

Virginia Cooperative Extension



Farm Business Management Update October – November 2007

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

Karen Mundy
Rural Economic Analysis Program
Communications Specialist

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The Management Calendar

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

Listed below is information that maybe useful to add to your library and plan to read when the harvest season is over.

- eXtension for dairy is now no online at http://www.extension.org/dairy_cattle. This site is maintained by DAIReXNET a national, extension-driven web resource designed to meet the educational and decision-making needs of dairy producers, allied industry partners, extension educators, and consumers.
- Want to know how you stack up with other farmers across the US or which region has the lowest costs of production? View the commodity costs and returns web site hosted by USDA-ERS <http://www.ers.usda.gov/Data/CostsAndReturns/>. USDA has estimated annual production costs and returns and published accounts for major field crop and livestock enterprises since 1975. Cost and return estimates are reported for the U.S. and major production regions for corn, soybeans, wheat, cotton, grain sorghum, rice, peanuts, oats, barley, tobacco, milk, hogs, and cow-calf. These cost and return accounts are historical accounts based on the actual costs incurred by producers during each year.
- Interested in tracking U.S. fertilizer use and prices? See the USDA-ERS web site for historical data at: <http://www.ers.usda.gov/Data/FertilizerUse/>. This product brings together 1960-2006 data on fertilizer consumption in the United States by plant nutrient and major selected product, as well as consumption of mixed fertilizers, secondary nutrients, and micronutrients. Share of crop area receiving fertilizer and fertilizer use per receiving acre by nutrient are presented for the major producing states for corn, cotton, soybeans, and wheat. Additional data include fertilizer farm prices and indices of wholesale fertilizer price.
- What does it mean to say we live or work in rural America? USDA-ERS annually produces a report that summarizes what's going on in the rural areas of the US. It can be found at their web site: <http://www.ers.usda.gov/Publications/EIB31/>. "Rural America At A Glance, 2007" highlights the most recent indicators of social and economic conditions in rural areas for use in developing policies and programs to assist rural areas. The brochure provides information on key rural conditions and trends for use by public and private decision makers and others involved in efforts to enhance the economic opportunities and quality of life for rural people and their communities.
- Interested in a variety of information about Virginia agriculture from apples to watermelons? Get a copy of the Virginia Agricultural Statistics Bulletin and Resource Directory Number 80. The publication covers year 2006 and is published annually in September. You can download a copy by going to http://www.nass.usda.gov/Statistics_by_State/Virginia/Publications/Annual_Statistical_Bulletin/index.asp#general. A hard copy can be obtained by contacting Virginia Agricultural Statistics Service (VASS) via telephone (804) 771-2493 or e-mail nass-va@nass.usda.gov.

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

- Time to order your farm record book: As we enter the last quarter of 2007, it is time to order a new copy of the Virginia Cooperative Extension “Farm Record Book: Expenses and Receipts” (Publication 446-017). This 120-page record book provides an organized way of keeping track of annual financial, labor and personnel, and production related records. It provides forms for many categories of expenses, receipts, labor, and financial summaries to meet the needs of most agriculturally related businesses using cash accounting methods. Column headings are included for major items with some columns remaining blank for your own headings. Forms are arranged to facilitate transferring totals to income tax forms (Schedule F, tax depreciation, and Form 4797) and to help complete end-of-the-year analysis. Virginia Cooperative Extension “Farm Record Book: Expenses and Receipts” is available from Virginia Cooperative Extension for \$12.00. Call your local extension office and request the order form VCE Publication 446-016 or contact me at 540-231-5850.
- Farmers faced with high input costs or low returns driven by drought can look to their top five cash expenses as a way to reduce costs in the short run. Total all expenses and estimate spending for the remainder of the year. Then identify the largest expense items and review each, looking for ways to reduce spending. Ask questions: Are there lower priced alternatives? Is this item needed? If I reduce usage, will output be reduced? Also, make use of local experts for advice on ways to improve costs management.
- Once the crops are harvested, get the farm financial records summarized, updating the third-quarter cash flow and comparing it to your projections. Watch for problems. Actual inflows or outflows that differ from your projections may not signal a problem, but understanding why you have differences helps you understand changes in the farm business.
- Using the last three-quarters of cash flow and financial records, estimate total farm expenses, income, and capital purchases and sales. Then make an appointment with your tax advisor to plan year-end tax management strategies. Be sure to estimate crop insurance payments and any government payments that will appear on this year’s taxes. To take full advantage of year-end tax management strategies, farmers must make decisions before December 31, 2007. Be sure to review changes to state and federal tax laws with your tax advisor to make sure you have not missed deductions and/or credits.
- Farm business managers should never lose sight of the two objectives of tax management: 1) all decisions, including tax management, should be made to improve the long-term survivability and profitability of the business, and 2) tax management tools are used to level out the year-to-year swings in reported income and subsequent taxes paid. You can use the multitude of tools and techniques written into the tax code for farmers and all businesses to manage income and expenses and to even out the wide swings in annual profits and losses that many farmers experience. Leveling out the income tax liabilities year-to-year will lead to lower total taxes being paid.
- Be sure to keep crop records up-to-date during harvest: include yields, machine times and equipment used, weed problems, and differences in hybrids. If you’re moving up in the information age, consider the fully integrated record keeping systems using yield monitors, GPS, handheld computers, and management software on your office computer.

One example of this whole farm system (includes accounting, personnel, and livestock records add-ons) is FarmWorks at <http://www.farmworks.com>.

- Be sure to keep livestock records up-to-date during fall sales. At a minimum, include weight, grade, sale prices, and identification numbers of all calves sold and/or purchased.
- Be sure to check on crop insurance policies. A list on agents in your area can be found at <http://www3.rma.usda.gov/apps/agents/>. Check the following web site for closing dates for all insurance policies: <http://www.rma.usda.gov/data/sales-closing-dates/>

Managing for Good Times and Difficult Times

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

WOW are these good times or bad times? Considering that we have high grain, milk, and livestock prices but high feed prices and drought conditions and shaky financial conditions, who knows? Yet managers must make decisions before this dust settles. General Dwight D. Eisenhower is reported to have said, "The planning is more important than the plan." The same strategies can be applied to difficult or uncertain times on the battlefield, cornfield, or hayfield. Developing the "ultimate" management plan that is filed away or even framed and displayed on the office wall for all to see is a myth. The "ultimate" plan is not a one time endeavor that will direct the farm's activities for the next 10 years. The "ultimate" plan is a process of continually thinking through, fine-tuning, and reworking to address changes in the business and family environment to reach long-term business and personal missions. This type of planning trains the manager to quickly formulate strategies or plans that can help address problems or opportunities. Like athletes of equal ability, the one who trains and has a plan for how he/she will compete will have an edge over his/her competitors. Planning should be a dynamic process that evolves as individual, family, regional, national, and world events impact the family and business. The events of the last few years (downturn in the real estate markets, terrorism, war, drought, high and volatile commodity prices...) may have overwhelmed some farm business managers causing them to seek comfort and security in the known activities of production: feeding the cows, or working on equipments and tractors. This response is understandable, yet some managers see problems as signals to shift out of unprofitable or undesirable activities.

Why spend time planning when we cannot anticipate what the real world will dump in our laps the next day? The act of planning prepares us as individuals to understand the steps that are required to develop a plan to confront a problem or an opportunity. The process of planning involves three activities, the same as for an athlete: 1) mental, 2) fiscal (yes, they too need sponsors or a source of income), and 3) physical (pencil pushing or typing on a computer).

Mental training involves general and specific tasks. Managers that are flexible and can adjust to change are well read in their field and keep abreast of trends and changes in the world. To be prepared and knowledgeable of daily challenges makes time to 1) keep abreast of technological change in agricultural industry; 2) understand changing demographics leading to changes in demands for products, health trends, and competition; 3) keep up to date on technology changes in field and forage crops; 4) keep abreast of US and world economic conditions; 5) develop a list or library of management resources to draw on when needed to address a problem or

opportunity; and 6) use trustworthy individuals as a sounding board for plans, alternatives, and heads up on new challenges. These six items will provide the broad base of knowledge and skills to understand where the farm business fits within the agricultural industry, the business climate, and world situation.

Fiscal and Physical – Controlling the fiscal resources and having the physical discipline to manage the resources are the central points in planning for and making sound management decisions. The first and most important step, but maybe the least enjoyable, is the need to be skillful and knowledgeable about recordkeeping. Recordkeeping includes production records (e.g. livestock and crop records) as well as a basic knowledge of what information is needed to create cash flow, net worth, and profit and loss statements. The combined analysis of the farm business comparing your records to benchmark data for similar farms is the basis of fiscal management. Once you have used your records to document where the farm stands. What is next? Developing and gaining knowledge and skills that will allow you to project the farm's production and financial performance and to compare alternatives. A computer, spreadsheet, and other software tools will be very helpful in "what if" comparisons to understand how your farm business will react to problems and opportunities. Managers with limited time to "run the numbers" on multiple scenarios may want to employ an outsider (e.g. extension or a paid consultant) with skills to do the fine-tuning of the numbers and alternatives. However, good managers will be familiar with many of the common types of analysis and know how to interpret and critique the results regardless who does the analysis.

What about managing for difficult times? Managing for difficult times is no different than managing for good times. Developing a management plan for an expansion should have multiple scenarios on what strategies to employ if prices decline, if interest rates increase, if feed costs increase, and so on. Business managers should be planning and asking what if questions or developing strategies to address these questions. The most important decisions are not made in difficult times but in the good times. I'll repeat this one - *the most important decisions are not made in difficult times but in the good times*. The decisions you make in the good times set the stage for the outcome during the difficult times. Realizing positive cash flow after a few years of breakeven or shortfalls in cash flow are the time to make sure that all new investments reap the highest returns or benefit to the business. For example, replacing a combine because you need GPS guidance to improve labor efficiency, 0 percent financing is available, and you can expense the purchase to reduce your tax liabilities this year may not be the best choice. You should ask, "What are the alternatives to the purchase?" and "What long-term impact will it have on the survivability of the farm business?" In simpler terms, can you prove to your spouse or trusted friend that the business will be better off financially in five years because of this new investment?

In summary, the planning decisions and subsequent investment decisions made when the future is positive may be the decisions that limit your alternatives in difficult times. Make sure you plan with full knowledge of the downside risk.

New Publications

Agritourism is of growing importance in Virginia and offers great benefits to local communities and visitors. In addition to their ongoing operations, many agritourism businesses periodically hold special events. Adequate planning for these events helps ensure their success. This factsheet provides a checklist for agritourism firms to use to ensure that key aspects of preparation for the event are addressed. The publication is intended to help an existing operation host a special event. This publication authored by Denise Mainville, Extension Agricultural Economist, and Karen Mundy, Public Relations Specialist, in the Agricultural and Applied Economics Department titled "Preparing for an Agritourism Event: A Checklist." can be found by going to: <http://www.ext.vt.edu/pubs/agecon/448-501/448-501.html>.

A Comprehensive Approach to Farm Business Succession Planning

By Eric Eberly, Central District Farm Business Agent eeberly@vt.edu

This workshop is sponsored by Virginia Cooperative Extension, in cooperation with Virginia Tech and the NC Farm Transition Network, Inc. Topics discussed will provide an overview of the farm transition process for farm family members interested in learning more about the efficient transfer of farm operations between generations. It will also help aspiring and beginning farmers interested in understanding the issues surrounding their partnering with an established operator. Professionals who assist others with their estate and financial planning are encouraged to register to learn more about issues affecting their clients.

The speakers from Virginia Tech are Dr. L. Leon Geyer, Attorney and Professor, Agricultural and Applied Economics; Dr. Jesse Richardson, Attorney, Program Chair and Assistant Professor, Urban Affairs & Planning Coordinator; and Dr. Alex White, Instructor and Extension Specialist, Agricultural and Applied Economics. Each speaker draws on his experience to stress the importance of developing a farm business succession plan.

Date: Friday, November 16, 2007

Location: Southern Piedmont AREC, Blackstone, Virginia

Workshop Agenda

9:00 **Check-in – Coffee & Continental Breakfast**

9:30 **Welcome and Introduction to Farm Succession Planning and Risk Management
Basic Estate Planning – Communication, retirement, disability and estate planning
Evaluating the Farm Business – How many families will your farm business support?**

Noon **Lunch**

1:00 **Basic Succession Planning – Sharing income and transferring assets and management.**

Forms of Business Organization – Which business entity to choose and when to consider a change?

Tying it all together.

3:30 **Adjourn**

For more information about this workshop and registration contact Eric Eberly, Central District Farm Business Agent at 434-292-5331 Ext. 241 or by email eeberly@vt.edu .

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Registration Form

Registration is \$25 per individual or \$30 per couple. Add \$10 for each additional family member. Registration includes notebook materials, lunch, break drinks and snacks. **Pre-registration is required.**

Make check payable to “VCE-Nottoway County.” Mail registration and payment by **Friday, November 9, 2007** to Nottoway County Extension, P.O. Box 22, Nottoway, VA 23955.

Name _____ / (Last) _____ Spouse _____

Additional Family Members _____ Enclosed \$ _____

<div>_____</div> <div>Address</div> <div>_____</div> <div>City, State, Zipcode</div> <div>_____</div> <div>Telephone (Work, Home)</div> <div>E-mail: _____</div>	<div>Job or Status (Check all that apply):</div> <div><input type="checkbox"/> Farmer</div> <div><input type="checkbox"/> Non-Farmer</div> <div><input type="checkbox"/> Landowner</div> <div><input type="checkbox"/> Professional</div> <div><input type="checkbox"/> Government Employee</div>
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47th 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

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
- Rulings and Cases
- Individual Taxpayer Issues
- Depreciation
- Business Issues
- Agricultural Issues
- Business Entities
- Construction Contractors
- IRS Issues
- Retirement
- Estate and Gift Taxes
- Tax Rates and Useful Tables

Table 1: General Session				
Site	Date General Session 16hrs.	Farm Session 2hrs.	Maryland Session 2hrs.	\$20extra Ethics Session 2hrs.
Richmond I	Oct. 31 - Nov. 1	none	none	Day 1
Chesapeake	November 5 - 6	none	none	Day 1
Staunton/H'burg	November 7 - 8	Day 1	none	Day 2
Bristol	November 12 - 13	Day 1	none	Day 2
Roanoke	November 14 - 15	Day 1	none	Day 2
Lynchburg	November 19 - 20	Day 1	none	Day 2
Falls Church	Nov. 26 - 27	none	none	none
Fredericksburg	November 28 - 29	Day 1	TBA/None	Day 2
Williamsburg	December 3 - 4	Day 1	none	Day 2
Richmond II	December 10-11	Day 1		Day 2
Reston	December 17 - 18		TBA/none	Day 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 Seminar 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 Seminar

Table 2: Introductory Tax Preparation Seminar		
Site	Date	Time
Roanoke	Jan. 3, 2008	8:30-4:45
Fallschurch	Jan. 4, 2008	7:30-3:45
Richmond	Jan. 7, 2008	8:30-4:45
Hampton Roads	Jan. 8, 2008	8:30-4:45

Technology Seminar to be held in September 2007

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.

Table 3: Technology Seminar		
Site	Date	Time
Blacksburg	September 18	8:30-4:45
Richmond	September 25	8:30-4:45

For more info contact the registrar:

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

Calendar of Events

October

- 31 November 1 Income Tax Seminar. Richmond I, Glen Allen. On-line Registration available through **October 24, 2007**. No farm session available for this location. Ethics session \$20 extra. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu

November

- 5 – 6 Income Tax Seminar. Chesapeake. On-line Registration available through **October 29, 2007** No farm session available for this location. Ethics session \$20 extra. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 7 – 8 Income Tax Seminar. Staunton/Harrisonburg. On-line Registration available through **October 31, 2007**. Ethics session \$20 extra. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 12 – 13 Income Tax Seminar. Income Tax Seminar. Bristol. On-line Registration available through **November 5, 2007**. Ethics session \$20 extra. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 14 – 15 Income Tax Seminar. Roanoke. On-line Registration available through **November 7, 2007**. Ethics session \$20 extra. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 19 – 20 Income Tax Seminar. Lynchburg. On-line Registration available through **November 7, 2007**. Ethics session \$20 extra. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 26 – 27 Income Tax Seminar. Falls Church Express. On-line Registration available through **November 19, 2007** No farm session available for this location. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 28 – 29 Income Tax Seminar. Fredericksburg. Ethics session \$20 extra. On-line Registration available through **November 21, 2007**. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu

December

- 3 – 4 Income Tax Seminar. Williamsburg. Ethics session \$20 extra. On-line Registration available through **November 26, 2007**. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu

- 6 Connecting Farms, Food & Communities — Developing the Producer, Market Table Link. Graves Mountain Lodge, Syria, Virginia. Contact: Matt Benson at Phone: (540) 341-7961 or email: mcbenson@vt.edu
- 10 – 11 Income Tax Seminar. Richmond II. Ethics session \$20 extra. On-line Registration available through **December 3, 2007**. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 17 – 18 Income Tax Seminar. Reston. Ethics session \$20 extra. On-line Registration available through **October 29, 2007** No farm session available for this location. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu

January

- 3 Introductory Tax Seminars. Roanoke, Virginia Tech Roanoke Center. On-line Registration available through **December 26, 2007**. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 4 Introductory Tax Seminars. Falls Church, Virginia Tech Falls Church Center. On-line Registration available through **December 26, 2007**. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 7 Introductory Tax Seminars. Richmond, Virginia Tech Richmond Center. On-line Registration available through **December 31, 2007**. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu
- 8 Introductory Tax Seminars. Hampton Roads, Virginia Tech Hampton Roads Center. On-line Registration available through **December 31, 2007**. Contact: Income Tax School Registrar at Phone: (540) 231-5182, or e-mail: vttax@vt.edu.