

## Farm Budgets

Growing Your Farm Into A Business



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## Today's Topics

- What is a farm business?
  - Employee Identification Number (EINs)
  - Tax exemptions
  - Business structure options
  - Business planning
- What are farm budgets?
- Finding cost of production
  - Production vs. taxes
- Details are a must for success
- MSU resources



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## Business vs. Hobby

IRS Definition: A farm is a business if it...

Cultivates

Operates

Manages

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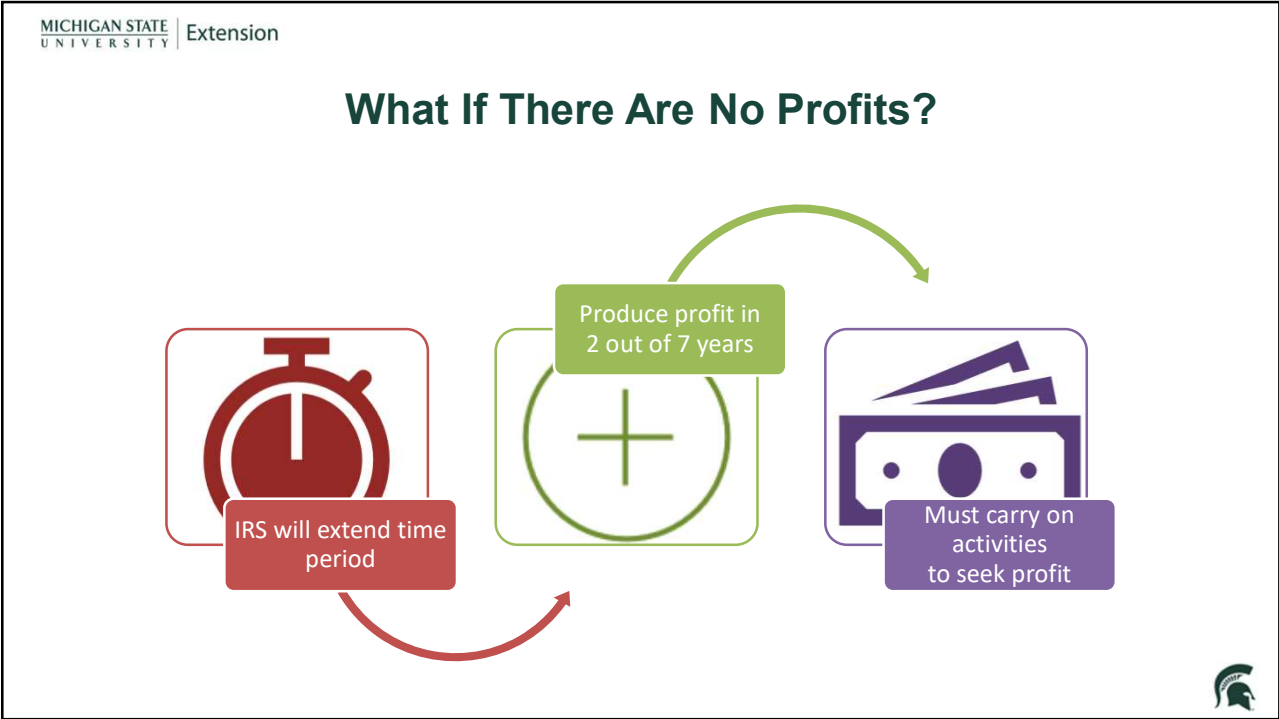
## Business vs. Hobby

Presumption of Profit:

If farm produces a profit

In 3 of last 5 tax years

Farm is a business (not a hobby)



## IRS Considers:

### Methods of Operation

- Operate in a businesslike manner
- Any business losses are from:
  - Circumstances beyond your control
  - Normal start-up costs of farming
- Future profits are expected
  - From appreciation of assets used in farming activities



## IRS Considers:

### Profit Motives

- Time and effort spent on farming indicates intention to be profitable
- You depend on farm income for your livelihood
- Methods of operation change in order to improve profitability

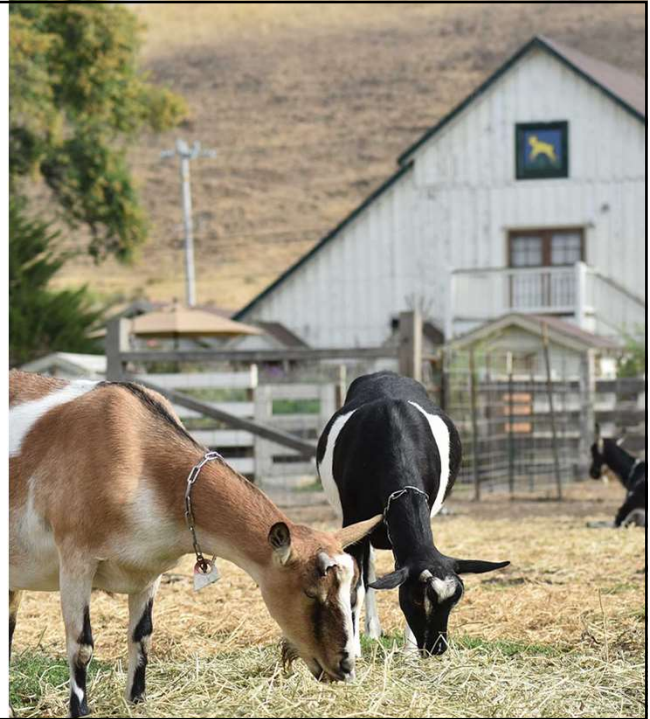




## IRS Considers:

### Historical Performance

- Farm has past success making profit using similar methods
- Profit is made in some years and amount of profit earned
- You (or your advisors) have needed knowledge to carry on a successful business



## Does Farm Need To Become A Business?

Choice rests with farm owners

Does tracking expenses or "for profit" activities take away from farm enjoyment?

Is farming more for recreation or added family income?

Hobby farms must still report any income to IRS (Even if only sold to neighbors)



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## Benefits of a Farm Business

**Tax Deductions**

Capital assets purchased are “depreciated” and treated as “expense”

- Farm expenses offset farm income

**Sales Tax Exemption**

Businesses don’t have to pay “sales tax” on inputs (i.e., fertilizer, chemicals)

- Requires completing “MI Sales and Use Tax Certificate of Exemption – Form 3372”

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## Employee Identification Number (EIN)

### What is an EIN Number?

+ Do You Need One?

Depends on business structure

- Corporations and partnerships require EINs
- Limited Liability Companies (LLCs) require EINs, if:
  - Two or more members
  - Single member and hiring employees
- Sole proprietors
  - Not needed, but can get EIN if desired
  - Most small or beginning farms are sole proprietors

Where can I obtain an EIN?

- IRS directly – apply online ([www.irs.gov](http://www.irs.gov))
- Fill out Form SS-4 and submit to IRS
  - Tax Accountant can assist

The image shows a portion of the IRS Form 990, specifically the 'Profit or Loss From Business' section. A large green text box is overlaid on the form with the text: 'What is an EIN Number? + Do You Need One?'. Arrows point from the text box to the 'Employer ID number (EIN)' field on the form.

Business Structures

Structure	Description	Easy to Form/Exit	Potential Tax Savings	Payroll	Balanced Books	Gov't Payment Limits
Sole Proprietorship	One person. You are the business.	X				
Partnership	Similar to sole proprietorship but allows for more than one person.	X			X	
Limited Liability Company (LLC)	Liability protection of corporation without the start-up complexity	X		X	X	X
S-Corporation	Corporate liability protection, but more like an LLC than C-Corp. Splits income between wages and pass through income.		X	X	X	X
C-Corporation	Corporate liability protection, but subject to double taxation. Allows for tax free fringe benefits.		X	X	X	X



## When Should Transition to Business Happen?

Depends on a few factors:

Income reaches a level that there are significant tax implications

Expenses reach a level that hobby is no longer affordable

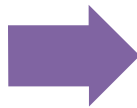
Personal choice and desire to pursue "business"



## How Should Transition to Business Happen?

Start with separate checking account for your new business

- Can also open a savings account, but not always needed



Decide which business structure works best for you

- Obtain EIN number and file paperwork (if needed)

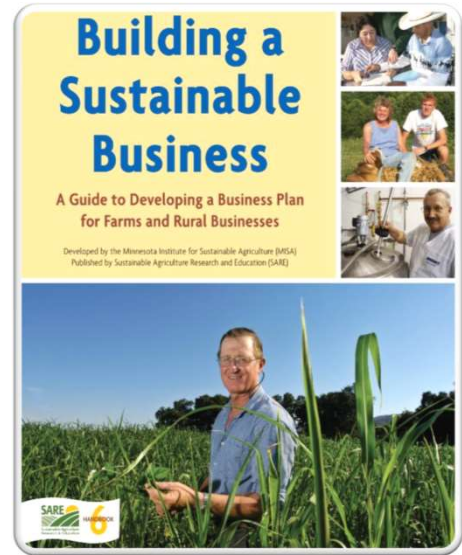




## How To Get Started

### Develop a Business Plan

- Blueprint of how your business starts
- Guidebook of how business intends to grow



## How To Get Started

What are your passions about raising produce?



Do they translate into a business?

What goals do you want to achieve?



## Business Planning Starts With → Marketing Plans

- Farm businesses must have products consumers are willing to buy
- Markets and Market Strategies
  - What are you marketing?
    - Meat, eggs, fruit, vegetables, dairy, processed products, agri-tourism, etc.
  - How are you marketing?
  - Where are you marketing?
  - Who is your competition in the market?
- 4P's of Marketing
  - Product, Price, Place, Promotion

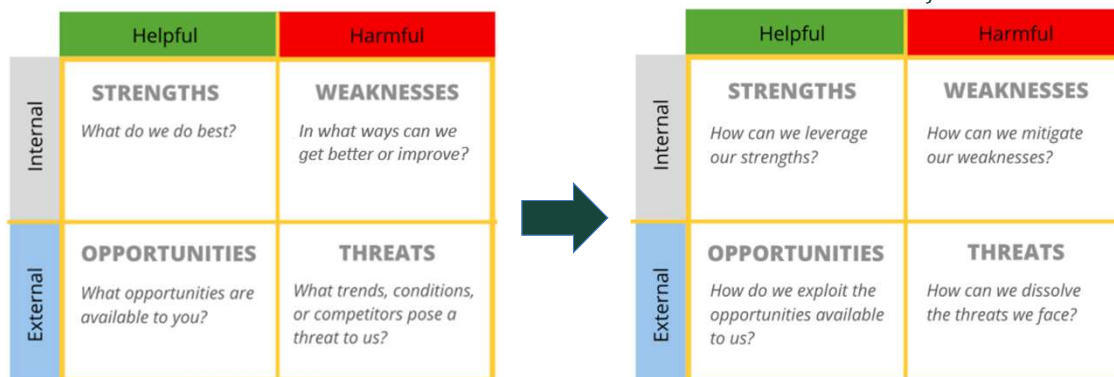


## Business Planning Starts With → Marketing Plans

### SWOT Analysis (active)

- Identify internal and external factors that are helpful and harmful to achieving farm goals

- Don't simply ask "what is?"
- Focus on "What do you do about it?"



## Business Planning

### Business Description

- Who are you?
- What do you do?
- Where are you located?
- Who are the farm owners?
- What business structure is your farm?



## Business Planning

### Management and Organization

- Who is involved in business?
- How are tasks being divided?
- How are employees managed?
- What professional services are part of your management team?



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## Business Planning

**Operations**

- What do you produce?
- What methods are used to produce it?
- How are methods managed?
- What risks are you exposed to and how are they managed?

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## Business Planning Finishes With → Financial Planning

Does this business plan make financial sense?

# AgPlan – Farm Business Planning App

**agplan**

### AgPlan Features

Business-Type Templates	Editor	Tips, Resources & Samples	Reviewers
<p>AgPlan is designed to provide customized assistance to different types of businesses.</p> <ul style="list-style-type: none"> <li>• Ag - Commodity</li> <li>• Ag - Value-Added</li> <li>• Organic Transition</li> <li>• Personal Plan</li> <li>• Small Business</li> </ul>	<p>Our feature-rich type editor acts just like your computer's word processor. For each section of your business plan write a concise statement that will let readers quickly understand the key points you want to communicate.</p>	<p>Each section of your AgPlan business plan includes Tips, Resources &amp; Samples to help you create the best business plan possible!</p>	<p>AgPlan allows you to share your business plan and interact with your business advisors, educators, or consultants.</p>

[agplan.umn.edu](http://agplan.umn.edu)



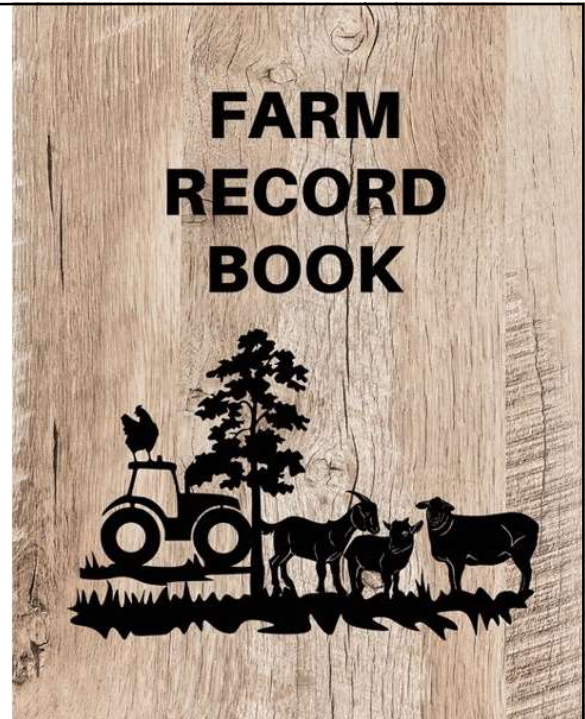
## Where Do Farm Budgets Fit Into All Of This??





## What are Farm Budgets?

- Goals for the year  
*(Production and Financial Achievements)*
- Reflection of farm's capabilities and concerns  
*(Strengths, Weaknesses, Opportunities, and Threats)*
- Reasonable and accurate expectations  
*(Historical "Cost of Production" vs Present Day )*
- Outline path to success  
*(What Can We Do To Achieve Our Goals?)*



## Why is Cost of Production a Big Deal?



Managers improve decision-making by understanding past performance



Cost of production is a financial representation of past performance



Comparing current budget helps guide and improve financial performance



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## How Do We Find Cost of Production?

### What is it not?

Only input costs (variable)

- Fertilizer, chemicals, fuel, etc.

Based on IRS Tax Return

- Income & expense from multiple years
  - Receivables/inventory sales (from 2020)
  - Production sales/costs (from 2021)
  - Pre-paid expenses (for 2022)


### What is it?

All costs to operating

- Fertilizer, chemicals, fuel (variable)
- Farm insurance, land rent, labor (fixed)
- Depreciation (wear and tear on assets)
  - Not the same as taxable depreciation


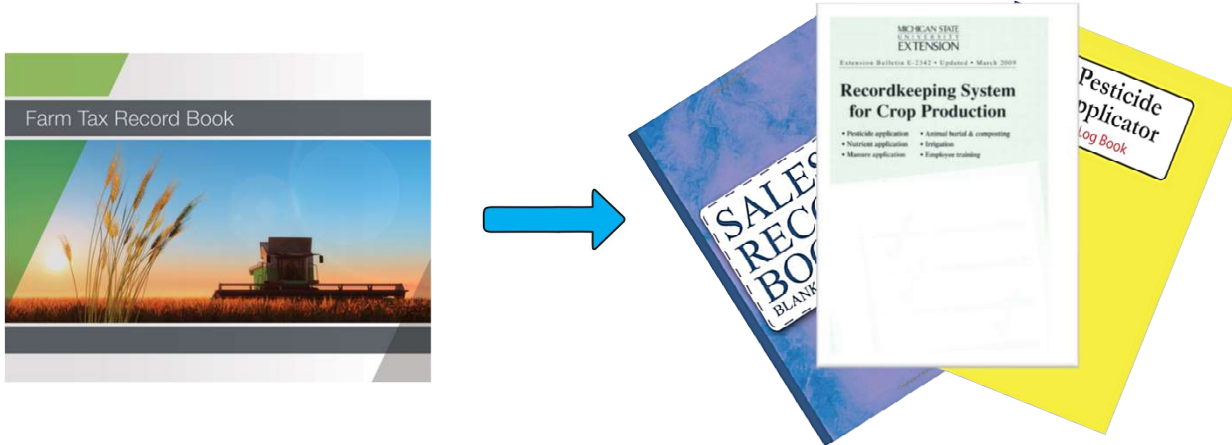
Based on Production Year

- Production sales/costs (from 2021)
- Pre-paid expenses (for 2021)
- Receivables/inventory value (from 2021)



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## How do we go from taxes to production year?



### Sweet Corn Example (5-acre farm)

**Actual**

	+	+	-	=	
	Pre-paid (2022) for 2023	In Year (2023) Cash Transaction	Pre-paid (2023) for 2024	Actual 2023 Total Expense	Cost/Acre
Seed	\$ 500.00	\$ 1,050.00	\$ 600.00	\$ 950.00	\$ 190.00
Nitrogen	\$ 300.00	\$ 425.00	\$ 250.00	\$ 475.00	\$ 95.00
	Balance Sheet	Income Statement "Tax Return"	Balance Sheet		

**What led to the differences?**

- Unforeseen Circumstances?
- Management Decisions?

**Why so similar?**

- Everything according to plan?
- Can we repeat what we did?

**Planned**

	Pounds/Acre	Price/Pound	Cost/Acre
Seed	15.00	\$ 12.00	\$ 180.00
Nitrogen	240.00	\$ 0.40	\$ 96.00



### Sweet Corn Example (5-acre farm)

**Actual**

-	+	+	=			
12/31/2022	Sales	12/31/2023	Actual 2023	Gross Income/Acre	Crates/Acre	\$/Crate
Accts Receivables	In Year (2023)	Accts Receivables	Total Income	\$ 3,000.00	320.00	\$ 9.38
\$ 2,000.00	\$ 14,500.00	\$ 2,500.00	\$ 15,000.00			
Balance Sheet	Income Statement "Tax Return"	Balance Sheet				

**What led to the lower yield?**

- Production impacts? (i.e., weather)
- Management Decisions? (i.e., planting, spraying)

**What led to the higher price?**

- Higher market demand?
- Marketing efforts?
  - If so, can we repeat them?

**Planned**


	\$/Crate	Crates/Acre	Gross Income/Acre
Income	\$ 9.00	340	\$ 3,060.00



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Farm Records... **MUST HAVE DETAILS!!!**

Expenses		Income	
Seed	can't just be "seed" Seed "cucumbers" Seed "pumpkins" Seed "sweet corn"	Sales	can't just be "sales" units sold (dozen, crates, cwts) price received
Fertilizer	can't just be "fertilizer" Fertilizer "cucumbers" Fertilizer "pumpkins" Fertilizer "sweet corn"	Sales	can't just be "sales" units sold (bucks, does, etc) price received
Feed	can't just be "feed" Feed "minerals" Feed "concentrate" Feed "hay"		



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## Details are a MUST for Success

Farms track production details (Why?)

- Understand farm's abilities  
*(Production history and potential)*
- Recognize areas of concern  
*(Limitations to reaching potential)*
- Address concerns & improve performance





## Details are a MUST for Success

Same reasons apply to farm records

- Understand what farm has achieved  
(Profitability, Cash Flow, Business Growth)
- Details allow true comparison to industry  
(Identify Areas of Concern)
- Records are foundation to this year's plan  
(Detailed Records Provide a Guide)

SIMPLE

## FARM MANAGEMENT

RECORD KEEPING BOOK

Farm Record Keeping Book								
Year:		Start Date:			End of Year:			
#	Type of Livestock	QTY	AVG Weight	Value	QTY	AVG Weight	Value	Balance

## Resources Available...

E-3423: Farm Management Experience Resource Guide

E-3411: Introduction to Cost of Production and Its Uses

Available at:  
[www.canr.msu.edu/demand/](http://www.canr.msu.edu/demand/)

## DEMaND

Developing and Educating Managers and New Decision-makers

**DEMaND**  
Developing and Educating Managers and New Decision-makers

**Farm Management Experience Resource Guide**

Are you planning to be the next generation farm operator? Whether you represent the youngest generation, the first generation to enter or join a new career in the business, a third role or management role or the second generation that provides leadership while maintaining the business and its tradition through the beginning Farmer DEMaND series offering articles, activities and additional resources.

Management experience is a career that you will find in all farm business operations, at a new level of responsibility. It is an important career choice that is not always well understood. It is a challenging career, and you will find it to be a rewarding one. This guide is designed to help you understand the importance of management experience in your business. These offerings are thoughtfully designed to help you succeed in your career.

Agribusiness (DEMaND) series offers articles, activities and additional resources. It is a challenging career choice that is not always well understood. It is a rewarding career, and you will find it to be a rewarding one. This guide is designed to help you understand the importance of management experience in your business. These offerings are thoughtfully designed to help you succeed in your career.

**DEMaND**  
Developing and Educating Managers and New Decision-makers

**Introduction to Cost of Production and Its Uses**

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**Variable Costs**

Variable costs are a portion of the total cost of production. Examples can include seed, fertilizer, fuel, and other inputs that are used in the production process. These offerings are thoughtfully designed to help you succeed in your career.



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# Session Survey




# Let us know how we did!


[https://msu.co1.qualtrics.com/jfe/form/SV\\_3vFK3l2yTsdYWO2](https://msu.co1.qualtrics.com/jfe/form/SV_3vFK3l2yTsdYWO2)



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Office of the Assistant Secretary for Civil Rights  
1420 Independence Avenue, SW  
Washington, D.C. 20250-9410  
**fax:**  
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