

Virginia Cooperative Extension



Farm Business Management Update August – September 2008

To: Extension Unit Directors, Extension District Directors, Extension Program Directors, and Farm Management Agents, and ANR Specialists

Dear Co-Workers:

Farm Business Management Update is a joint effort of the Agricultural and Applied Economics faculty and the area farm management agents. Subject matter areas include timely information on farm management, marketing, tax management, finance, credit, labor, agricultural law, agri-business, estate planning, 4-H and economic education, natural resources, and CRD. Please use this information in your on-going Extension programs and circulate to all Extension staff. **Farm Business Management Update** is electronically accessible via the Virginia Cooperative Extension World Wide Web site (<http://www.ext.vt.edu/>). To see the articles listed in the reverse chronological order, select “News,” then select “Farm Business Management Update” listed under the heading “Periodicals.”

Gordon E. Groover
Extension Economist, Farm Management
and Farm Management Coordinator

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Eric Eberly is “VESA Spotlight” Award Winner for May

Eric Eberly, ANR Extension agent, Southern Piedmont AREC, was the “In the VESA Spotlight” award winner for May. He was honored for being a dedicated VCE employee for many years and for his activities in several professional associations. He was a major factor in successfully educating producers regarding risk-management options after Congress eliminated the tobacco quota. Eberly has repeatedly been recognized for his service to professional organizations – three times by Epsilon Sigma Phi for team and individual work as well as four times by the Virginia Association of Agriculture Extension Agents, most notably with the Distinguished Service Award for his work in Farm Business Management. He specializes in crop and livestock budgets and works tirelessly for the producers so they may remain or become profitable.

The Department of Agricultural and Applied Economics Welcomes Tim Moore

Tim Moore joined the AAEC faculty this summer as an instructor in the agribusiness management option as and he will be developing an outreach educational program to support the floriculture, greenhouse, and nursery businesses in Virginia. He received his Bachelor of Science (BS) degree in Accounting from Ithaca College, his Bachelor of Technology (BT) degree in Agricultural Business from State University of New York (SUNY) Cobleskill, and his Master of Arts in Teaching (MAT) in Agricultural Education from Cornell University. Prior to joining the department, he was the Department Chair, of Agricultural Business and Animal Science and Associate Professor of Agricultural Business at SUNY Cobleskill. Tim’s contact information is as follows:

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If the Worst Happens ...

By Bill Whittle (whittle@vt.edu), Extension Agent, Farm Business Management, Northwest District

For many Valley farmers the farm is the primary income generator, if not the sole income for the family. If the worst happens to you, will your farm be able to continue? This is not a question about dealing with transferring the farm to the next generation, but a question that deals with the day-to-day operation of the farm if you are unfortunate enough to suffer catastrophic injury or the massive destruction of property. The question is an attempt to look at that period of time immediately following catastrophe before invoking any medical, disability, or property insurance that may allow you to weather the rough times. Will the cows get fed? Will the corn be sprayed? Will the strawberries be picked? Will the note at the bank be paid? Will the corn that you sold be delivered? Will your farm operationally survive in the short run and continue to provide financial support to the family?

Each farm is different, but to continue operating every farm requires a plan of action. If you, the farm operator, are healthy, you handle the details. But if you become incapacitated, who will take over the day-to-day management? Most farmers tend to operate as a committee of one and do not commit to paper specific management plans for the continued day-to-day operation. Farmers tend to be private about their personal affairs, and this desire to be private often extends to the farm operation.

Now is the time to ask, “If something happens to me, who will make the day-to-day decisions for the farm and keep income flowing?” Often family or neighbors will step in and handle vital chores, but if you have not shared with someone your management plan, it is unreasonable to expect anyone else to maintain your production. For example, if the current dairy herd ration is not written down, how can family and neighbors properly feed your milking herd to maintain production and needed income?

A solution to this problem, though not easy, is to carefully write down management plans for the farm, including rations, livestock management plans, crops management plans, marketing plans, work schedules, and schedule of payments to creditors. If you do it or you manage it, then your stand-in needs to know what must be done without a lot of guesswork. The disadvantage with writing your day-to-day management plan is that each component must be regularly updated as the year progresses and situations change. This updating can get cumbersome, but is necessary for someone else to be able to fill your shoes when you can't. The advantage to updating your day-to-day management plan is that it forces you to review your management schemes and determine if advantageous changes should be made.

Where do you keep this plan? This plan is not a secret to be squirreled away. Share it with your spouse, children, partners, and close friends. They may not need to see all of the details until disaster strikes, but people need to be aware that you have taken the time to write out your management plans. These copies need to be dated and everyone needs to understand that you will periodically update this information. If you choose to keep the plans on your computer then you need to share passwords; otherwise, it is worse than a locked box. In any case a hard copy kept in a location away from the computer is always useful to have.

Planning and fore-thought are keys to successfully managing your farm. Committing your management plan to writing for your temporary stand-in is but one way to insure your management continues during the time you can't do it yourself.

USDA Takes Action on Mandatory Country of Origin Labeling

USDA Press Release No. 0195.08

[USDA Issues Mandatory Country of Origin Labeling \(COOL\) Interim Final Rule- Federal Register Notice \(PDF\)](#)

WASHINGTON, July 29, 2008 -- The U.S. Department of Agriculture today issued an interim final rule for the mandatory country of origin labeling (COOL) program that will become effective on September 30.

The rule covers muscle cuts and ground beef (including veal), lamb, chicken, goat, and pork; perishable agricultural commodities (fresh and frozen fruits and vegetables); macadamia nuts; pecans; ginseng; and peanuts -- as required by the 2002 and 2008 Farm Bills. USDA implemented the COOL program for fish and shellfish covered commodities in October 2004. Commodities covered under COOL must be labeled at retail to indicate their country of origin. However, they are excluded from mandatory COOL if they are an ingredient in a processed food item.

USDA has also revised the definition of a processed food item so that items derived from a covered commodity that has undergone a physical or chemical change (e.g. cooking, curing, smoking) or that has been combined with other covered commodities or other substantive food components (e.g. chocolate, breading, tomato sauce) are excluded from COOL labeling. Food service establishments, such as restaurants, lunchrooms, cafeterias, food stands, bars, lounges, and similar enterprises are exempt from the mandatory country of origin labeling requirements.

The rule outlines the requirements for labeling covered commodities. It reduces the recordkeeping retention requirements for suppliers and centrally-located retail records to one year and removes the requirement to maintain records at the retail store. The law provides for penalties for both suppliers and retailers found in violation of the law of up to \$1,000 per violation.

The rule will become effective on September 30, 2008. To allow time for covered commodities that are already in the chain of commerce -- and for which no origin information is known or been provided -- to clear the system, the requirements of this rule will not apply to covered commodities produced or packaged before Sept. 30, 2008.

The rule prescribes specific criteria that must be met for a covered commodity to bear a "United States country of origin" declaration. In addition, the rule also contains provisions for labeling covered commodities of foreign origin, meat products from multiple origins, ground meat products, as well as commingled covered commodities.

USDA plans to conduct education and outreach activities during the six months following the rule's effective date to help the industry comply with the law.

The full text of the interim final rule will be published in the August 1, 2008, Federal Register. Copies of the interim final rule and additional information can be found at: <http://www.ams.usda.gov/COOL> .

Farmers Market not Tax Exempt

By L. Leon Geyer (geyer@vt.edu), Professor, Agricultural Law, Department of Agricultural and Applied Economics, Virginia Tech

In a private letter ruling [Priv. Ltr. Rul. 200818028 (Feb. 8, 2008)], a farmers market was held not to be a tax exempt organization. Tax exempt non-profit organizations are commonly called a 501(c)(3).

Farmers often collectively form an organization such as a farmers market to promote direct marketing of farm products, handcrafted goods, and to operate a farmer's market. Membership is available for anyone who sells locally grown farm products and similar goods, such as flowers and artisan crafts. Members may be charged rent for space in the market or for related marketing and advertising services.

Most of the activity is devoted to promotion and marketing of the farmers market, market the farmers produce for profit, operation of the market, such as rent, insurance, supplies, and professional fees. Rules may cover the obligations of vendors to clean up their assigned areas, ensure health codes are followed, and conform to the market's operating hours.

An organization is not exempt from taxation merely because its operations are not conducted to produce a profit. To be a charitable organization the organization must operate exclusively for one or more of the purposes described in section 501(c)(3) of the Code and regulations.

Section 501(c)(3) of the Code provides for the exemption of organizations organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

The regulations require an organization to show that it is not organized or operated for private interests in order to be exempt under section 501(c)(3) of the Code. When a group of individuals associate to provide a service for themselves, they are serving a private interest. Where a farmers market's primary activity is providing a location for members to sell goods and promotion of their sales activity, ninety percent of your funding comes from those same individuals, and all or most of the directors are vendors at the market and personally benefit from your operation, the market is not a tax exempt organization according to the IRS. These facts demonstrate that the market provides a substantial private benefit to the farmers market members.

The presence of a single substantial non-exempt purpose will prevent the grant of tax-exemption.

Based on the above facts, the IRS concluded in the private letter ruling that farmers markets which provide a substantial benefit to farmers/sellers do not meet the operation test for exemption under section 501(c)(3) of the Code. Farmers markets are operating for the mutual benefit of its members and in a manner indistinguishable from commercial entities. Therefore, a tax free benefit for a farmers market would not serve a public interest as required by section 501(c)(3) of IRS regulations.

Accordingly, farmers markets are generally not exempt as a §501 (c) (3) charitable organization and must file the appropriate federal income tax returns.

The Management Calendar

By Gordon Groover (xgrover@vt.edu), Extension Economist, Farm Management, Department of Agricultural and Applied Economics, Virginia Tech

All farmers and their advisors need to have an understanding of the Food, Conservation and Energy Act (FCEA) of 2008, AKA the 2008 Farm Bill. Listed below are three sources of information to help in this process.

- An overview presentation by Dr. Jim Pease on the major agricultural provision of the [Farm Bill 2008](#).
- A summary and overview of the 2008 Farm Bill titled “[Updating the Farm Bill Safety Net in an Expanding Sea of Risk](#),” by Wes Harris, Brad Lubben, James Novak, and Larry Sanders.
- Presentations from the [National Farm Bill Training](#), July 8-9, 2008 in Kansas City with 90 participants from around the nation.

Farm business managers, consider the following sources of information and activities to put on your management calendars for August-September.

- Sign-up for the 2008 Direct and Counter-cyclical Payment Program (DCP) until September 30, 2008. While you are at the FSA office, ask about new provision and signup dates for the 2008 Farm Bill. Many of these new provisions will be in stages over the next year so make sure to stay informed.
- Input prices (fertilizer, fuel, chemicals, etc.) are rumored to be much higher next year. Look for alternatives, volume discounts, and pre-season purchases, use of manure, and over-seeding with legumes. Make sure you push a pencil or the computer to see the impact of these decisions. For example, use of covers in place of nitrogen on pastures and grass hay crops or soybeans versus corn. Finally if you pre-purchase inputs for 2009 be sure to consider the tax implications, e.g. that you will have enough income in 2008 to cover the added expenses of purchased inputs for next year.
- As harvest time approaches, be sure to get your crop records in shape. Include yields, machine times, and equipment used (this information will help with next year’s

budgeting); identify weed problems and differences in hybrids. In addition to recording information on weeds, etc., think about labor constraints and bottlenecks slowing down tasks during the harvest season. Have employees and family members record problems and successes (maybe give them a cash payment for each problem identified). When the crunch is over, spend a couple hours reviewing notes on what can be done next year to solve the problems and duplicate the successes. During the post-harvest review make sure the discussion centers on how to resolve problems, not who to blame. Also take a close look at the yield potential of each field; with input costs at their current levels, some fields may no longer provide sufficient profit margin during periods of moderate drought – changing crops may provide that hedge against a major loss.

- Always pay close attention to cash flow needs as you generate cash reserves during fall harvest and get ready for real estate and personal property taxes this winter. Almost all computerized recordkeeping software, e.g. Quicken® or Microsoft Money® and accounting software, e.g. QuickBooks® or FarmWorks, create cash flow reports that assist in managing cash available for debt service, family living, and cash expenses. Compare this year's cash flow to the budgeted amount and highlight deviations. If you did not develop a budget for this year, compare your inflows and outflow to last year's August totals. Make sure you have a series of possible plans to address any projected cash short falls. Projected surplus should be added to your retirement program, e.g.'s, 401-K's, or used to pay down debt.
- The time to make tax management decisions is quickly approaching. Make sure that you have set aside a few days in October to summarize all farm and family financial records and make an appointment now with your accountant to work on end-of-year tax management strategies.

48th Virginia Tech Income Tax School

By L. Leon Geyer (gever@vt.edu), Professor, Agricultural Law, Department of Agricultural and Applied Economics, Virginia Tech

This fall we have three seminars to offer:

1. General Income Tax Seminar

Two days of general sessions of intensive study with farm, Maryland tax, and ethics sessions at selected locations (see Table 1). More info at: <http://www.tax.vt.edu/index.html>

Topics covered in the general sessions

- New Legislation
- Financial Distress
- IRS Issues
- Business Entities
- Retirement
- Loss Deduction Limits
- Military Issues
- Automobiles
- Investment Issues
- Restaurant and Hospitality Business
- Business Issues
- Individual Tax Payer Issues
- Rulings and Cases
- Depreciation
- IRS Issues
- Tax Rates and Useful Tables
- Evening Sessions
 - Farm Session
 - Maryland Tax Session (\$20 extra)
 - Ethics Session

Table 1: General Sessions				
Site	Date General Session 16hrs.	Farm Session 2hrs.	Maryland Session 2hrs.	\$20 extra Ethics Session 2hrs.
Richmond I	November 3 - 4	Day 1	none	Day 2
Staunton	November 5 - 6	Day 1	none	Day 2
Bristol	November 10 - 11	Day 1	none	Day 2
Roanoke	November 12 - 13	Day 1	none	Day 2
Falls Church	November 17 – 18	none	none	none
Lynchburg	November 19 - 20	Day 1	none	Day 2
Reston	December 1 – 2	none	Day 1	Day 2
Fredericksburg	December 3 – 4	Day 1	none	Day 2
Williamsburg	December 8 – 9	Day 1	none	Day 2
Chesapeake	December 10 - 11	none	none	Day 2
Richmond II	December 15 – 16	none	none	Day 2

2. Introductory Tax Preparation

Three 1-day seminars on Introductory Tax Preparation are scheduled for 4 locations and held in January 2008 (Table 2). These Introductory Tax Preparation Seminars are designed for those who are new or returning to tax preparation and want a course in basic preparation for a professional. The course is based on the 1040 Form. Other forms are discussed in terms of income and the 1040 form.

Table 2: Introductory Tax Preparation Seminars		
Site	Date	Time
Roanoke	Jan. 5, 2009	8:30-4:45
Falls Church	Jan. 6, 2009	8:30-4:45*
Hampton Roads	Jan. 9, 2009	8:30-4:45
Richmond	Jan. 10, 2009	8:30-4:45

*Tentative Dates

3. Technology Seminar to be held in November and December 2008

Technology Seminar is designed for tax professionals who want to better understand the role of technology in their practice. The course covers the implementation and implications of tax software, database management, and a paperless office. Time is also given to legal requirements and the liability implications of information management in your practice.

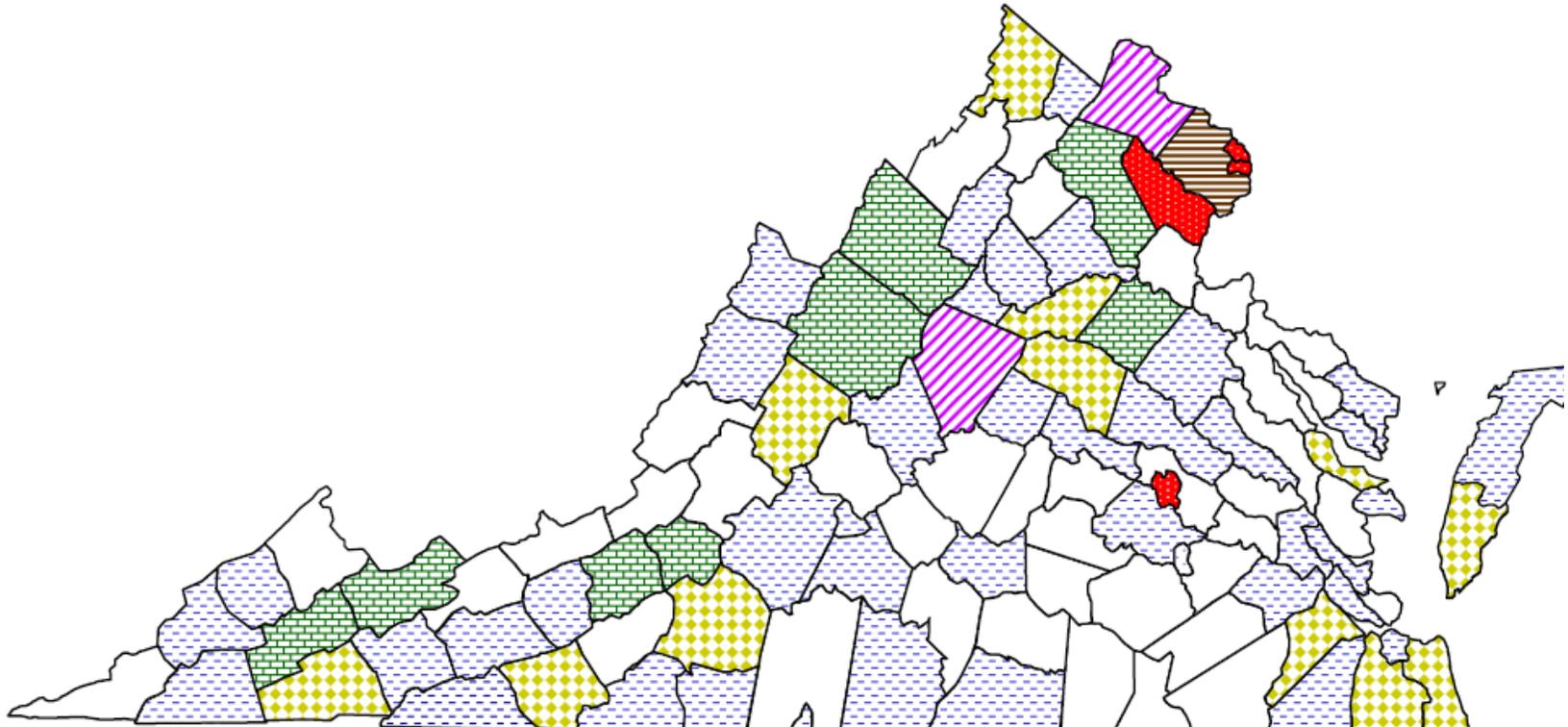
Site	Date	Time
Roanoke	November 14	8:30-4:45
Fredericksburg	December 5	8:30-4:45
Chesapeake	December 12	8:30-4:45
Richmond	December 17	8:30-4:45

For more information, contact the registrar:

Income Tax School Registrar
Mail Code 0272
Blacksburg, VA 24061
Fax: (540) 231-3306
Phone: (540) 231-5182
Email: vttax@vt.edu
Web Page: www.tax.vt.edu

Virginia Farmers' Markets

By Matthew Benson (mcbenson@vt.edu), Extension Specialist, Community Viability, Northern District



Legend:

- 0 farmers' markets = [white box]
- 1 farmers' markets = [blue dotted box]
- 2 farmers' markets = [yellow dotted box]
- 3 farmers' markets = [green grid box]
- 4 farmers' markets = [red dotted box]
- 5 - 9 farmers' markets = [pink diagonal lines box]
- 10 - 15 farmers' markets = [grey grid box]
- 15+ farmers' markets = [brown horizontal lines box]

For the purpose of this map, a farmers' market is defined as collection of farmers at a central local place, regularly selling a variety of food, farm and value added products.

This map was developed from information provided by the Virginia Department of Agricultural and Consumer Services, for the complete listing of Virginia's farmers markets please visit:

<http://info.ag.vt.edu/vce/offices/webinfo/files/va%20FMs-%20VCE5.pdf>

Calendar of Events

October

- 8-9 Mid-Atlantic Dairy Grazing Conference and Organic Field Day. Shenandoah Valley. The agenda can be found at <http://www.wvu.edu/~agexten/upevent/08MidAtlanticDairyGrazingConf.pdf>. Contact the Augusta County Extension Office for details at (540) 245-5750.

November

- 3-4 Income Tax Seminar. Richmond I. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$265; after October 1: \$295. A two-hour farm session is offered on Day 1. No Maryland session offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.
- 5-6 Income Tax Seminar. Staunton. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$245; after October 1: \$275. A two-hour farm session is offered on Day 1. No Maryland session offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.
- 10-11 Income Tax Seminar. Bristol. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$245; after October 1: \$275. A two-hour farm session is offered on Day 1. No Maryland session offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.
- 12-13 Income Tax Seminar. Roanoke. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$245; after October 1: \$275. A two-hour farm session is offered on Day 1. No Maryland session offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.
- 14 Technology Seminar. Roanoke. 8:30 AM – 4:45 PM. Cost: \$125; after October 14: \$145. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.
- 17-18 Income Tax Seminar. Falls Church. General Session: 7:30 AM – 3:45 PM. Cost: \$275; after October 1: \$305. No farm session, Maryland session, or ethics session is offered at this location. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

19-20 Income Tax Seminar. Lynchburg. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$245; after October 1: \$275. A two-hour farm session is offered on Day 1. No Maryland session offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

December

1-2 Income Tax Seminar. Reston. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$275; after October 1: \$305. No farm session is offered at this location. The Maryland session is offered on Day 1. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

3-4 Income Tax Seminar. Fredericksburg. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$265; after October 1: \$295. A two-hour farm session is offered on Day 1. No Maryland session offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

5 Technology Seminar. Fredericksburg. 8:30 AM – 4:45 PM. Cost: \$125; after October 14: \$145. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

8-9 Income Tax Seminar. Williamsburg. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$265; after October 1: \$295. A two-hour farm session is offered on Day 1. No Maryland session offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

10-11 Income Tax Seminar. Chesapeake. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$265; after October 1: \$295. No farm session or Maryland session is offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

12 Technology Seminar. Chesapeake. 8:30 AM – 4:45 PM. Cost: \$125; after October 14: \$145. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

15-16 Income Tax Seminar. Richmond II. General Session: 8:30 AM – 4:45 PM; Evening Session: 5:00-7:00 PM. Cost: \$265; after October 1: \$295. No farm session or Maryland session is offered at this location. Ethics session offered on Day 2 is \$20 extra. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at vttax@vt.edu.

- 17 Technology Seminar. Richmond. 8:30 AM – 4:45 PM. Cost: \$125; after October 14: \$145. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at yttax@vt.edu.

January

- 5 Introductory Tax Preparation Seminar. Roanoke. 8:30 AM – 4:45 PM. Cost: \$125; after December 3: \$145. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at yttax@vt.edu.
- 6 Introductory Tax Preparation Seminar. Falls Church. 8:30 AM – 4:45 PM. Cost: \$125; after December 3: \$145. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at yttax@vt.edu.
- 9 Introductory Tax Preparation Seminar. Hampton Roads. 8:30 AM – 4:45 PM. Cost: \$125; after December 3: \$145. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at yttax@vt.edu.
- 10 Introductory Tax Preparation Seminar. Richmond. 8:30 AM – 4:45 PM. Cost: \$125; after December 3: \$145. Contact Income Tax School Registrar by phone at (540) 231-3306 or by email at yttax@vt.edu.