Farm Business Start-up: From Dreams to Reality

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Where I am Coming From...

- Educator and researcher at the Center for Integrated Agricultural Systems, UW-Madison
- Grower, Stone Circle Farm
- 2 acres in production
- Mostly wholesale markets
- Garlic, carrots, hot peppers
- Year-round sales

Where I am Coming From...

- Coordinator, Beginning Grower Training Programs
  - 2 to 3 Day Intensive Workshops
    - Market Growers
    - Cut Flowers
    - Apples
- Research and Outreach Foci:
  - Scale and Economics
  - Planning and Record Keeping
  - Tools and Equipment
  - Labor Efficiency and Management
  - Market options

A Matter of Scale

“To me, the whole thing comes down to this: what is the right scale for my operation? The challenge is to find a size that represents a good ‘fit’ for a grower’s management skills.”

Land base
Quality of life goals
Income needs
Crop diversity
Market diversity
Labor / Mechanization

Today’s Goals

- Walk through a beginning grower to-do list.
- Guide you through some planning tools using the example of a start-up vegetable farm.
- Consider various options for financing a farm business.
- Along the way, discuss looking for land, the realities of farming, and answer your questions!
- Consider the next phase of business start-up tasks...getting down to business.

Know this first...

- Most farm businesses are unique in that they involve homes and families
- Work, the workplace, and financial realities on the farm intertwine with relationships, running the household, and the financial realities of the family
- All of the above are also mixed up with quality of life issues and goals
- So, I highly recommend that you think carefully and talk openly about your values, your goals, and set priorities and boundaries
- It isn’t easy...but it can work
- Sharpen your tools...Get and stay organized...Start small and grow slowly
Beginning Grower To-Do List

✓ Seek help!
   There are a growing number of people and places where you can find help to turn your “farming dream” into a “farming reality”
   - University and college programs
   - County Extension
   - Non-profits
   - Federal programs
   start2farm.gov

Beginning Grower To-Do List

✓ Set Basic Goals
   - Do you want to be full-time or part-time?
   - What are your income needs and goals?
   - Do you want to be an employer?
   - Do you want to be a certified organic grower?

There may be a time element to some of these goals.
Things may change over time!

Beginning Grower To-Do List

✓ Evaluate Possible Enterprises
   Combinations of crops and markets:
   - Vegetables Sold at Farmers’ Markets
   - Vegetable CSA
   - Direct-marketed Grass-fed Beef
   - You-pick Berries
   - Pastured Poultry to Restaurants
   - Fall Tourism Farm with Apples and Pumpkins
   - Cut Flowers at Farmers’ Markets and for Events
   - Flower Bouquet Subscriptions to Businesses

Beginning Grower To-Do List

✓ Personal Skills Assessment
   - Crop production (soils, plants, animals, pests)
   - Marketing and Sales
   - Business Management
   - Bookkeeping and other recordkeeping
   - Employee Management
   - Do-It-Yourself Skills (construction, repair, tinkering…)

It is the rare person who can do all these things well!
If you do not have all these skills, how will these tasks be accomplished?

Beginning Grower To-Do List

✓ Land / Property Assessment
   - If you have land, for what is it best suited?
     - What is the land’s cropping history?
     - What improvements should or could be made?
     - Make a list of pros and cons based on your farm’s assets
       - Assets: natural, human, buildings, location, etc.
   - If you do not have land:
     - Make a list of desired features to guide your farm search (flat ground, soil quality, enough tillable land, water quality & availability, etc.)
     - Consider location relative to potential markets
     - Be prepared to spend a good deal of time looking
     - Consider renting!

Looking for Land Handout

Beginning Grower To-Do List

✓ Investigate Target Enterprises (those that take advantage of your skills and strengths) and Expose Yourself to the Realities
   - Visit lots of farms
   - If possible, work or volunteer on farms
   - Attend conferences, workshops, field days
     - Farm Beginnings
     - CIAS Beginning Grower Schools
     - MOSES Organic Conference
     - Value-Added Conference
     - Many others!
Beginning Grower To-Do List
✓ Gather Key Information
  – Production specifics
  – Financial information...especially as it relates to income and farm scale
  – Determine capitalization requirements
  – Gather information about licensing & permits
  – Available market opportunities
  – Pricing
  – If you do not already have land, investigate the specific needs of the crop you intend to grow

Beginning Grower To-Do List
✓ Make a Plan
  – If you plan to go to a bank for a loan, a complete, detailed Business Plan is essential
  – Even if you do not need a loan, a writing a plan is an excellent learning opportunity and extremely valuable
  – Even if you only write a very basic plan, be as clear and specific as you can
  – Regardless, do your homework. Sketch out your objectives and a plan to get there
  – Make sure to include goals and incremental steps
  – Recognize that you will make many assumptions
  – Be flexible and expect to make changes to the plan
  – Be prepared for those first few lean years!

Business Plan Basics
Sections of a basic business plan
1. Executive Summary
2. Company Description
3. Products and Services
4. Marketing Plan
5. Operational Plan
6. Management and Organization
7. Personal Financial Statement
8. Start-up Expenses and Capitalization
9. Financial Plan
10. Appendices

Planning Sequence / Thought Process
1. Income / Lifestyle Goals
   How much do I need/want to make from my farming business AND what are my quality of life goals?
2. Enterprise Selection
   What enterprise am I most passionate about?
3. Scale Determination
   What scale of operation will lead to my income goal while ALSO meeting my quality of life goals?
4. Required Investment and Infrastructure
   At that scale of operation, what facilities and equipment will be necessary?

Diversified Vegetables!

Set Basic Goals for Your Business
• Decide how much income you ultimately want/need to earn from your farm.
• Set quality of life goals
• If you have a partner, do this with direct, open and honest communication!
• Make a plan to meet those goals over at least a 5 year period
**Table 2-1**

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Net</td>
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</tr>
</tbody>
</table>

**Table 2-1**

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$40,000</td>
</tr>
</tbody>
</table>

**Grower to Grower**

- Data is from a USDA SARE funded project spanning 2002 through 2004 growing seasons
- 19 participating farms. All but one were highly diversified organic fresh market vegetable farms
- Farms were handpicked to represent a diversity of scales, marketing strategies, experience levels and to engender trust within the group
- Results cannot be generalized
- Data collected only for vegetable enterprise (and related crops)

**Financial Benchmarks by Scale**

<table>
<thead>
<tr>
<th></th>
<th>&lt; 3 Acres</th>
<th>3 to 6 acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Labor Hours per Acre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross per Acre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll (% of Gross)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net to Gross</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Capitalization</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**The ½ to 2 Acre Market Garden**

<table>
<thead>
<tr>
<th></th>
<th>Start-up</th>
<th>Mature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Labor Hours per Acre</td>
<td>1500 to 3000</td>
<td>2000</td>
</tr>
<tr>
<td>Gross per Acre</td>
<td>$6,000 to $12,000</td>
<td>$15,000 to $25,000</td>
</tr>
<tr>
<td>Payroll (% of Gross)</td>
<td>0% to 10%</td>
<td>30% to 40%</td>
</tr>
<tr>
<td>Net to Gross</td>
<td>0% to 20%</td>
<td>30% to 50%</td>
</tr>
<tr>
<td>Annual Capitalization</td>
<td>Whatever you have left!</td>
<td>5% to 15%</td>
</tr>
</tbody>
</table>

**Table 2-1**

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$40,000</td>
</tr>
<tr>
<td>Net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Revised Table 2-1

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross</th>
<th>Net</th>
<th>Net to Gross</th>
<th>Acres</th>
<th>Gross per acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$15,000</td>
<td>$3,000</td>
<td>20%</td>
<td>0.7</td>
<td>$15,000</td>
</tr>
<tr>
<td>2</td>
<td>$20,000</td>
<td>$5,000</td>
<td>25%</td>
<td>1</td>
<td>$20,000</td>
</tr>
<tr>
<td>3</td>
<td>$16,000</td>
<td>$9,000</td>
<td>25%</td>
<td>2</td>
<td>$8,000</td>
</tr>
<tr>
<td>4</td>
<td>$20,000</td>
<td>$10,000</td>
<td>33%</td>
<td>3</td>
<td>$6,666.67</td>
</tr>
<tr>
<td>5</td>
<td>$30,000</td>
<td>$20,000</td>
<td>44%</td>
<td>4</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Vegetable Farm Hypotheticals

<table>
<thead>
<tr>
<th></th>
<th>2 acre farm</th>
<th>5 acre farm</th>
<th>20 acre farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales</td>
<td>$34,000</td>
<td>$75,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Net cash income</td>
<td>$14,000</td>
<td>$32,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Payroll</td>
<td>$7,000</td>
<td>$20,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$10,000</td>
<td>$16,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Capital re-investment</td>
<td>$3,000</td>
<td>$7,000</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

Creating a Farm Budget

Tools:
- Paper and pencil
- Computer and spreadsheet
- Information (Research)
- Willingness to "make a stab at it"

First Steps:
- Set parameters:
  - Acreage
  - Income goals
  - Market(s)

Farm Budgets and Income Projections

Poultry Enterprise Budgets (Center for Integrated Agricultural Systems)
http://www.cias.wisc.edu/poultry-enterprise-budget/

Farm profiles and sample budgets from established poultry producers (Washington State University)
http://nwdirect.wsu.edu/barriers/caseStudies.htm

“Grass-fed beef: What’s possible, what isn’t”
By Tom Wrchota, Omro, Wisconsin
http://www.grazeonline.com/grassfedbeef

University of MN “Before You Start an Apple Orchard”
http://fruit.cfans.umn.edu/apples/beforeyoustart/
Best First Year Marketing Options

- Farmers' markets
- Small CSA (family and friends)
- Marketing cooperative or similar aggregation business
- Farm stand

Not recommended:
- CSA larger than 30 members
- Restaurants (unless you have a friend that is a chef or owns a restaurant)
- Retail stores
- You-Pick

Creating a Farm Budget: Income

<table>
<thead>
<tr>
<th>Income</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSA Shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 shares @ $500</td>
<td>$15,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Farmers' Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 weeks @ $750</td>
<td>$18,750</td>
<td>$15,000</td>
</tr>
<tr>
<td>Miscellaneous Sales</td>
<td>$500</td>
<td>$250</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$15,500</td>
<td>$10,250</td>
</tr>
<tr>
<td></td>
<td>$19,250</td>
<td>$15,250</td>
</tr>
</tbody>
</table>

Creating a Farm Budget: Expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost High</th>
<th>Cost Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seeds</td>
<td>$750</td>
<td>$500</td>
</tr>
<tr>
<td>Boxes 100 5/9ths boxes</td>
<td>$250</td>
<td>$200</td>
</tr>
<tr>
<td>Bags 1 Roll produce bags</td>
<td>$18.67</td>
<td>?</td>
</tr>
<tr>
<td>Fuel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mileage to market x number of markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tiller &amp; mower: 5 gal every two weeks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potting mix</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing CSA brochures</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

How do we make it happen? What do we need?
- A measure of creativity and stubborn perseverance certainly helps...
- Markets and marketing
- Capital (Facilities and Equipment)
- Labor
- Recordkeeping

The possibilities are many...
Capitalization Planning
Every farm business plan should include this section: “Start-up Expenses and Capitalization”
- Estimate your needs and expenses accurately
  - Visit other farms
  - Attend conferences and trade shows
  - “Google it”
- Plan where you will get sufficient capital
  - Savings
  - Family
  - Loans
  - Reinvestments

Capitalization Planning Sheet
Start-up Expenses and Capitalization

Capitalization Planning Sheet
TIP: Categories Help You Plan More Accurately and Systematically

Capitalization Planning Sheet
Livestock Start-up Expenses and Capitalization

Capitalization Budgets
What do you think it costs on a per acre basis to capitalize a 5 to 15 acre vegetable farm in terms of equipment (not buildings)?
A. $2,500
B. $5,000
C. $10,000
D. $20,000
E. $50,000

Getting Started: What will it cost?
Fresh Market Vegetable Farm
- $10,000 to $20,000 per acre rule of thumb for capitalization
- Facility needs for market farm:
  - Greenhouse: 200-300 square feet PER ACRE
  - Pack House: 100 to 150 square feet PER ACRE
  - Cooler: 150-250 cubic feet PER ACRE
- Priority Equipment needs:
  - 25-55 hp tractor
  - Variety of implements (rotovator, mower, field cultivator, chisel plow, disk, etc.)
  - Irrigation equipment
  - Hand tools (seeding and weed cultivation)
  - Harvest totes / Harvest cart or wagon / Scale / Wash tank
  - Delivery vehicle / Market tent
  - Computer / phone / email / website
Getting Started: What will it cost?
What does it cost to capitalize a grass-fed beef or lamb operation? How about a pastured poultry business?

How about an orchard? Or a goat dairy?

Capitalization Planning
Start-up Expenses and Capitalization
• A new business often costs more than anticipated. Always include a “contingencies” line item to account for unforeseen capital expenses.
• Experienced growers may offer advice on an appropriate amount for contingencies but as a general rule contingencies should equal at least 20 percent of the total of all other start-up expenses.
• A farm is never “done” capitalizing.

It is never too late to write a business plan and get serious about a capitalization strategy!

Capitalization Research
When visiting other farms or talking to other farmers, ask lots of questions and try to get lots of data:
• Acres in production / herd or flock size
• Cropping / market mix
• Equipment list and prices
• Facilities (buildings, usage, cost, square footage, etc.)
• Labor situation

Use this data to get valuable information for your own planning and projections:
• Herd or flock size per acre of pasture
• Cubic feet of cold storage per acre of vegetables
• Greenhouse square footage per acre
• FTE per acre

Creating a Farm Capitalization Budget

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost High</th>
<th>Cost Low</th>
<th>Year / Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walk-in cooler</td>
<td>$8000</td>
<td>$2000</td>
<td>Year 1</td>
</tr>
<tr>
<td>Market tent</td>
<td>$100</td>
<td>$150</td>
<td>Year 1</td>
</tr>
<tr>
<td>Market scale</td>
<td>$250</td>
<td>$175</td>
<td>Year 1</td>
</tr>
<tr>
<td>Tiller</td>
<td>$5000</td>
<td>$2500</td>
<td>Year 2</td>
</tr>
<tr>
<td>Seeder</td>
<td>$100</td>
<td>$90</td>
<td>Year 1</td>
</tr>
<tr>
<td>Irrigation equip.</td>
<td>$1000</td>
<td>$500</td>
<td>Years 1 and 2</td>
</tr>
<tr>
<td>Tractor</td>
<td>$8000</td>
<td>$5000</td>
<td>Year 3</td>
</tr>
</tbody>
</table>

Financial Your Farm
• Most beginning specialty crop growers start small and expand gradually.
• The same is generally true for many livestock farms.
• This allows new growers to bootstrap their business.
### Business Definition of Bootstrapping

- Starting a business without external help or capital. Funding for the development of the company is through internal cash flow.
- This financing approach allows owners to maintain control of their business and forces them to spend with discipline.
- The downside is that bootstrapping can prolong those stages of business development and growth that are the most inefficient and frustrating.

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### Financing Your Farm

**If bootstrapping is not an option...**

- **Loans**
  - Conventional Bank Loans
  - Farm Service Agency (FSA)
    - Beginning Farmer and Rancher
      - Both Farm Ownership (FO) and Operating Loans (OL)
    - Socially Disadvantaged, Minority, and Women
  - Local Programs

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### Financing Your Farm

**Local Programs**

- **Practical Farmers of Iowa Savings Incentive Program (SIP)**
  - Designed to help beginning farmers save $100 a month for two years; after which, SIP will match their savings 3:1.
  - The beginning farmer can then use this savings to purchase a farm asset (like machinery, land, or livestock). In addition, those enrolled:
    - Open and manage a savings account with a Practical Farmers’ partner bank
    - Create or fine-tune a business or whole-farm plan
    - Attend at least four PFI events per year (online, on-farm, or in person). PFI events include online training’s, field days conferences, workshops and more.
    - Conduct quarterly reviews via email, phone or in-person with PFI staff to check on progress toward goals and program requirements

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### Financing Your Farm

**Local Programs**

- The Carrot Project (in Maine, Massachusetts, and Vermont) collaboratively administers loan programs to small and mid-sized farms and farm-related businesses that use sustainable or organic practices and serve local or regional markets. Funds can be used for working capital, capital needs such as equipment or buildings, or other improvements for production or value-added enterprises.

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### Financing Your Farm

**Local Programs**

- Food Roots Individual Development Account (IDA) program in Oregon.
  - Participants are committed to saving a minimum of $25 a month for a minimum of six months (or a maximum of 3 years). The savings are matched at a 3:1 rate. Participants can save a maximum matched savings of $1,000 a year ($3,000 will be matched for their $1,000 saved).
Farm Dreams

Farm Realities

LABOR WARNING:

• Farming is hard work and, most often, financial returns are modest
• Most specialty crops are extremely labor intensive
• A highly diversified vegetable farm is very complex and exhausting—both physically and mentally

You Don’t Get Winters Off

Typical Vegetable Farmer Work Hours:
Dec – Feb 25 to 35 hours/week
March – May 35 to 45 hours/week
June – Nov 65 to 75 hours/week

Winter work on a farm is VERY important:
– Record-keeping, Data analysis, Tax prep
– Marketing
– Planning
– Buying equipment and supplies
– Repair, maintenance and construction

Business Basics Checklist: Overview

This presentation is meant to provide you with that all important “to-do list” and covers the following:

• Establishing your business
• Licensing and permits
• Record Keeping
• Taxes
• Becoming an employer
• Additional considerations

The list of things to do can seem long and daunting but it is very important to check off each item as it pertains to your farm business.

Business Basics Checklist

Establishing your Business

• Business name (secure web domain)
• Legal Form (sole proprietor, LLC, etc.)
• Register with the Wisconsin Department of Financial Institutions (sole proprietors and partnerships exempt)
• Apply for a Federal ID number (Employer Identification Number or EIN)
• Register your business with the Wisconsin Department of Revenue

“My Tax Account” is the WI Department of Revenue’s free online business tax system that allows you to view current account status, file and amend returns, make payments, remit wage attachment payments, and manage and update account information. It’s simple, secure and available 24 hours a day, seven days a week.
**Business Basics Checklist**

**Permits and Licenses**
In general, fresh market produce farms are not required to obtain very many permits and licenses. However, requirements can be different from one locality to another. Some common types of local permits and licenses include:

- **Building Permit** - from your city or county building and planning department. This permit is generally required if you are constructing or modifying your place of business.
- **Health Permit** - from your city or county health department. This will certainly be the case of you engage in any value-added food processing or raise and sell eggs off the farm.
- **Signage Permit** - from your city or county building and planning department. Some jurisdictions require a permit before you can erect a sign for your business.
- **Zoning Permit** - from your city or county building and planning department. This permit is generally required if you are developing land for specific commercial use.

**Office Paper Trails**

Your office needs temporary resting spots for:
- Unpaid invoices
- Bills to pay, including:
  - Credit card slips
  - Account slips
  - Reimbursements for cash expenditures
- Payments to deposit

Your office needs permanent resting spots for:
- Paid bills
- Finished deposits
- Employee records
- Insurance policies
- Organic certification paperwork
- Tax records

**Business Basics Checklist**

**Structures and Systems**

Keep personal and business finances separate
- Open a separate bank account for your business.
- Obtain a separate credit and/or debit card for your business.
- Decide how you will do financial record-keeping
  (Many growers use programs like Quickbooks although some use their own spreadsheets)
- Establish a system to retain necessary records*
- Get and stay organized!

**Business Basics Checklist**

**Record Keeping: Income Records**
- Keep records of all sales using an accounting program, spread sheet, or paper invoices.
  
  NOTE: In addition to product sales, your farm income may also includes things like: government payments, grants, co-op dividends, speaker fees, custom hire work, donations...
- If you sell via a farmers’ market or CSA, keep accurate and detailed records of your sales and deliveries.
- For invoiced sales or CSA memberships, keep track of who has and who has not paid.
- Print two copies of invoices and get one signed when delivering produce to stores and restaurants.

**Business Basics Checklist**

**Record Keeping: Expense Records**
- Save all receipts through the year in order to keep records on all farm expenses.
- If buying household and farm items at the same time, either make separate purchases upon checkout or circle items on the receipt to indicate which items are farm expenses for future reference.
- Some farm purchases are exempt from sales tax (fuel, livestock feed, many types of farm equipment, etc.). At stores like Farm and Fleet and Tractor Supply Company, register your farm business and ensure that sales clerks remove sales tax from your total.
- Some expenses have both personal and farm components. You must figure out how much is personal and remove it from the total amount. For example, mortgage interest, property taxes, and utilities may be mixed. You need to figure out an acceptable percentage and calculate the farm portion.
Tracking Expenses Using a Spreadsheet

Record the following data for each item purchased (in a spreadsheet, use one column for each item listed below):

- Purchase date
- Item cost (the “subtotal”)
- Cost including sales tax, shipping
- Expense category (see page 75 of Wiswall)
- Tax Expense categories (from Form 1040 Schedule F)
- Type: fixed operating, variable operating, capital
- Description of item
- Item number from vendor (~ useful when reordering)
- Vendor
- Method of payment (cash/check/credit card)
- Check payments: check number and date check cleared
- Credit card payments: date posted and date bill was paid

Business Basics Checklist

Expenses that require specific record-keeping

Car and Truck Expense

For tax purposes, you can choose to use mileage at the IRS standard mileage rate OR actual vehicle expenses (vehicle depreciation, gas, maintenance and repair, insurance, etc.). Sometimes mileage will provide a bigger tax deduction; other times the actual expenses will. If you track both, your tax preparer can then calculate which will give you the bigger deduction.

- Keep a mileage book in any vehicle you use to conduct farm business and record each “business trip.”
- At a minimum you need beginning and ending odometer readings for each year. (The IRS will allow up to 75% of the annual mileage to be used on a farm vehicle with no records.)
- The absolute best record keeping system would be to keep all gas receipts, vehicle repair receipts, and a mileage book.

Utilities

- You have separate meters and bills for electricity and gas, deduct the business portion of your electric and gas bills.
- For telephone expenses, you can deduct long distance charges for business calls, the cost of a second phone line for business use (never the cost of the first line), and a business portion of voice mail and/or Internet charges.

Hired Labor

This is an area with lots of paperwork requirements. You must:

- Have a federal employer ID number,
- Have each employee complete form W-4,
- Verify that they are American citizens (form I-9),

Continued....

Business Basics Checklist

Expenses that require specific record-keeping

Depreciation

Depreciation is apportioning the cost of a purchased asset over a set number of years. The IRS determines the number of years allowed for different types of assets (see IRS publication 946).

- To complete your taxes, you will need dated receipts for each piece of equipment or building purchased or sold during the year.

Business Basics Checklist

Expenses that require specific record-keeping

Rentals

- All compensation that you pay to farmworkers are subject to social security and Medicare taxes and federal income tax withholding for any calendar year that you meet either of the tests listed below.
  - You pay an employee cash wages of $150 or more in a year for farm work.
  - The total (cash and non-cash) wages that you pay to all farmworkers is $2,500 or more.
- By January 31, give Form W-2, “Wage and Tax Statement,” to each employee who worked for you the previous year.
- Employers must send Copy A of Form W-2 to the Social Security Administration (SSA) by the last day of February (or last day of March if you file electronically) to report the wages and taxes of your employees for the previous calendar year.
- File form 943, and pay half of the employee’s Social Security and Medicare taxes.

Note: If you employ your children under the age of 18 you don’t need to pay Social Security and Medicare taxes for them.
Business Basics Checklist

Expenses that require specific record-keeping

Hired Labor

In some cases you must also file IRS Form 940, Employer’s Annual Federal Unemployment (FUTA) Tax Return, but this usually only applies to large farms.

- For agricultural employers, file Form 940 if you answer “Yes” to either of these questions:
  - Did you pay cash wages of $20,000 or more to farmworkers during any calendar quarter over the past two years?
  - Did you employ 10 or more farmworkers during some part of the day (whether or not at the same time) during any 20 or more different weeks over the past two years?

Business Basics Checklist

Workers’ Compensation Insurance

- Farm businesses with 6 or more employees for more than 20 days in a calendar year are required to carry Workers’ Compensation Insurance coverage through a commercial carrier, on a self-insured basis, or through the state Workers’ Compensation Insurance program.
  - A calendar year starts on January 1st and ends on December 31st.
  - The 20 days do not have to be consecutive.
  - On each of the 20 days, it can be the same 6 employees or different people.
  - The 6 employees may be full-time or part-time.
  - The 6 employees may be at more than one location within the state.

Certain relatives are not counted in determining whether there are 6 employees.

Business Basics Checklist

A Few Notes on Workers Compensation

- When deciding if you have 6 or more employees, do not only count regular “hired employees.” Interns, volunteers, and CSA “worker shares” may be employees in the eyes of the law depending on the structure of the position and what the person receives in return for their labor.
- Workers comp is a good deal for a farmer because where workers comp is available, a negligence lawsuit cannot be filed against the farmer for that injury and the injured person must accept the workers comp benefits.
- A negligence lawsuit is a real risk. It is not the injured person the farmer has to worry about—health insurance companies and liability insurance companies might be interested in bringing such a claim.
- Workers comp is also a good deal for farmers if they elect to cover themselves. Workers comp awards lost wages, mileage for doctor visits, and a death benefit, none of which a private health insurer will provide.
- Workers comp is a good deal because the premium is based on your total payroll. If you are considering buying workers comp, ask a farmer with a similar labor set up for their agent’s contact information. It can be tricky to write a policy for worker shares, etc. and a good agent will make a big difference.

Business Basics Checklist

Expenses that require specific record-keeping and actions

Hired Labor

- New Hire Reporting. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires all employers to report newly hired and re-hired employees to a state directory within 20 days of their hire or rehire date.
  
  newhire-reporting.com/WI-Newhire/default.aspx

- Post Required Notices. Employers are required by state and federal laws to prominently display certain posters in the workplace that inform employees of their rights and employer responsibilities under labor laws. Posters are available for free from federal and state labor agencies.
  
  www.dol.gov/elaws/posters.htm

Business Basics Checklist

The complicated world of Agricultural Labor

- Agricultural labor has a specific definition that has been created through a large collection of state and federal case law. However, the precise definition will vary depending on the jurisdiction. Most things done on a farm or in connection with the farm operation are considered “agricultural labor.”
- But there are some notable exceptions. For example, working at a farmers market stand MAY NOT be agricultural labor. We cannot answer that question for sure because it hasn’t been litigated and the statutes are not clear on it. To be safe, a farmer should assume employment law exceptions do not apply to farmers market work. Growing bedding plants, doing logging work, or performing lots of building construction are complicated and may also not qualify as “agricultural labor.”
- If a worker is not performing agricultural labor, he or she does not fall into the exception for agricultural labor and must be paid minimum wage, given workers comp, etc.
- When “non-agricultural labor” is performed, the worker is owed minimum wage for the entire week—not just for the hours of non-agricultural labor performed.

Business Basics Checklist

Insurance

- Consider carefully protecting your business from loss or lawsuits.

Many farmers’ markets require growers to carry some level of insurance and some buyers (especially institutions such as schools and hospitals) also require insurance.

Many fresh market vegetable farms carry an umbrella product liability policy.

A 1 or 2 million dollar policy sounds scary but is not uncommon and will not break your bank account.

- Talk to your insurance agent and explain exactly what you are doing (especially if you have visitors and volunteers at your farm) so that you can be sure that you purchase an appropriate policy.
Business Basics Checklist

Tips to avoid triggering an IRS audit

A single, sole proprietor who does not have much off-farm income is unlikely to be scrutinized.

Issues arise when someone either has lots of off-farm income or has a spouse with lots of non-farm income.

The IRS defines a farmer as someone who has 2/3 gross income (not net income) from farming. That means the income on the entire return which includes the spouses income. So that means if you make $50,000 gross from farming and your spouse makes $50,000 at a job, the IRS will not consider you a farmer.

Problems can arise when you have someone who has a gross income from farming of $10,000 while a spouse makes $120,000. That looks like more of a hobby.

In that case, the rule is to show a profit or break even in 3 out of 5 years. The tricky situation is when someone who is single makes $50,000 at an off-farm job and makes $50,000 in gross income from a farm. Technically they are not a farmer by IRS rules and thus may be subject to the “hobby farm” rules.

Business Basics Checklist

- Do not procrastinate in deciding how you will keep and maintain business financial records.
- Regardless of the system you choose, do not neglect record-keeping or procrastinate. Sitting down at your desk is part of farming. If it is not the part of farming you love, find someone to help you!
- DO NOT wait until it is time to file your taxes and leave it to a tax preparer to wade through a year’s worth of receipts and statements.
- The services of a bookkeeper, accountant, tax preparer or other financial advisor are not necessarily expensive. What is costly is procrastinating and then paying someone to untangle a bookkeeping or tax return mess.
- Relying on memory, especially during the hectic growing season, is not a reliable way to conduct your business.
- Remember, record keeping is also a vital part of monitoring profitability.
- Review financial information regularly to monitor profitability and ensure that your business can meet its financial needs in the near future. You will make better business decisions if you have an accurate picture of your financial situation.

Business Start-up & Management Library

- Building a Sustainable Business
  - Neil Hamilton
- Legal Guide for Direct Farm Marketing
  - Rachel Armstrong
- The Organic Farmers Business Handbook
  - Richard Wiswall
- Fearless Farm Finances
  - Blanchard, Dietman, and Chase

Business Start-up & Management Resources

- SmallFarmCommons.org
- Rachel Armstrong
- Beginning Grower Workshops
  - Center for Integrated Agricultural Systems
  - UW-Madison
- Farm Beginnings
  - Land Stewardship Project
  - Learning Center at Angelic Organics

Common Start-up Questions:

- What Should I Grow?
- How Much Should I Grow?
- What Crops are Most Profitable?
- How do I Set Prices?

Factors Influencing Crop Profitability

- Your farm’s physical location (soils, microclimate)
- Your farm’s market location
- Your own passion, creativity, and skills
- Experience
- Availability of appropriately scaled tools and equipment
- Complimentary enterprises or “value-added” marketing
- Timing
- Yield
Common Start-Up Mistakes

• No goals; no plan for meeting goals
• Lack of focus
• Insufficient market research
• Insufficient planning
• Not following the plan
• No record-keeping system...poor record-keeping
• Setting Prices Too Low
• Too large an area (result: weed seed rain)
• Lack of basic, essential infrastructure
• Not being “professional”
• Not asking for help
• Going nuts with the seed catalog
• Too little diversity

Concluding Thoughts

• Be cautious but not timid
• Do not quit your day job
• Corollary: do not let your partner quite their job
• Quit your day job as soon as possible
• Learn from others; visit as many farms as you can and ideally work on other farms before starting your own
• Become mechanically inclined, marry a mechanic, or befriend a mechanic
• Get and stay organized; keep records and USE them
• Start small and only expand as your ability to stay on top of weeds allows

ONE key to success: Record Keeping

• It is VERY challenging to run ANY successful business without detailed record-keeping

Blatant Plug:
My next presentation in the session after lunch will discuss record keeping and will highlight some record keeping tools and systems to track profitability.