

Farm Business Management



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MICHIGAN STATE
UNIVERSITY

Extension



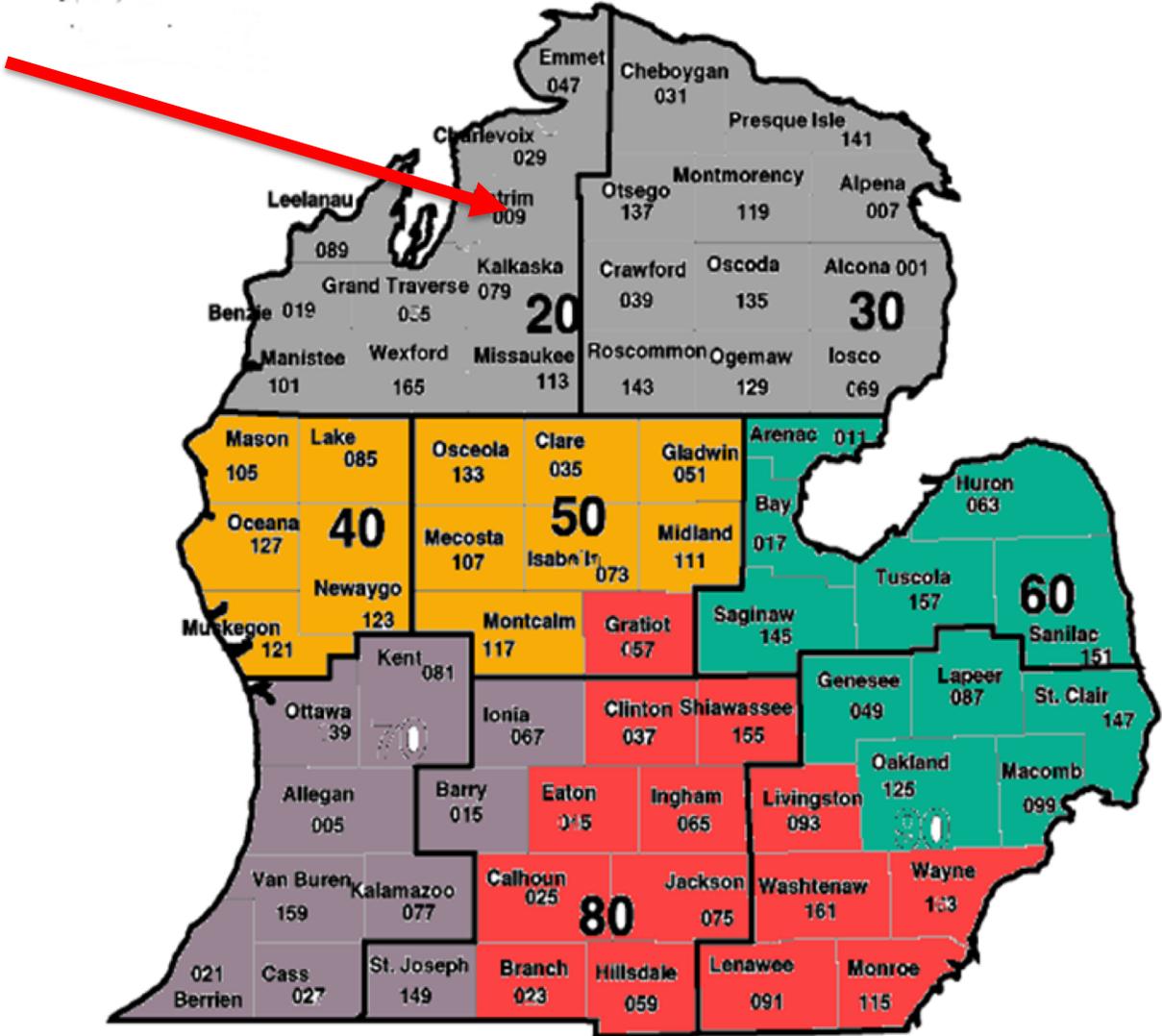
Farm Business Management Services

- Cost of Production
- Business Analysis
- Succession and Estate Planning
- Risk Management
- Labor Management
- Taxes
- Business Planning
- Farm Record Keeping



LP Farm Management Territories

Dan



Telfarm Program



- Began in 1928 with mail-in records
- Services today Include:
 - Bookkeeping with PcMars software
 - Campus support for bookkeeping software
 - Year-end tax estimation
 - Annual business analysis
 - Long run business projections and planning support



Farm Business Analysis

The Schedule F Dilemma

Jones Farm	
Gross income	\$500,000
Cash expenses	-450,000
Net cash income	50,000
Inventory change	+100,000
Depreciation	-40,000
Net farm income	110,000

Smith Farm	
Gross income	\$500,000
Cash expenses	-450,000
Net cash income	50,000
Inventory change	-100,000
Depreciation	-40,000
Net farm income	-90,000



Sch F vs. Accrual Net Income

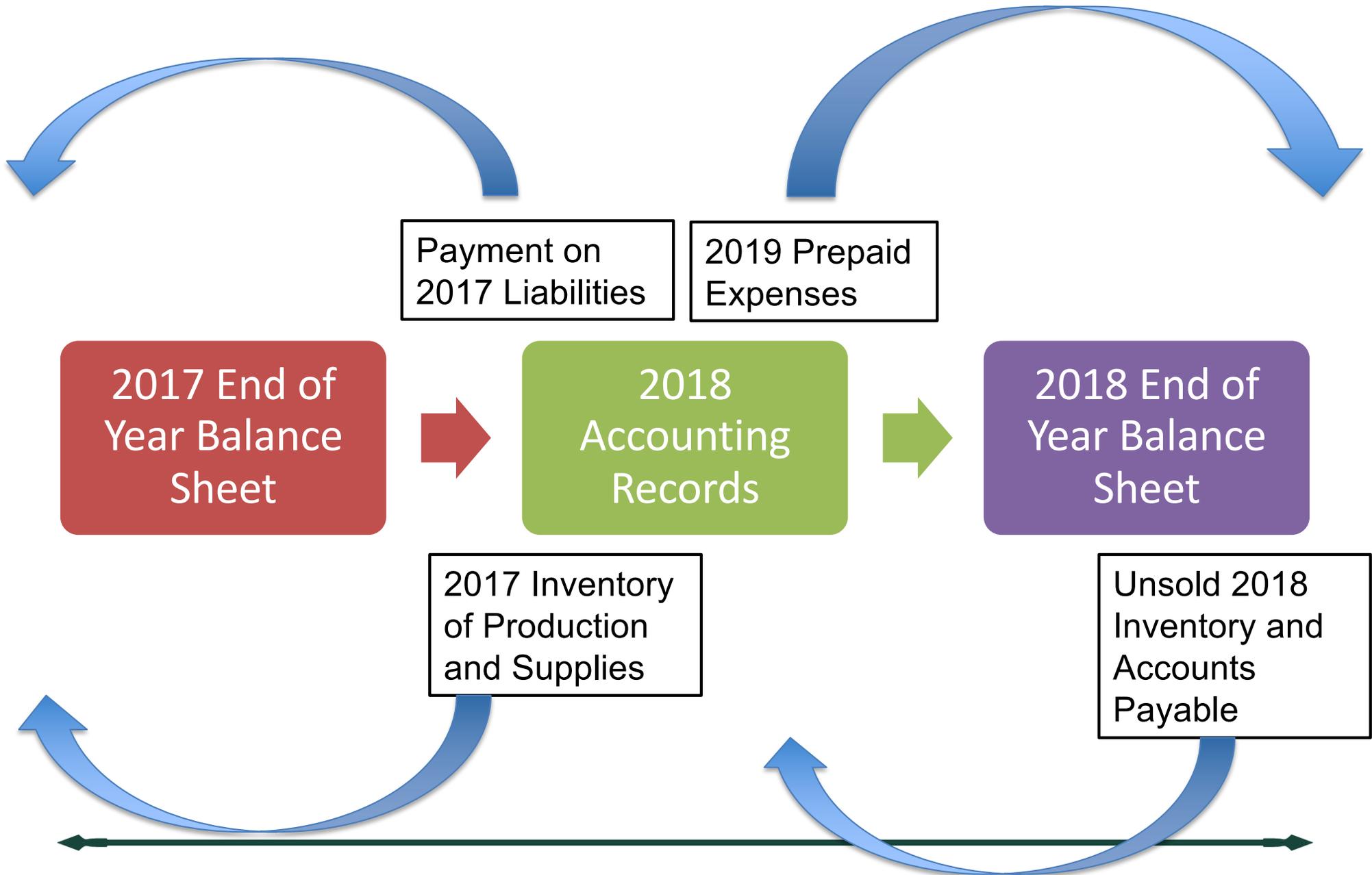
% difference for years averaged

Years Averaged	All farms	20-40% in debt	>40% in debt
2002-04	67%	56%	60%
2003-05	41%	56%	61%
2004-06	63%	57%	63%
5-Year			
2002-06	66%	55%	60%

Source: Barnard, F. L., Ellinger, P. N., & Wilson, C. (2010). Measurement Issues in Assessing Profitability through Cash Tax Returns. Journal of American Society of Farm Managers and Rural Appraisers, 2010(1), 207-217.



TelFarm Annual Cycle



Financial Benchmarking for Tree Fruit

Table 7. Income Statement-Farm Receipts, 25 Western New York Fruit Farms, 2008

Receipts	Cash Receipts	Change in inventory	Change in accounts receivable	Accrual Receipts
<u>Apples:</u>				
Fresh	\$617,817	-\$45,649	\$86,301	\$658,468
Peelers	256,016	960	89,476	346,453
Juice	26,083	897	2,118	29,098
<u>Cherries:</u>				
Sweet	31,954	0	-544	31,410
Tart	25,528	0	3,369	28,898
Grapes				
Peaches	32,740	0	-260	32,480
Plums and Prunes	1,007	0	0	1,007
Pears	5,256	0	887	6,143
Other Crops, Livestock, & Prod	10,367	0	0	10,367
Custom Work, Storage, Rent	36,962	0	-1,944	35,018
Other	104,756	0	37,561	142,317
Total Operating Receipts	\$1,148,487	-\$43,792	\$216,964	\$1,321,659



New Investment Cost?



Develop Budgets



Make a Decision



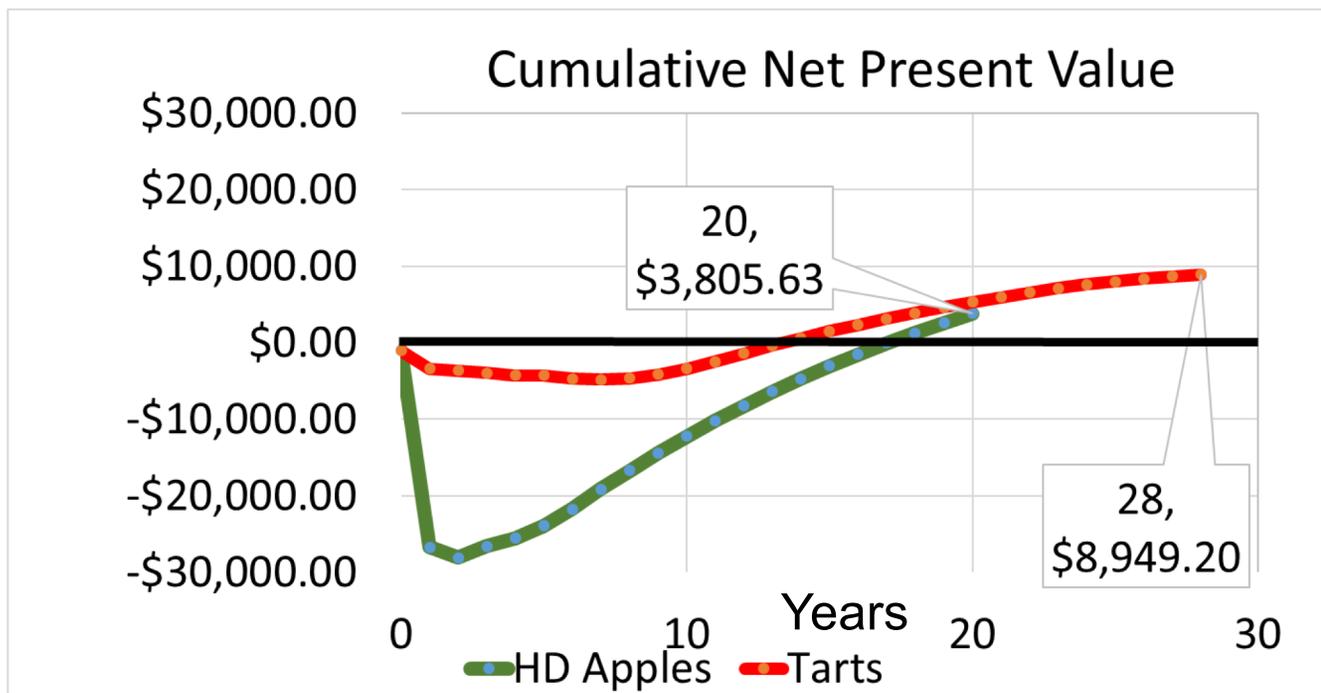
Finances

Budgets, Production Costs & Decision-Making Tools

https://www.canr.msu.edu/farm_management/finances/budgets-production-costs-decision-making-tools



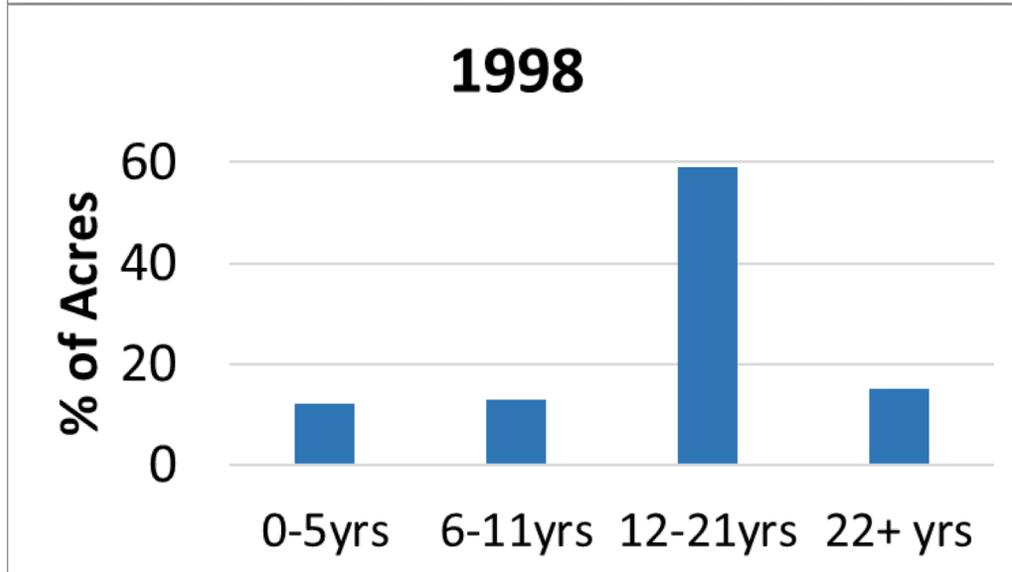
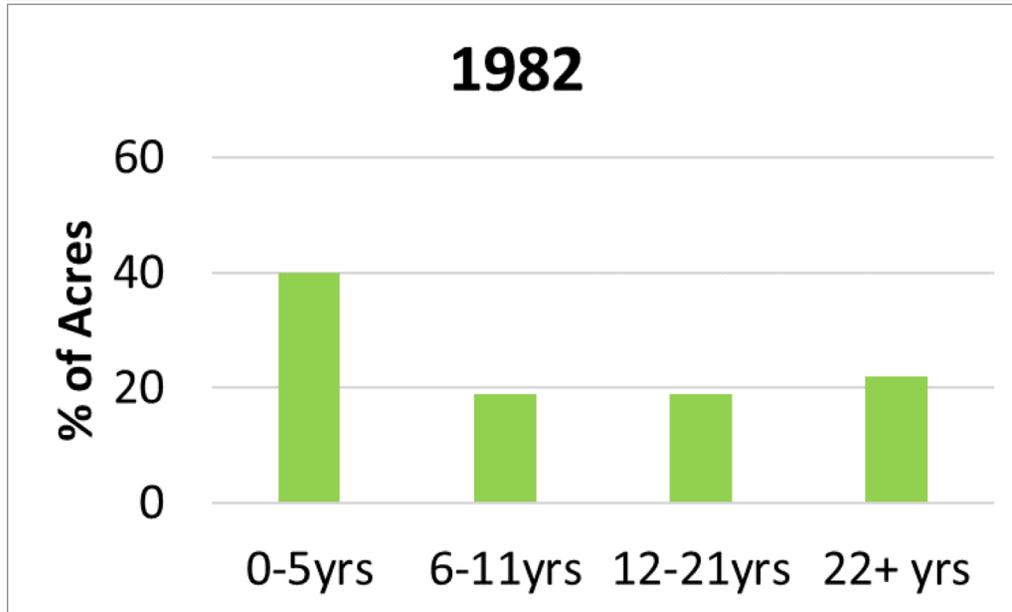
Investment Decisions and Projections



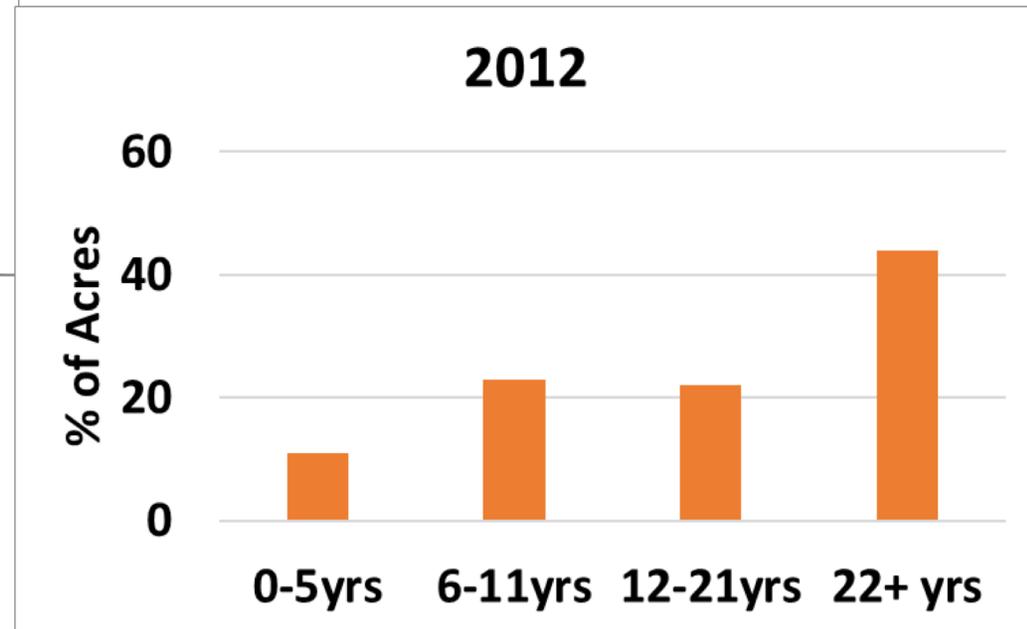
	Tart Cherry	HD Apple
Tree Cost (\$/Tree)	\$9.00	\$10.00
Trees/Acre	136	1320
Average Labor Cost (\$/Hr)	\$19.00	\$19.00
Year of First Harvest	6	3
Price (cents/lb)	\$0.39	\$0.23
Expected Peak Production (lbs)	10000	50400
Management	\$200.00	\$200.0
Packout%		0.8
Interest Rate	0.06	0.06



“Big Picture” Economics –Tart Cherries



NW Michigan Data



1. Financial independence & security of current owners (parent business)
2. Family harmony
3. Provide an opportunity for farming heirs
4. Flexible
5. Relatively simple
6. Minimize income and estate taxes



Year-End Tax Estimation

2018 Tax Data and Results

	0	0		
			PARTNER SHARE=	75%
1 Farm Income to Date			\$ 482,616	\$ 361,962
2 Est Farm Inc to End of year			\$ 56,190	\$ 42,143
3 Farm Expenses to Date			\$ 359,550	\$ 269,663
4 Est Farm Exp to End of year			\$ 43,290	\$ 32,468
5 Depreciation			\$ 74,074	\$ 55,556
6a Coop PatDivs and Per Unit Retains paid in money			\$ -	\$ -
6b Expenses for growing crops delivered to coop			\$ -	\$ -
6c W-2 wages to produce cooperative marketings			\$ -	\$ -
7 Farm Long Term Cap Gain			\$ 37,687	\$ 28,265
8 Farm Short Term Cap Gain			\$ 1,500	\$ 1,125
8a Recaptured Depr & other QBI income not on Sch F			\$ 1,500	\$ 1,125
9 Off farm Cap Gain - long term			\$ -	
10 Off farm Cap Gain - short term			\$ -	
11 Non-farm business net income (subject to SE tax)			\$ -	
12 Off farm wages			\$ -	
13 Non-farm business net income (no SE tax, like rentals)			\$ (9,426.16)	
13a Coop QPAI reduction passed through to member			\$ -	\$ -
14 Adjustments to QBI			\$ -	\$ -
15 Qualified Business Income			\$ 47,919.00	\$ 35,939
15a QBI Deduction			\$ 4,680.01	\$ 3,510
16 Earnings subject to SE tax			\$ 46,419.00	\$ 34,814
Michigan Tax from MI 1040			\$ 3,066	
Michigan Credits			\$ 168	

Labor Management

- What is the cost of H2A versus domestic labor?
- Agricultural employer checklists
- Maintaining and motivating employees

Agricultural Employer Checklist

Updated January 5, 2016

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*An electronic version of this checklist, with active links, is available at

http://msue.anr.msu.edu/topic/farm_management/labor_and_human_resource_management

Section I – EMPLOYERS PREPARE TO HIRE AGRICULTURAL EMPLOYEES

Name: Joe Date: 8/5

15 min): 45 Vegetable(s): kale & chard

Activity: Check all that apply

Harvest Cull/grade/sort/wash Bunch/Bag/Package/Pack orders/boxes

Travel to/from market/make deliveries Bookkeeping/Bills

Sales Time/Set up/Take down Other (please describe) _____

ion: Check all that apply (when possible, please write name of biz)

CSA Restaurant _____

Ithaca Farmers' Market Other _____

Sample labor log from *Baskets to Pallets*, Cornell University Cooperative Extension, Matt LeRoux Marketing Specialist (2009)



- Beginning farmer programs
- How to write a business plan
- Funding and loans

The screenshot shows the USDA New Farmers website. At the top left is the USDA logo with the text "United States Department of Agriculture" and "New Farmers". To the right are navigation links: "About USDA", "Glossary", "Ask the Expert", "Languages", and "Contact Us". Below these is a search bar. A blue navigation bar contains a "Start FARMING" icon and menu items: "NEW FARMERS", "WOMEN IN AG", "YOUNG FARMERS", "VETERANS", "A NEW GENERATION", and "DISCOVERY TOOL". The main content area features a hero image of a smiling woman in a green "EASTERN MARKET" t-shirt standing in front of a market stall. A dark blue text box on the left of the hero image contains the following text: "New Farmers Discover it here. Agriculture is full of exciting and rewarding opportunities. Farming is a tough job, but at the heart of it all, you'll see a vibrant community contributing to the future of our nation's health and food security. Find the resources you need to get started or personalize your search with our [Discovery Tool](#)." A "Hero Image" label is positioned over the woman's image.

<https://newfarmers.usda.gov/>

Questions?

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