growers in their financial planning?

Using the main factors of disease hazard and land values that foreshorten orchard life in a subjective array, the useful life data can be transferred to depreciation rates:

		Depreciation	
Root Rot Disease Risk	Land Values	Years	Rate
Severe	Very High	15	6 ½%
Moderate	High	20	5
Typical	Average	25	4
Low	Fair	33	3
Very Low	Low	40	2 1/2

The best guide to rating the root rot hazard would be to use the Soil Survey Report for Ventura County.

When too long a depreciation period is used initially and the trees die and have to be removed due to root rot, the remaining book value can usually be taken as a casualty loss deduction.

A different problem is how to handle remaining values for trees as a healthy orchard is thinned (4). Common practice has been to continue the original depreciation schedule as, even though part of the trees have been removed; the acreage remains the same. Each line entry of remaining tree value is thus spread to fewer trees.

Another problem has been in estimating future useful life for purchased mature groves. Based on the average, total (100%) life expectancy would be 34 years regardless of the ownership. This is all right for younger groves, but for older groves, the only way to estimate remaining useful life is by carefully looking at the grove itself.

Tree values become of considerable importance in that accumulated development costs during the non-bearing period run very high currently. An example of accumulated tree costs for the first five years totaled \$4,432 per area for cash costs, and over \$10,195 per acre when overhead and capital costs are included. Land, irrigation system and other equipment and buildings would be in addition (2).

Thus, for purposes of determining depreciation schedules, it would seem reasonable to estimate the useful life of avocado orchards from 15 to 40 years, depending on local site considerations. With the high rates of root rot infection and urbanization, typical figures for many Southern California orchards would be 20 to 25 years.

Bibliography

1. Goodall, G.E., T.M. Little, R.C. Rock, R.G. Platt and A.D. Reed, Useful Life of Avocado Trees in Commercial Orchards in California." California Avocado Society Yearbook, 54:33-36, 1971.
2. Klonsky, K., G. Bender, B. Faber, E. Takele, G. Witney and P. Livingston, "Sample Costs to Establish and Produce Avocados in the Southern Coast Region - 1992", UCCE, Sept. 1993.
3. Murray, W.C., "Farm Appraisal and Valuation," 5th Edition, Iowa State University press, 1969, pp. 215.
4. Platt, R.G., G.E. Goodall, C.D. Gustafson and B.W. Lee, "Thinning Avocado Orchards," UCAES, AXT-n3, July 1970.
5. Soil Survey Ventura County, USDA Soil Conservation Service and University of California Experiment Station, April 1970.
6. Zentmyer, G.A., A.O. Paulus and R.M. Burns, "Avocado Root Rot," UCAES C. 511, August 1967, pp. 10.