Virginia Cooperative Extension

Farm Business Management Update
December 2004 – January 2005

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 Website (at 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."

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Item Page

Virginia Tech
VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Issued in furtherance of Cooperative Extension work, Virginia Polytechnic Institute and State University, Virginia State University, and the U.S. Department of Agriculture cooperating. Patricia Sobrero, Director, Virginia Cooperative Extension, Virginia Tech, Blacksburg; Lorenza W. Lyons, Administrator, 1890 Extension Program, Virginia State, Petersburg.

VIRGINIA STATE UNIVERSITY

Denise Mainville Joins the Agricultural and Applied Economics Department

By Gordon Groover, Extension Economist, Farm Management, Agricultural and Applied Economics, Virginia Tech

January 10th will be Denise Mainville's first day on the job as the department's newest faculty member. Denise will hold a teaching and extension appointment in the area of agricultural marketing. She will begin teaching undergraduate marketing courses in the fall semester of 2005. Denise comes to Va Tech from a visiting Assistant Professorship at Michigan State (MSU) where she also received her M.S. and Ph.D. She has taught in the Food Industry Management program while at MSU, worked as an outreach specialist on an industry funded project studying the potential for fermented cherry and apple beverages, and has a worked on a number of international projects. We look forward to having her wealth of knowledge and skills applied to issues important to Virginia's agriculture and support in the classroom. Check the Department's website (http://www.aaec.vt.edu/aaec/) for Denise's contact information.

Alex White Returns to the Agricultural and Applied Economics Department

By Gordon Groover, Extension Economist, Farm Management, Agricultural and Applied Economics, Virginia Tech

Starting spring semester of 2005, Alex White will return to a half-time teaching position in the Department, and in the fall of 2005 he will become a full-time faculty member picking up a 50 percent extension appointment. Alex will be responsible for teaching the small business management and agricultural finance management courses. His extension responsibilities will center on retirement planning, estate planning, farm transition, and financial planning for agricultural families and small business owners. Alex received his B.S. and Ph.D. from Virginia Tech and M.S. from The Ohio State University. His knowledge and leadership in the classroom and in the field are a welcomed addition to the Department's mission to Virginia's agriculture. Welcome back! Check the Department's website (http://www.aaec.vt.edu/aaec/) for Alex's contact information.

Why Repeal of the Federal Estate Tax Hurts Virginia Farmers

By Jesse J. Richardson, Jr., J.D. Associate Professor, Urban Affairs and Planning, Virginia Tech

Introduction

On June 7, 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001. This act included a phased repeal of the federal estate tax (or "death tax" as it is called by its detractors). The act increases the amount of estate value exempt from federal estate tax on a phased basis until 2010, when the federal estate tax is eliminated. However, if Congress fails to act, the federal estate tax will revert to its prior status in 2011, with a $1 million unified credit against the federal estate tax (essentially, $1 million in estate value will be exempt from estate taxation). The tax rate on estates above $1 million will start at 55%.

Throughout the debates preceding the passage of federal estate tax repeal, during debates on whether the federal estate tax repeal should be made permanent, and during debates in the Virginia General Assembly on whether the state estate tax should be repealed, the family farmer has been held out by proponents of repeal as the primary beneficiary of a repeal. This article discusses why permanent repeal of the federal estate tax may prove harmful to the family farmer and agriculture.

The Estate Tax Impacts Very Few Farmers

Relatively few estates incur estate tax liability under the old rules. In 2001, only 51,841 of the 2.3 million deaths (2.2% of all deaths) incurred estate tax liability. In that year, estates paid a total of $23,532,542 in estate tax, or an average of $453,936 per estate.

Of the 51,841 taxable estates, 2,601 (5%) reported some farm property in 2001. This figure represents 0.11 percent (or about 1/9 of 1%) of all deaths. Table 1 shows the number of estates in each bracket and the average amount of farm property. As shown in Table 1, the 44 estates with assets of $20,000,000 or more reported significantly more farm property than any other group (almost five times that reported by estates between $10 million and $20 million).

Table 1. Average Value of Farm Property by Estate Tax Bracket

Tax Bracket	Number	Average Value of Farm Property
625,000 – 1,000,000	916	36,772
1,000,000 – 2,500,000	1,192	38,057
2,500,000 – 5,000,000	319	263,467
5,000,000 – 10,000,000	71	612,775
10,000,000 – 20,000,000	60	735,067
20,000,000 or more	44	3,389,841

Estate tax returns fail to include a separate category for farm real estate, which is included under “Other Real Estate.” A 2003 Congressional Research Service report estimates that in 2001, decedents with taxable estates owned $1.6 billion in farm real estate. This figure represents 1.28 percent of all taxable estate value. Total farm assets equaled 1.6 percent of total taxable estate value in 2001. In addition, the bulk of these assets are concentrated in taxable estates above $20 million.

In 1998, 642 of the 47,483 taxable estates included farm assets, including farm real estate, of at least one-half of the value of the gross estate. This represents 1.35% of taxable estates and almost 3/10 of 1% of decedents. Of the 2.3 million decedents in 1998, only 1,418 (6/100 of 1 percent) estates held family owned businesses or farms comprising a majority of the estate. The United States Department of Agriculture estimates that fewer than 6% of all farms had a net worth in excess of $1.3 million in 1998 and that only 1.5% had a net worth of over $3 million.

Several special provisions of the tax code allow farmers to avoid estate tax on a large portion of assets. Special use valuation can reduce the value of eligible farmland by 40-60% and sometimes more. Minority discounts for co-ownership (up to 20%) and discounts for lack of marketability of interests held by an entity like a corporation or limited liability company (up to 35%) also significantly reduce estate values for farmers. Internal Revenue Service regulations also allow a low interest rate (2%) for installment payment of federal estate tax attributable to a closely-held (i.e., family) businesses.

Under the old estate tax rules, each individual could pass $675,000 worth of assets to the next generation free of estate taxes. This amount was to increase to $1 million in 2006. If a husband and wife engaged in simple estate planning, with each spouse fully using the exemption, the couple could shield $1.35 million in 2001 and $2 million in 2006 under the old rules. Few farmers hold assets exceeding those values. In addition, the special rules that apply to farmers and closely-held businesses allow exemptions for values several times the standard exemptions. Simply put, very few farmers paid federal estate taxes under the old rules.

Stepped-Up Basis

Prior to the Act, property owned by decedents at their death received a "stepped-up" basis. The basis of property, in simple terms, is the purchase price plus the cost of any improvements, less depreciation deducted on a tax return. At death, the basis increased, or "stepped-up" to the fair market value of the property on the date of death. The federal government forgave income taxes on the increased value (capital gains).

Step-up will be limited if the estate tax is repealed. Under current law, after December 31, 2009, the stepped up basis will no longer apply. There will be a new requirement to file a return known as a Section 6018 return, the purpose of which is to report the cost basis to the heirs. Gift tax returns will be called a Section 6019 return.

The basis of property acquired from a decedent will then be the basis in the hands of the decedent or the fair market value of the property at the decedent's death, whichever is less.

A limited step-up exception of $1.3 million per decedent, which may be allocated among the various assets of the estate, remains after repeal under present law.

For property passing from husband to wife and vice versa there is an additional $3 million basis step up at death. Since these can be aggregated there will thus be a $4.3 million basis step up at the first death of a husband and wife and a $1.3 million step up at the second death. However, these exceptions cannot be applied to certain assets, like IRAs, qualified plans and annuities.

However, if the estate tax is repealed, the step-up will likely be eliminated, meaning that someone will pay income taxes on any increase in value of property, particularly real property. This would hurt farmers greatly.

Implications for Agriculture

Estate tax is paid by the wealthiest 2% of decedents. An even smaller proportion of farm estates pay the estate tax. If the estate tax is eliminated, the basis step-up at death will undoubtedly also be eliminated. Heirs at all levels of income will then pay income tax on the gains at the time of sale. Although the marginal income tax rates are lower than estate tax rates, a large number of farmers will have to pay the tax. In addition, the effective estate tax rate, due to the large exemptions, ranged from 5.45% to 26.81% in 1997. Those with estates between $5 million and 10 million paid the highest rate, while those with assets of $20 million or more paid only 14.6%. Effective income tax rates are likely comparable, but are paid by lower income taxpayers, like farmers. The income tax will tend to lock assets into families. In addition, it will be very difficult to prove basis.

Members of the over $20 million tax bracket receive an average benefit of $10,374,200 from federal estate tax repeal. Over time, this extremely wealthy group of landowners will presumably use this savings, in part, to purchase more farm assets. The proportion of land rented would therefore rise as farmers would increasingly struggle to compete for land ownership (Harl 2004).

Thus, elimination of the estate tax may will accelerate the trend of increasing concentration of wealth in the United States. Increasing concentration of wealth will lead to more non-farm investment capital flowing into farm assets.

Revenue lost from the estate tax shifts the burden to other taxes, most likely the income tax. Far more farmers pay income tax than pay estate tax. Therefore, farmers will likely pay more in overall taxes if the estate tax is eliminated.

Conclusions

Rhetoric in the debate over the estate (or "death") taxes leads one to believe that the family farmer suffers horribly under the old federal estate tax rules. When one examines the facts, however, very few farmers pay federal estate tax. Special rules give farmers the opportunity to shield far more than other Americans from the estate tax. Estate and transition planning allow farmers to take advantage of these benefits. Horror stories of heirs forced to sell the farm to pay estate tax result far more often from lack of planning than from the estate tax. Such a crippling burden only results when the farm family owns assets of over several million dollars and fails to plan. Farmers often suffer more from the force sale of assets to satisfy the needs of the non-farm heirs.

On the other hand, elimination of the estate tax would undoubtedly be coupled with the loss of stepped-up basis, a concept that greatly benefits owners of land, like farmers. Instead of a few extremely wealthy farmers paying estate tax, almost every farmer would pay income tax upon sale of property.

The federal estate tax repeal benefits only the incredibly wealthy. Farmers will potentially pay more.

This author predicts that Congress will reinstitute the federal estate tax but exempt estates of some amount greater than $1 million from the tax. The full stepped-up basis benefit will also return. Farmers will be better off in that scenario than with elimination of the federal estate tax.

With relatively simple estate planning and more complex transition planning, farmers will pay no estate tax under this projected regime.

Sources:

Congressional Research Service, Report for Congress- Asset Distribution of Taxable Estates: An Analysis, updated May 23, 2003.

Harl, Neil H. "Selected Policy Issues of Importance in Agriculture", Presented at the 25th Annual Meeting and Educational Conference of the American Agricultural Law Association, Des Moines, Iowa, October 1, 2004 (on file with author).

The Management Calendar

By Gordon Groover, Extension Economist, Farm Management, Agricultural and Applied Economics, Virginia Tech

Selective information available that might be useful:

- Interested in a variety of information about Virginia agriculture from apples to watermelons? Get a copy of the latest version of the *Virginia Agricultural Statistics Bulletin and Resource Directory Number 79.* The publication covers year 2003 and is published annually in September. You can download a copy by going to http://www.nass.usda.gov/va/bulletin2004.pdf. Note this 84-page publication may take awhile to download. A hard copy can be obtained by contacting Virginia Agricultural Statistics Service (VASS) via telephone (804) 771-2493 or e-mail: nass-va@nass.va.gov.

- Consider signing up for the USDA- Economic Research Service (ERS) magazine *Amber Waves* (http://www.ers.usda.gov/Amberwaves/). Articles highlight current economic and policy research conducted by ERS. Some examples of articles that appear in the November 2004 issue are *Farmland Retirement's Impact on Rural Growth; U.S. Peanut Sector Adapts to Major Policy Changes; Low-Skill Jobs: A Shrinking Share of the Rural Economy;* and *Devolution of Farm Programs Could Broaden States' Role in Ag Policy*. The on-line version is free and you can sign up to be notified via e-mail when the next issues is posted to the web by entering your e-mail address on the following site: http://www.ers.usda.gov/AmberWaves/About/

- Farmers now can now take care of all activities related to Loan Deficiency Payments (LDP) electronically via the *electronic Loan Deficiency Payment Service (eLDP).* eLDP is an internet-based service allowing producers to request LDPs online and, in most cases, receive approval and payment by direct deposit within 48 hours. eLDPs are available to eligible producers in all 50 states and are offered as an additional option to producers requesting an LDP. For additional details see your local FSA office or visit the eLDP site at http://www.fsa.usda.gov/egov/eldp_default.htm.

Farm business managers should consider putting the following activities on their management calendar for December-January.

- Before the end of the year (calendar tax year fillers) follow up on end-of-year tax management strategies recommended by tax advisor. Additional information can be found in IRS publication 225 *Farmer's Tax Guide* at http://www.irs.gov/pub/irs-pdf/p225.pdf. Hardcopies of *Farmer's Tax Guide* can be obtained from your local extension office or many of your public libraries.

- Begin closing out the farm books by collecting information for the farm net worth statement. Around the first of the year when you need to walk off all that holiday food, take a notepad or the camcorder out for a walk around the farm. Record number and approximate value of all the farm assets (cattle, tractors, machinery, buildings, inventories of grains and feedstuffs, chemicals, etc.) that can be organized on the asset side of the balance sheet. Be sure to save the notes or, better yet, place the recoding in a safe location (safety deposit box or fireproof box) for possible insurance claims. Review your end-of-year bank statements or contact your lender for current listings of your liabilities.

- If you are using cash accounting methods for tax purposes (computerized business records or hand kept), you need to make sure your actual records match the deposit and check dates for all claimed income and expenses. A quick check of the records will help address any problems that might arise at tax time.

- Plan to get all tax records summarized and to your tax advisor by February 1, and check with your Virginia Cooperative Extension's farm business management agent on farm-related changes in state and federal taxes. A listing of Virginia tax credits can be found at the following site: http://www.tax.virginia.gov/site.cfm?alias=TaxCredit. Make sure that your tax advisor is aware of these credits.

- Using last year's financial and production records, develop projected budgets, cash flow, and income statements for 2005.

- Depending on the type of farm, begin working on a marketing plan for 2004 by collecting information on prices and world market situations. Be sure to check with your local Farm Service Agency for changes in government programs and signup deadlines.

- Keep up-to-date on release of economic, crop conditions and estimates, world agricultural situation and outlook, and many other USDA reports by looking at the USDA report calendar at: http://www.usda.gov/news/releases/rptcal/calindex.htm.

- Check on crop insurance policies by visiting the Risk Management Agency website at http://www.rma.usda.gov/ to find an agent and to view the multitude of policies that are available in your area.

- Closeout and summarize livestock and/or crop records for 2004, noting problems that must be addressed when making cropping, feeding, and breeding decisions during 2005. Compare 2004 records to previous years looking for strengths and weakness.

- Review 2004's crop, hay, and livestock records for labor problems, bottlenecks, and down times. Include all employees in spotting and planning to correct labor bottlenecks. Draw up a labor flow chart listing estimated times and identify employees who will be responsible for major tasks.

- Schedule regular meeting with all workers and family members to discuss work activities as you gear up for the spring push. Make sure all workers feel free to suggest ways to improve efficiency.

Breaks for Virginia Farmers Relating to Sales Taxes

By Daniel Osborne, Extension Agent, Farm Business Management, Smyth County

When a farmer considers federal income taxes, state income taxes, self-employment taxes, sales taxes, and property taxes, over half of a dollar that the farmer earns could easily go towards taxes. Therefore, any tax break comes as welcome news. For quite some time now, Virginia farmers have been able to exempt farm supplies and equipment from sales taxes. However, because of a provision in the American Jobs Creation Act of 2004, farmers, as well as other taxpayers, might be able to take advantage of another tax break that relates to sales taxes.

First, let me explain the sales tax exemption for Virginia farmers just in case some of you are unaware or have forgotten about its provisions. Virginia Code Section 58.1-609.2(1) says that the Virginia retail sales and use tax shall not apply to purchases of certain items necessary for use in agricultural production for market. Included in this list of sales tax exempt items are farm supplies, livestock, farm machinery, and all other tangible personal property that is to be attached to farm real estate except for structural construction materials. The Virginia Tax Administrative Code (23VAC10-210-50) specifically declares that the following are "structural construction materials" and therefore subject to sales taxes: silos, barns, sheds, storage bins (not portable), greenhouses (including plastic covered houses), permanent fencing, fuel oil storage tanks, electrical wiring (except for wiring running from special purpose equipment to an on-off switch), plumbing (except as part of special purpose equipment), cattleguards, farrowing houses, and bulk tobacco curing barns.

To claim the sales tax exemption, farmers can simply present Form ST-18 to their vendors. A blank Form ST-18 can be obtained from Virginia's Tax Website at http://www.tax.virginia.gov/web_pdfs/busForms/fst18xx1_99.pdf.

The other possible tax break relating to sales tax is for federal income taxes. This possible tax break is not just available to farmers, but it is available to taxpayers in general. For the tax years 2004 and 2005, taxpayers can now choose to deduct one of the following as an itemized deduction: 1) state and local income taxes paid, 2) state and local sales taxes paid as supported by purchase receipts, or 3) estimated state and local sales taxes paid based upon tables determined for your state. In the past, only state and local income taxes paid were allowed as an itemized deduction. In Virginia, most taxpayers will still be better off deducting state and local income taxes, but if purchases of large items such as a new vehicle were made during the year, Virginia taxpayers will likely be better off deducting actual state and local sales taxes paid instead.

Since farm supplies are exempt from sales tax, Virginia farmers should have paid very little, if any, sales taxes for their ordinary farm expenses. If they did pay sales taxes on ordinary farm expenses, those taxes are directly deductible along with the other farm expenses. Structural components for farm real estate improvements are about the only thing for which Virginia farmers should be paying sales taxes. Sales taxes paid on these structural components are capitalized and depreciated along with the other costs of the improvement. Do not attempt to deduct sales taxes paid on farm related purchases as an itemized deduction on Schedule A. Schedule A is intended for non-business or personal items.

If you are a Virginia farmer and not currently taking advantage of the sales tax exemption on farm-related purchases, you will be able to cut your farm expenses by 4.5% by using this exemption. If you are a general taxpayer who has made or will make a purchase of a high cost personal item during 2004 or 2005, then you might be able to reduce your income tax liability by claiming the actual sales taxes paid. One thing is for sure, with so much of your earnings going towards taxes, every little bit of taxes saved will help.

Tobacco Buyout a Reality

Dixie Watts Reaves, Associate Professor, Agribusiness Management and Marketing, Agricultural and Applied Economics, Virginia Tech

After years of uncertainty surrounding the future of the tobacco program, and following major efforts by politicians and farm organizations, a tobacco buyout bill was signed by President Bush on October 22, 2004. The Tobacco Buyout Bill, a component of the American Jobs Creation Act of 2004 and officially named the Fair and Equitable Tobacco Reform, ends all aspects of the Federal tobacco marketing quota and price support programs, effective with the 2005 crop. When the marketing year officially ends (June 30, 2005, for flue-cured tobacco and September 30, 2005, for all other types), tobacco producers may market their tobacco to any buyer at any time. Beginning with the planting of the 2005 crops of tobacco, there will be no geographical or acreage restrictions.

Under the provisions of the buyout, tobacco quota holders and producers of quota tobacco will receive compensation, funded through assessments on manufacturers and importers of all tobacco products sold in the United States. Total assessments are estimated at $10.14 billion over a ten-year period.
Tobacco quota holders (who owned a farm as of the date the President signed the bill, with an established 2004 basic marketing quota on their farm) will receive a $7 per pound payment based on their basic quota at the 2002 marketing year level. Producers who produced quota tobacco in 2002, 2003, and 2004 will receive a $3 per pound payment, $1 per pound for each year he/she produced the tobacco. The payments will be made in ten equal annual installments beginning in

2005, although the exact date of the first payment is not yet known. Producers and quota owners will have the option of assigning their rights to the stream of payments to a financial institution, in exchange for a single lump-sum payment. Before deciding to accept a lump-sum payment, individuals should carefully assess the tax implications and fully understand the trade-offs associated with taking the one-time payment.

The Farm Service Agency of the United States Department of Agriculture will work with producers and quota owners in the disbursement of payments. FSA's question and answer website served as the source for the information contained in this article, and additional information can be found there (http://www.fsa.usda.gov/tobacco/Default.htm). Additional resources include the Agricultural Policy Analysis Center at the University of Tennessee (http://apacweb.ag.utk.edu/tobacco.html), the Tobacco Economics site at North Carolina State University (http://www.ces.ncsu.edu/depts/agecon/tobacco_econ/Buyout.html), and University of Tennessee at http://tobaccoinfo.utk.edu/.

Future of Virginia Farming

By Wayne Purcell, Alumni Distinguished Professor, Agricultural and Applied Economics, Virginia Tech

The Power Point presentation found at http://www.reap.vt.edu/publications/reports/Future%20of%20Farming.pdf was developed for a presentation to the Natural Resources Conservation Service this fall. The sections below are presented as subsets by slide numbers, the theme, and a brief description of what was said during the presentation. The slides can be viewed/downloaded for use in educational activities or other programs. If you have questions please contact me at purcell@vt.edu or call (540) 231-7725.

Slides 1-13 Background for Economic Development Needs in Rural Virginia

The intent here was to show how important effective economic development efforts and programs in rural Virginia will be to the future of farming in Virginia. Farm size in Virginia shows that 4.7% of Virginia farms, as defined by the Ag Census, generate over 70% of farm sales and that 8.3% generate over 80% of farm sales. The smaller farms with sales under $100,000 yearly generally do not make a major contribution to farm family income so quality off-farm jobs in our rural communities are very important. I go through some measures of how rural Virginia is lagging along several dimensions and present the $189 million annual subsidy to some 42 rural counties that was uncovered by the Rural Virginia Prosperity Commission. (You can get more detail at www.rvpc.vt.edu in the final report of the Commission. You might want to also look at the "Continuing Story of Rural Virginia" and then go to "pictorial version" where I am keeping this set of measures updated).

If economic development efforts are not successful in growing existing businesses or in other ways stimulating economic activity in our rural communities, some communities will struggle keeping stable ownership of land and families on the small, part-time farms because the off-farm jobs are not there or are not providing sufficient income.

Slides 14-27. The U.S. in a Global Commodity Market

The U.S. is struggling to maintain share of the world commodity market. With free trade under NAFTA and GATT, world supplies will expand until prices are driven down toward costs of production in the low cost country just as prices in the U.S. are driven down toward costs in the low cost producing region. The balance has already changed in soybeans. It will also change over time in wheat and corn. Without much detail, I mention that meats and dairy and similar higher value products are seeing increased exports and, by implication, suggest the importance for us to move into the high value areas and not always just try to compete in low-value and globally grown commodities.

Slides 28-72 Virginia in a U.S. and Global Commodity Market

Acreages in the U.S. and Virginia are shown for a number of Virginia grown commodities. Virginia is struggling in trying to compete in a low-price and low-cost commodity orientation in crops like corn for grain and that the lack of technology to improve our competitiveness in corn is putting the poultry, dairy, and swine sectors at risk. (And this situation adds to the importance of a winter grown feed grain like the new hull-free barley, but I do not mention this in the slides.) We are struggling in corn for grain and in turkeys where it will be important to get out of the commodity business and start to move to high value, but the state has not supported needed research efforts in these areas. Demand development and margins in turkeys show why the turkey sector is struggling in the commodity business with a void in new product offerings for years. This lack of new product development is very important in Virginia were corn costs are well above other states. In the growing wine sector, I see no concern to date with demand, rather they are focusing production toward an identified market and a profile of the Virginia consumer. Demand for wine has been increasing since 1993, but the increases that cover up the problems of high costs production and/or a commodity orientation are, maybe, still in front of us. Periods in 2003 after a world-wide surge in wine production in response the higher prices through the 1990s left producers in California's Napa Valley in a position where they could not even get a bid on their grapes. It is imperative that Virginia not try to compete in a commodity wine market. Mention of greenhouse/nursery and similar opportunities is made with reference to the fact that being located close to population makes a difference in these products.

Slides 73-80 Planning, Support for Research, Farm Policy, A Look Ahead

This section identifies issues like land use planning, farm policy subsidies, support (or lack of support) for new research and technology to get to high foodstuffs. Although I haven't provided much detail, I do not mean to suggest these factors will not be important to the future of farming in Virginia and each could use complete development.

The final three slides suggest the trends I see in farming in Virginia as I look to the future. I expect to see the downward trend in inflation-adjusted farm commodity sales continue in the future. I do believe we will see efforts for some of our smaller scale farmers to get out of the commodity business scale since I think the notion of permanent part-time farming in Virginia, which is so important to our rural communities, will grow in the future. My worry about the continued commodity orientation is that too few appreciate the inherent problems and pressures, and we will not, therefore, pay enough attention to the importance of moving to high value food and fiber products. Making the transition will require public support of research; development of network of retail outlets for farmer grown produce, nuts, berries; etc., and an appreciation of how important robust economic development is in our rural communities. I do not see widespread recognition across state leaders of the importance of all this.

International Study Tour to Spain

By Dixie Watts Reaves, Associate Professor, Agricultural and Applied Economics, Virginia Tech

Dixie Watts Reaves chaired an international research symposium in Valencia, Spain, comparing and contrasting food systems in different countries. The symposium concluded the 2004 Food Distribution Research Society Study Tour to Spain, which took place from June 20 through 26 in Madrid and Valencia. The official study tour began Monday morning in the conference room of the host hotel, the Crown Plaza Hotel, with a keynote address by Dr. Julian Briz of the University of Madrid. His presentation focused on food quality policy and traceability in the European Union and their role in competitiveness, control, and food safety.

Following the keynote address, the group toured Carrefour, a large retailer that is highly committed to traceability from farm to store shelf. Carrefour, headquartered in France, is the world's second largest retailer, behind Wal-Mart, and has been in Spain since 1975. Spain now represents 20% of the chain's business. In addition to touring the store, the group had a discussion with the store's director and the employees in charge of fresh products and quality control.

On Tuesday, the group toured Merca Madrid, a large wholesale market, home to the second largest fish market in the world. The market's 153 wholesalers sell to almost 20,000 retailers. In addition to markets for fish, Merca Madrid sells meats, fruits, vegetables, and flowers on its 176 hectare property. Also onsite are its logistics center, transportation facilities, two hotels, and a basically self-contained city (bank, shops, car dealership). Approximately 80% of the restaurants within a 200-mile radius send buyers directly to Merca Madrid, allowing them to purchase products for about 30% less than if they went through a produce buyer. Individual consumers can shop in the supermarket onsite for an entrance fee of one euro.

Wednesday was a travel day between Madrid and Valencia, with a number of stops along the way: the monastery in Ucles; Segobriga, Roman ruins dating to approximately 5 B.C.; and Alarcon, an eighth century village with narrow cobblestone streets and a castle that has been converted to a hotel. The last stop along the way was the town of Utiel, where the group toured a 200-year old wine cellar and the Bodego Cooperativa Utiel, a winery cooperative with 1,800 grower-members representing 4,000 hectares of production.

On Thursday, the group visited Anecoop, a second degree cooperative with 110 cooperatives as its members. The member cooperatives are composed of approximately 100,000 grower members. Anecoop is a market leader in the sale of fresh fruits and vegetables. Following a presentation about Anecoop's experimental farm, the group took a tour of their 17-hectare farm and greenhouses. The day concluded with a tour of the Instituto Valenciano de Investigaciones Agrarias, the Valencian Institute for Agricultural Research. Their work focuses on the development of new varieties, improvements in the production system, and plant protection issues. One of their current challenges is to develop a high quality mandarin product for the late season.

The study tour concluded with an international symposium on Friday. Speakers from the United States, Spain, and Japan shared information on a number of food distribution issues:

Sergio Mari Vidal & Elena Peris Moll, Polytechnic University of Valencia, “A General View of the Citrus Sector in Spain”

Masayoshi Kubo and Minjmaa Purevdorj, Kobe University, “Research on Future of Rice Production, Consumption and Maritime Transport on Each Area – Synthetic Prediction Method”

Dave Waters, University of Georgia, “Consumer Awareness and Attitudes Toward Irradiated Poultry Products”

Roger Hinson, Louisiana State University, “Responses by Small and Medium Sized Fruit and Vegetable Wholesalers to Industry Concentration”

Dixie Watts Reaves, Virginia Tech, “A Comparison of Cooperative Successes in the United States and Spain”

Shermain Hardesty, University of California-Davis, “Brandbuilding by Agricultural Marketing Cooperatives”

The 2004 Food Distribution Study Tour was a true success, and plans are underway for a possible tour to Thailand in 2006. Anyone interested in participating can contact Dixie Reaves at dixie@vt.edu.

New on the REAP Website (*http://www.reap.vt.edu)*

By Karen Mundy, Rural Economic Analysis Program, Communications Specialist, Agricultural and Applied Economics, Virginia Tech

REAP Report: ***Results of Agricultural and Horticultural Use-Value Taxation Program Survey*** by Gordon Groover, Robert Drumheller, Beth Ann Pelletier, and Jesse Richardson. Use-value programs of one sort or another are found in all 50 states. In Virginia, approximately 90 counties and cities have some form of land taxation based on land use. The Department of Agricultural and Applied Economics contracts with the State Land Evaluation Advisory Council (SLEAC) to develop “an objective methodology for estimating the use-value of land in agricultural and horticultural use.” The department is also responsible for maintaining the required data base and crop and livestock budgets.

To assist in determining the full range of procedures and implementation of the use-value taxation program, a survey . . . was conducted during October and November 2003. The purpose of the survey was to

- Seek ways to improve the accuracy and usefulness of agricultural and horticultural use-values,
- Understand how SLEAC estimates are being used by each jurisdiction, and
- Evaluate the best methods for providing educational and up-to-date information on the methods for calculating SLEAC values.

Survey results showed that respondents concerns focused on administrative implementation and conflicts arising from declining revenues. Policy makers need to develop comprehensive strategies to address protection of farmland and open space.

Calendar of Events

December

1-2 2004 Virginia Tech Income Tax Seminar. Fredericksburg, VA. Holiday Inn Select. Contact: Tax Seminar Registrar at (540) 231–2008 or E–mail: vttax@vt.edu

6-7 2004 Virginia Tech Income Tax Seminar. Williamsburg, VA. Radisson Fort Magruder Inn. Contact: Tax Seminar Registrar at (540) 231–2008 or E–mail: vttax@vt.edu

8-9 2004 Virginia Tech Income Tax Seminar. Chesapeake, VA. Holiday Inn (Greenbrier Parkway). Contact: Tax Seminar Registrar at (540) 231–2008 or E–mail: vttax@vt.edu

13-14 2004 Virginia Tech Income Tax Seminar. Richmond II (East), VA. Double Tree Hotel Richmond Airport. Contact: Tax Seminar Registrar at (540) 231–2008 or E–mail: vttax@vt.edu

January

26-29 2005 Virginia Grown Association Conference (VGAC). Richmond, VA. Holiday Inn Select Southside. Details to come.

February

23-26 2005 Mid-Atlantic Direct Marketing Conference & Trade Show, The National Conference Center, Lansdowne, VA. Contact: Cathy Belcher at (804) 786-4046 or E-mail: cbelcher@vdacs.state.va.us, or vist the conference website at http://www.madmc.com.