

BUSINESS PLANNING

Overview

This material is designed to provide useful information to develop and support your farm business, whether you are an established operation or just thinking about getting started. It provides background, supporting materials, and links to additional references for all stages of farm business development, including:

Section 1: Is Starting a Farm Business Right for You? This section provides tools to help you decide whether starting a business is right for you, and what sort of operation would best fit your resources and needs.

Section 2: Establishing Your Farm Business. This section provides information on preliminary steps to starting your business, business tax and licensing, and various resources to assist you through the business planning process

Section 3: The Fundamentals of Farm Business Planning. This section provides you with a basic step-by-step process to write a business plan. This section also includes business links to a business plan template.

Section 4: Secession Planning. This section helps you to plan for the long-term future of your farm business.

Section I: Is the decision to start a farm right for you?

Background.

1. Thinking about starting a farm business? Click on the link below to take a quiz from Beginning Farmers at www.BeginningFarmers.org. This quiz will give you an idea if starting a farm business is right for you.

[Take the quiz](#)

Article on insight into one person's decision to become a farmer. [Farm Marketing Solutions: How to Start a Farm](#)

2. Publication on decisions you will need to make when you design your farm. It is from New Entry Sustainable Farming Project: [How to Begin Your Small Farm Dream](#)
3. Issues to consider when getting started in farming from Iowa State [Getting Started in Farming: Part-time or Small Farms](#)

Characteristics of the Successful Farmer. Below is a list of characteristics that will help you to run a successful farm business.

1. **Vision.** This is the first thing you need and you cannot proceed without it. A vision is a realistic idea of what your business is going to be. Choose a new business or adopt a new enterprise that you are passionate about. This is not just the product or service, but a complete, integrated system for doing business. You must always have a goal and a plan to get there.
2. **Commitment.** Running your business will take much more of your time than working for someone else, especially at the beginning. You will need to make your business your top priority in order for it to be successful.
3. **Ability to Prioritize.** You will have to be able to set priorities for the best long-term outcome for the business. The choices will not always be clear. You must have the discipline to focus on your business. That means setting goals and sticking with them until they are accomplished or until you make a sound business decision to change them.
4. **Ability to Multi-Task.** The farm owner has to handle operations, financial issues, sales, staff, purchasing, legal issues and more – all at the same time. Interruptions are more common than not and most days do not go as planned. The successful farmer can tolerate interruptions, and is willing to be scheduled by the business, as opposed to trying to schedule the business.
5. **Ability to Partner.** Running a business goes beyond just working with people. You will have highly important relationships with your customers, suppliers, employees, and the government agencies that regulate or tax you. If any of these relationships is adversarial your business will suffer. In many ways you will not be your own boss, but have lots of bosses.
6. **Responsibility.** You will also be responsible for anything the business does. You will be responsible for any reporting requirements. There will be no boss to handle problems; you are the boss.

Core Values. It is important to determine your core values and what is important to you.

There are three key core value areas to consider:

1. **Financial stability**
For example:
 - Provide for family living needs
 - Provide funds for retirement
 - Keep debt to a minimum
2. **Stewardship of the land, air and water**
For example:
 - Improve soil health
 - Use only sustainable farming practices
3. **Quality of life for you and your community**
For example:
 - Be a role model
 - Serve as a mentor to other farmers

- Way of life for the family, now and in the future
- Buy local
- Make a difference
- Have products that you are proud to sell

It is very important to determine what is important to you. Take the time to write down your core values. Share your ideas and thoughts with family members and others that will be impacted by your decision to set up a farm business. Please note that your core values may be different from other members of your family. Understanding what motivates all involved is critical to this process. You must reconcile how you will handle as a team a differing vision and differing core values. (Worksheet 1.1 and 1.2 - [Double click on icon to open](#))

Worksheet 1.1 My Values

Think about your values and list them in the space below. Consider what it means for you to be "successful" in farming, or try distinguishing between personal, economic, environmental, and community values. If you are having trouble putting values onto paper, try drafting a brief essay. Begin by recalling a critical turning point in your life when you were faced with a serious tradeoff: What values guided you?

TASK 1

Personal Values:

Economic Values:

Environmental Values:

Community Values:

Worksheet 1.2 Common Values

Use the space below to identify common or shared values among your planning team members. You may want to begin by simply listing the values identified by each team member and then determine what values you share as a team. If you are uncomfortable sharing personal values, focus on the environmental, finance and community values that you share.

TASK 1

Values Identified by Individual Planning Team Members:

Values That We Share as a Planning Team:

Section II: Establishing Your Farm Business.

Once you have decided that starting a farm business is right for you, then there are many important steps to consider. This section is designed to walk you through the process.

Getting Started: Important steps to consider as you start your business

Preliminary Steps

1. Develop a personal needs assessment:
 - How much money do you need to live on each month?
 - How much of this will be drawn from the business?
2. Develop a network. Join member organizations. You can learn a great deal by joining the appropriate commodity organizations or farm groups. Contact the [CT Department of Agriculture](#) to learn what associations might be useful to you. Field meetings, twilight meetings and handbooks are also items that will aid you.
3. As you develop your business plan, go to your town hall and ask if there are any issues with your farm business plan. There are municipal laws that may prescribe what you may or may not do (for example acreage in order to be a farm, farm stand restrictions, retail sales, parking, land use restrictions, etc.).

Legal and Logistical Steps

4. While you are not required to officially “register” as a farm in Connecticut, you do have to register with the [Department of Revenue Services \(DRS\)](#) if you want to take advantage of various farm beneficial regulations or to sell certain farm products.
5. Obtain a [Farmers Tax Exemption Permit \(Form REG -8\)](#) that enables you to purchase farm business related supplies sales tax free. The primary requirement is that you make yearly gross sales of at least \$2,500. Permits are issued for 2 years and are valid from October 1 until September 30.
6. Obtain a [Sales and Use Tax Permit \(Form REG - 1\)](#) if you make taxable sales and must collect sales tax. You are not required to obtain sales and use tax permit if you raise and sell tobacco, fruit, vegetables, board horses or are involved in dairy farming.
7. Obtain operating licenses and permits:
 - If you are looking to serve food products, you must do so in a licensed kitchen. [Contact](#) the local health department for licenses and regulations.
 - If you are looking to process farm products, there are strict health regulations and licenses required from the [CT Department of Agriculture](#), [CT Dept. of Consumer Protection](#), [CT Dept. of Health](#), and the [United States Dept. of Agriculture](#). (Some local health departments also inspect processing facilities.)
8. If you need a pesticide license to purchase and use restricted chemicals on your farm you will need to contact Pesticide Compliance, [CT Department of Energy and Environmental Protection](#)

Important Resources for new and beginning farmers in Connecticut:

1. UConn Extension: [*New Farmer Bucket List*](#), this document provides a listing of resources and organizations
2. UConn Extension: [*Connecticut Agricultural Business Management Guide*](#)
3. UConn Extension: [*New Farms and Farmers*](#)
4. [*Building A Sustainable Business*](#): Handbook Series Book 6 Sustainable Agriculture Network
5. Beginning Farmers: <http://www.beginningfarmers.org/farm-business-planning/>
6. CSA Tool Kit: <http://www.ctfarmrisk.uconn.edu/documents/CSA-Guide.pdf>
7. UConn Extension Specialists Directory: http://ctfarmrisk.uconn.edu/index_125_485781935.pdf

Section III. Business Planning

The outline of your business plan can be unique to your business. However, there are some specific ideas that you should always include. These specifics could make or break your business plan. If you are specific about critical details you can improve your chances of success.

A good business plan has six components.

They are:

- I. Executive Summary
- II. Business Description
- III. Operations
- IV. Marketing Plan
- V. Management
- VI. Financials

I. Executive Summary

1. Brief cohesive overview of your business
2. Mission statement

A mission statement is how you define your business. It merges your set of values and vision into a set of principles that will describe your business. It communicates how and why your farm business exists and how you want your customers and community to view you, your values and your business. Create your own mission statement with the template below. [Create Your Own Business Mission Statement \(Worksheet 3.2– Double click on icon to open\)](#)

Worksheet 3.2 Creating My Business Mission Statement

Use the questions below to begin sketching a brief mission statement that communicates your values, management philosophy, and future vision. Remember to have each one of your planning team members complete this Worksheet. Then share your statements, discuss your similarities and differences, and draft a final mission statement. Going through this process as a team will generate more ideas and will result in a common mission statement that every one of your planning team members support. Try to limit your response to each of the questions so that, once combined, your mission statement does not exceed five to six sentences. Remember, write in the present tense and keep it positive.

I would like our business to be known for the following in the future:

TASK 3 The internal and external purpose of my business is to:

Our business mission statement will communicate to:

Based on your answers above, write internal and external mission statements that communicate your business' purpose and the qualities for which you would like your business to be known:

Internal mission:

External mission:

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3. Goals

All goals must be S.M.A.R.T.

- **Specific:** Provide a specific and detailed description of the goal that you hope to achieve (who, what, where, when, which and why)
- **Measurable:** State your goal in such a way that there is a way to determine if the goal had been reached. How much? How many? For example, if the goal is to increase the number of customers, list the number that you hope to attain.
- **Attainable:** Identify goals that are most important. Determine ways you can make them become a reality. You develop the attitudes, abilities, skills, and financial capacity to reach them. You begin seeing previously overlooked opportunities to bring yourself closer to the achievement of your goals. Can that goal be achieved?
- **Realistic:** Can that goal be achieved given your skills, time frame, and financial resources? Do your research and ask questions.
- **Timely:** A specific timeframe must be given. Someday or in the future will not work. Be specific as to when you want to achieve a specific goal.

Your goals must be reviewed regularly. You must be able to determine if you are on target to achieve your goals. If you are not on target or have missed attaining a goal, ask why. Not achieving your goals can lead to business failure or a delay in achieving business success. Identify your family business goals and prioritize them with this worksheet. (Worksheet 3.4 and 3.5– **Double click on icon to open**)

Worksheet 2.3 Tangible Working Assets	
Use this worksheet to describe the non-land physical assets used in your current farm operation. Be as specific as you can be about size, capacity and condition.	
ITEM	SIZE CAPACITY CONDITION VALUE
TASK 2 Building/Permanent Structures	_____

Machinery and Equipment	_____

Livestock Equipment	_____

Breeding Livestock	_____

3. Location of business

4. Legal form:

You need to select a legal form for your business. You make that choice based on characteristics that differentiate the forms of business based on what is most advantageous for you and your business. Those characteristics include organizational and reporting requirements, ease of formation and transfer, treatment of earnings and taxes, and liability. Factors such as license and other regulatory requirements affect all forms of business equally and are not a factor in choosing a business form. Seek legal help from a qualified attorney when considering your options. Pick the entity that meets your needs. Deciding the form of ownership that best suits your business venture should be given careful consideration. Use your key advisers to assist you in the process.

a. Sole Proprietorship

The vast majority of small businesses start out as sole proprietorships. These businesses are owned by one person, usually the individual who has day-to-day responsibilities for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one and the same with the business. The sole proprietorship itself is not taxed by the state or federal government. All income and expense from a sole proprietorship is reported on the owner’s personal tax return, on Schedule F for a farm (schedule C for a nonfarm).

The net income on Schedule F is added to the business owner’s income on his or her tax return, form 1040. The business owner then pays all federal and state income tax at his or her personal tax rates. In addition,

Schedule F net income is subject to self-employment tax (social security). Losses from a sole proprietorship are generally deductible based on certain complex rules.

Attributes of a Sole Proprietorship

- Easiest and least expensive form of ownership to organize and operate.
- Operator is in complete control.
- Operator receives all income generated by the business to keep or reinvest.
- Profits from the business flow directly to the operator's personal tax return.
- The business is easy to dissolve, if desired
- Operator has unlimited liability and is legally responsible for all debts against the business.
- Their business and personal assets are at risk.
- Business terminates at death unless an estate plan is in place.
- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

b. Partnerships

In a partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. While not required, the partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, and what steps will be taken to dissolve the partnership when needed. They also must decide upfront how much time and capital each will contribute, etc. The profits from the business flow directly through to the partners' personal tax returns.

Attributes of a partnership

- Partnerships are relatively easy to establish; however, time should be invested in developing the partnership agreement.
- Partners are jointly and individually liable for the actions of the other partners. The liability is joint and several, meaning that any of the partners could be held responsible for the entire debt of the business if the other partners have insufficient assets to cover their share of the loss.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.
- Income tax consequences can occur upon formation and dissolution of the company. Care should be taken to avoid tax consequences to the extent possible

c. Corporations

A corporation chartered by the state in which it is headquartered is considered by law to be a separate entity and apart from those who own it. A corporation can be taxed, it can be sued, and it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The Board appoints officers who handle the day-to-day aspects of operating the business. The corporation has a life of its own and does not dissolve when ownership changes.

Attributes of a corporation

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.

- Can elect S corporation status if certain requirements are met. This election enables the company to be taxed similar to a partnership.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus it can be taxed twice.

d. Limited Liability Companies (LLC)

The LLC is a hybrid business structure combining elements from corporations and partnerships. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. For these reasons, the LLC structure is a popular choice for many small business owners across the country. The biggest advantage of the LLC structure is the ability to have limited personal liability for business debts while also having the benefit of pass through taxation. In the LLC structure, business earnings are passed on to the partners as income. Therefore, pass through taxation means that the partnership is not directly taxed on earnings, but rather the partners are taxed based on their income received from the business earnings. These taxes are typically much lower than taxes on business earnings.

When choosing a legal form to operate, seek professional guidance on the optimum way to set up your business to assure you operate within the rules and regulations required.

5. Business history (if any): Document the history of any businesses that you have operated. This would include a description of the business, time frame and financial information.

III. Operations

The operations section of your business plan describes how your business will run smoothly. It focuses on what you will produce, how you will produce it and how much you will produce. Within this section, you should expand upon what products and services you will be offering, possible customer service opportunities, inventory management, licenses, permits and regulations needed, possible patents and trademarks and environmental issues that could be encountered. Complete Worksheet 4.11 concerning regulations and policies (**Double click on icon to open**). This section will also review risk management tools that will be utilized to manage risk such as crop insurance, other forms of insurance and enforcement of food and work safety standards. Providing an implementation timeline (Worksheet 5.2 - **Double click on icon to open**) will help keep your tasks on track and make your business efficient. Often an overview is only required for this section, as operations typically involve actually doing the work required for your business.

- Promotion (Worksheet 4.7- [Double click on icon to open](#))

Worksheet 4.7 Promotion

Complete this Worksheet for each major product you plan to produce. Choose an advertising approach (product, image, total) for each customer segment. Then use your information about customer needs and preferences (Worksheet 4.1) to develop a promotional message for this product. Next, think about what advertising tools and delivery methods you can use to communicate your message. Describe how often you intend to promote your product and communicate with customers (timing and frequency). It may be helpful to use a calendar or blank sheet of paper to map out an advertising plan that corresponds with slow demand periods or peak product availability. Finally, summarize your promotion strategy for this product.

Product: _____

Customer Segment:	1	2	3
Approach (product, image, total):	_____	_____	_____
Message:	_____	_____	_____
Tools:	_____	_____	_____
Delivery:	_____	_____	_____
Timing/frequency:	_____	_____	_____
Promotion strategy:	_____		

TASK 4

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Industry Description

The industry description gives an overview and outlook of the industry you would be potentially entering. You would want to include its current size, historic growth rates, trends and characteristics and its interaction with the local community, namely businesses, governments and consumers. Researching information about your industry is important so that you can gain an understanding about the potential positives and negatives of your business.

Target Market

Another important part of your business is identifying the people who will buy your products or use your services. It is simply the market or group of people that you want to target as potential customers. In the early stages of your business, it is important to make your target market a manageable size. Do not try to be everything to everybody, which could be the downfall of your business. Start out small and increase your target market as your business expands.

Part of the process of establishing a target market is gathering information from potential customers. Understanding some distinguishing characteristics of your customers can be helpful. You should discover the needs of your customers, the demographics of the target group, possible seasonal and cyclical trends in purchasing, and the size of your potential target market. Elaborating on how you will gain consumer trust and how you will reach your customers is also important. Advertising strategies might be needed for certain agricultural businesses.

Competitive Analysis

Competitive analysis is when you identify your potential competition as well as determine their share of the market segment. You should also identify their strengths and weaknesses. When doing your research determine the competition's target market and establish whether your business will be fighting for their customers. Two other areas that should be included in your competitive analysis are possible barriers to entry and potential regulatory

V. Management

Your business management strategy is arguably just as important as the need you will be fulfilling by providing your product or service. Without efficient management, the ability to produce a product or provide a service becomes considerably harder. In this section, you will want to outline your business structure. Simply describe what jobs need to be performed and who will perform them. If your business includes more than one owner, then you must include your partner's background as well as how you plan on splitting the managing tasks. As your business grows or if your business is big enough, an organizational chart with a description of the production and management responsibilities should also be included in this section.

- Provide business organization information
- Identify products and services
- Develop organizational chart
- Provide job descriptions for all positions, including employee management systems regarding recruitment, salary structure, vacations, etc.
- Advisors hired or identified

Assessing Worker Abilities and Needs and Likely Changes in Our Human Resources Situation (Worksheet 2.9 and 2.10 - [Double click on icon to open](#))

Worksheet **2.9** Assessing Worker Abilities and Needs

Use this worksheet to describe the experience, skills and goals of each member of your workforce. Then estimate your average cost for this person and consider where this person ideally fits into your operation.

Name and Current Position:

1. What is the person's background-experience and education?

2. What particular abilities does this person have?

3. What are this person's strengths and weaknesses?

4. What are the person's interests? What motivates them?

5. What are the person's own personal goals in life?

6. What are we currently paying this person (\$/hour)?

7. Conclusion: Where might this person best fit in meeting our human resource needs?

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Accounting Methods

Cash Method

Most small agricultural businesses can operate for tax purposes on a cash basis. Income is reported when received and expenses are deductible when paid.

Accrual Method

The accrual method of accounting is an alternative to the cash method of accounting. With the accrual method, you record income and expense activities when they occur, not when money is received or spent. The accrual method of accounting lends itself to more useful farm management analysis because revenue and expenses are recorded in the same time period. To employ the accrual method, resources must be inventoried regularly with adjustments made for changes in accounts payable, accounts receivable along with inventories and pre-paid expenses. If you prepare a balance sheet at the end of each year, then you can create an accrual income statement each year as well. A cash income statement becomes an accrual income statement after adjustments are made based on the beginning and ending balance sheets.

Creating and Maintaining an Accounting System

An accounting system is simply a term for farm records. But if users think of an accounting system, they are more apt to think about the total data needed to create the necessary reports and analyze them to determine what is happening in the business. While this could be quite complex, users should think about four types of data needed for the farm business accounting system:

1. Daily cash farm receipts and expenses, including loans and payments.
2. Capital purchases and sales.
3. Depreciation records.
4. Annual inventory at end of the business year.

In a farm business some basic reports are needed. The key ones are:

- Transaction Journal (all cash flowing into and out of the business) and general ledger
- Depreciation schedule (for all depreciable assets)
- Employee reports: Paychecks, withholdings, payments of employment tax, W-2, I-9, new hire reports, workers compensation and other reports
- Balance Sheet
- Income Statement
- Cash Flow Statement
- Production/Inventory log
- Pest Management log
- Processing log

The following backup information should also be maintained:

- For receipts:
 1. Cash register tapes
 2. Bank deposit slips
 3. Receipt books
 4. Invoices
 5. Credit charge slips
 6. Forms 1099-misc.

- For expenses:
 1. Canceled checks
 2. Cash register tapes
 3. Account statements
 4. Credit card sales slips
 5. Invoices
 6. Petty cash slips

Framework for Financial Analysis

To report how the farm business is doing requires at least three financial statements: the Balance Sheet, the Income Statement, and Cash Flow Statement. All statements should relate to the same time period, the business year.

Income Statement

The income statement shows what the business earned during the business year. This can be on a cash basis or on an accrual basis. An accrual income statement will reflect what the farm actually earned during the year taking into account accrual adjustments. To develop one you must have detailed balance sheets from the beginning and end of each year.

Balance Sheet

The balance sheet shows what you own and its value and what you owe as of a point in time. The difference is net worth at the end of the business year. The balance sheet is helpful in acquiring funds, measuring financial progress, considering risk and valuing ownership. The balance sheet must be based upon an inventory taken at the end of the business year. Counting assets is relatively easy. Valuing assets, however, is more difficult. Assets are generally valued at their fair market value (FMV) which is generally the net market price for which they could be sold. They could be valued at their original cost minus depreciation (book value). Generally, most assets on a business financial statement for lending purposes are valued at FMV. However you decide to value a resource, you should be consistent from year to year. Liabilities are easier than assets to value. A listing of debts to banks and other creditors usually is sufficient. The only difficulty is adjusting for accrued interest. For example, if your annual land payment is due in August and you take inventory of your resources on December 31, then an adjustment must be made concerning the amount of interest that has accrued since the last payment.

Cash Flow Statement (historical and projected)

Many start-up businesses generally have expenses right away but income does not start for some time. A projected cash flow statement simply lists all sources of cash and all uses of cash over a period of time. Remember, an income statement lists only business income less business expenses. This period of time could be completed weekly, monthly or annually. The point is that the business cannot run out of money or it is out of business. Remember, a cash flow statement takes into account money borrowed, principle payments and any other sources and uses of cash. An historical cash flow statement lists cash flow over a period of time in the past. The balance sheet, income statement, and cash flow statement are important financial documents. Some businesses may require other financial documents. For example, budgets, a tool that can used to analyze the business using historical and/or projected financial information, can be very helpful.

This website provides excellent fillable_excel spreadsheets to complete your income, cash flow and balance sheet statements: The Carrot Project:

http://www.thecarrotproject.org/farmer_resources/business_and_financial_planning

Annual Operating Expenses for the Whole Farm (Worksheet 4.30 and 4.31 - **Double click on icon to open**)

Worksheet 4.30 Annual Operating Expenses for the Whole Farm

Using your current tax records (if applicable), estimate total variable and fixed expenses for your base plan—for your business as is. Then, list annual operating expenses for each major whole-farm strategy alternative that you are considering. Be sure to calculate and include (1) annual ownership costs of machinery, equipment, and buildings (depreciation, interest, repairs, taxes and insurance); and (2) start-up costs as either one-time cash expenses or as part of annual debt or lease payments (it depends on how you decide to finance these costs). Try to break all of your annual whole farm expenses up into variable- and fixed-expense categories.

	Base Plan	Alternative One	Alternative Two
Direct Expenses			
Marketing	_____	_____	_____
Seed	_____	_____	_____
Fertilizer	_____	_____	_____
Chemicals	_____	_____	_____
Crop insurance	_____	_____	_____
Other direct crop expenses	_____	_____	_____
Feeder livestock purchases	_____	_____	_____
Feed and forages	_____	_____	_____
Breeding fees	_____	_____	_____
Veterinary	_____	_____	_____
Livestock supplies	_____	_____	_____
Other direct livestock expenses	_____	_____	_____
Custom hire	_____	_____	_____
Fuel and oil	_____	_____	_____
Repairs and maintenance	_____	_____	_____
Storage	_____	_____	_____
Processing	_____	_____	_____
Dues and professional fees	_____	_____	_____
Interest on operating loan	_____	_____	_____
Sales taxes	_____	_____	_____
Other operating expenses	_____	_____	_____
Total variable costs	_____	_____	_____
Overhead Expenses			
Utilities	_____	_____	_____
Rent	_____	_____	_____
Hired labor	_____	_____	_____
Depreciation	_____	_____	_____
Farm insurance	_____	_____	_____
Repairs and maintenance	_____	_____	_____
Taxes	_____	_____	_____
Interest on intermediate debt	_____	_____	_____
Interest on long-term debt	_____	_____	_____
Other fixed costs	_____	_____	_____
Total fixed costs	_____	_____	_____

TASK
4

Worksheet 2.11 Estimating Family Living Expenses and Income Needs

Use this worksheet as a guide for estimating your annual family living expenses and necessary income contribution from the farm business.

Family Living Expenses (\$/year)

Food and meals _____
 Medical care and health insurance _____
 Cash donations _____
 Household supplies _____
 Clothing _____
 Personal care _____
 Child / dependent care _____
 Gifts _____
 Education _____
 Recreation _____
 Utilities (household share) _____
 Nonfarm vehicle operating expense _____
 Household real estate taxes _____
 Dwelling rent _____
 Household repairs _____
 Nonfarm interest _____
 Life insurance payments _____
 Other _____

Total cash family living expense _____
 Family living from the farm _____
Total family living expenses (a) _____

Other Nonfarm Expenditures

Income taxes _____
 Furnishings & appliances _____
 Nonfarm vehicle purchases _____
 Nonfarm real estate purchases _____
 Other nonfarm capital purchases _____
 Nonfarm savings & investments _____

Total other nonfarm expenditures (b) _____

Total cash family living investment & nonfarm capital purchases (c) = (a + b) _____

Nonfarm income (d) _____

Necessary contribution from farm business (net farm income) (c) - (d) _____

TASK 2

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Prioritizing Goals (Worksheet 3.5- Double click on icon to open)

Worksheet 3.5 Prioritizing Goals

Use the questions below to prioritize goals for your family and business. Remember high priority goals need not receive all of your attention and resources; priorities are not permanent. Simply use this worksheet as a starting point for family discussions and planning in the chapters to come.

(A) Which goals are most important for family well-being and for business success?

(B) Which short-term goals, if attained, would help you achieve long-term goals?

(C) Which short-term goals conflict with or impede your long-term goals?

(D) Which goals are so important that they should be attained even if it prevents you from reaching other goals?

(E) List your top five goals by priority.

1. _____
 2. _____
 3. _____
 4. _____
 5. _____

TASK 3

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1. For the writing of your business plan, one suggestion would be to utilize an online program at the University of Minnesota at www.agplan.umn.edu. This is an agriculture based program that has many excellent features that is free to use.
2. Assessing your farm business plan
<https://extension.umd.edu/sites/default/files/docs/programs/MREDC/Docs/BPATFinal.pdf>
3. Useful workbook from the University of Maryland
<https://extension.umd.edu/sites/default/files/docs/programs/MREDC/Docs/FarmBusinessPlanning2014WEB.pdf>

Insurance Options to Consider

Farms encounter and create risks every day simply by operating their businesses. If you are currently in business or deciding to start a farm business, insurance should be part of your risk management strategy. Farm businesses can take action to avoid, reduce, accept or transfer the risk to a third party such as an insurance company. All businesses generally elect to transfer some of the risk to an insurance company but keep in mind the greater the risk, the higher the cost of the insurance. Buying business insurance is among the best ways to prepare for the unexpected.

When looking at insurance options, consider the following questions:

- Could my farm continue if a disaster hit my farm such as a fire?
- Could my farm withstand a liability claim?
- Could my farm continue if my crops failed?
- Could my farm continue if a key person in the business died or became disabled?
- If an employee is hurt on the farm, do I have proper worker's compensation insurance?
- Have I considered newer risk management concerns such as the risk of someone hacking into my farm's social media presence and is there insurance to provide protection?

Always be sure to talk with a qualified licensed insurance agent about your insurance needs. You should also talk with your attorney about your risk concerns to review options. Make sure that your agent always knows what you are doing and if you are making any changes in your operation. Seek out insurance agents with experience assisting farmers. Consider asking your colleagues for a referral to an insurance agent they know and trust. It is wise to compare and shop based on price, service, and coverage provided by the policy but keep in mind that the cheapest may not be the best when you file a claim. Remember, the last thing you want to hear your insurance adjuster say is "That is not covered" when you file a claim.

Also note that not all insurance agents sell all the kinds of insurance you may need. Your insurance agent(s) can advise you on the types and proper levels of insurance you need to insure your particular business as long as they have all of the facts. There are a variety of insurance options available to your business. Do not assume that your homeowner's policy will cover any aspect of your farm activity. It is critical to understand the insurance options you have and then to decide on what options you need to purchase. Some of the more popular types of insurances are listed below but keep in mind that this list is not a complete list of all your insurance options.

Business Liability Insurance

A farmer is liable if their action or inaction results in personal injury to another person or another's property. Someone who owns real estate and personal property and/or who conducts business activities assumes responsibility for any liabilities that occur as a result of any use of this property or activity. Many businesses buy general liability or umbrella liability insurance to cover claims of negligence. These help protect against payments as the result of bodily injury or property damage. Liability is usually the highest potential monetary risk for business dealing directly with the public. Consider proper coverage. Regarding product liability, if you are selling food products or raw food from the farm, you will need to have product liability coverage.

Make sure your agent knows and understands:

- What you are selling
- What you are doing.

Property Insurance

Property insurance covers losses due to fire and other perils such as windstorms, theft, and water damage. Perils covered or exclusions may differ between policies and carriers. It is important that you decide what to insure and for how much. Ask yourself what would you have to replace if your farm or business was destroyed?

Health Insurance

Growers who buy individual coverage without the advantage of a large group, health insurance is one of the largest costs. Health insurance coverage is needed for accidents or injuries that occur on the farm as well as illness. In some situations, the spouse of the owner may work off the farm to not only supplement income but also to get health insurance paid or partially paid by the employed spouse's company.

Worker's Compensation Insurance

Connecticut requires employers to obtain Worker's compensation insurance. All employees, whether part-time or full-time, are covered under the Worker's Compensation Act from the first day of their employment. This type of insurance provides wage replacement benefits and medical treatment for employees who have been injured or who have become ill due to a work-related injury or illness. The amount of insurance employers must carry, rate of payment and the employees that must be covered should be discussed with your insurance agent. If you have interns, students or volunteers working on the farm, make sure to discuss employer obligations with your insurance agent.

Disability Insurance

Disability insurance is designed to cover you and/or your employees. It provides income to you or your employee if you or they cannot work due to a covered event, including illness or injury. This insurance, if purchased, would be in addition to workers compensation and is not mandatory.

Business Life Insurance

Family businesses often use life insurance as part of their continuation, estate and/or succession plan. It is in addition to a written business continuation plan that outlines how the business will maintain operations if a key person dies, has a disability, or retires from the business. Be aware that lenders or investors may require you to reduce the loss of investment in the event of the death of a manager or employee whose contribution to the success of the business is essential. In order to understand your need for this type of insurance and to select an adequate

plan, you need to consider term vs. permanent life insurance in addition to why you need the insurance, for how long and what you can afford. Some other important questions include the following:

- What are you trying to accomplish with life insurance?
- Could the same thing be accomplished by other means?

Will my family be burdened financially by my death?

Crop Insurance

The USDA Risk Management Agency (RMA) offers a federally subsidized crop insurance program through private insurance companies. Crop insurance covers disasters such as drought, hail, frost, excessive moisture, fire, insect damage, disease and weeds if recognized organic farming practices fail to provide an effective control method that may result in losses. Crops covered in Connecticut include but not limited to apples, peaches and fresh market sweet corn. If you have a crop that is not listed as insurable, you may still be eligible through a written agreement. Revenue insurance plans are also available. Whole Farm Revenue Protection insures the revenue of the entire farm rather than an individual crop by guaranteeing a percentage of the average gross farm revenue.

The Non-insured crop Assistance Program (NAP) is available for crops for which crop insurance is not available. Producer eligibility and record keeping requirements must be met for these risk management protection programs to be available. Contact a crop insurance agent for specific policy information and guidelines. Contact the FSA office for your county to get details for NAP. Also, please visit www.ctfarmrisk.uconn.edu for crop insurance information as well as other risk management topics

Employees

Generally, employees are defined either under common law or under statutes for certain situations. Under the FLSA, generally a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed. See Pub. 15-A for more information on how to determine whether an individual providing services is an independent contractor or employee.

Once you have determined that you have one or more employees, there are many federal and state rules and regulations that you must follow in order to properly handle payroll. There are a number of special agricultural employer rules and agricultural employers must comply with an array of rules and regulations. Keep in mind also that it is possible for a farmer to have both agricultural employees and non-agricultural employees.

Concerning classifying an employee as agricultural, the term “farm” includes stock, dairy, poultry, fruit, fur-bearing animals, and truck farms, as well as plantations, ranches nurseries, ranges, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities, and orchards. Farm work doesn’t include reselling activities that don’t involve any substantial activity of raising of agricultural or horticultural commodities, such as a retail store or a greenhouse used primarily for display or storage.

Make sure to review your payroll filing requirements with your tax accountant.

Basic Payroll Requirements

1. Apply for a Federal Employer Identification Number (EIN) with the Internal Revenue Service. You may already have an EIN number if a partnership, LLC or corporation. Check with your Accountant. Register with the Connecticut Department of Revenue Services using REG -1 for the withholding of taxes from employees. If already registered with DRS for other taxes, file again using REG -1 for withholding as an additional tax.
2. You must verify that each new employee is legally eligible to work in the United States. Give each new employee an I-9 to complete. These forms are maintained in your files. Within three days of hire, employers must complete Form I-9, employment eligibility verification. Make sure you are using the most current Form I-9, as the form is updated every few years. Employers do not need to submit the I-9 form with the federal government but are required to keep them on file for three years after the date of hire or one year after the date of the employee's termination, whichever is later.
3. Register with Connecticut's New Hire Reporting Program
Employers are required to report newly hired and re-hired employees to a state directory within 20 days of their hire or rehire date. Reporting is available online: <http://www1.ctdol.state.ct.us/newhires/>
4. Give each employee Form W-4 and CT-W-4 to fill out. These forms tell you as the employer how much to withhold for federal and state income tax. Other forms may be needed to document such items as other deductions from wages, etc.
5. Determine if you are subject to unemployment tax. Special rules apply for agricultural employers. Unemployment tax is not withheld from the employee but paid in full by the employer. The Connecticut Department of Labor requires all businesses employing workers to obtain a state unemployment tax number and to register with the Department's Employment Security Division. Employers should also get a copy of the Employer's Guide to Unemployment Compensation. Employers must pay Connecticut Unemployment Tax in accordance with that guide.
6. Set up a payroll system to calculate paychecks and withhold proper amounts for social security tax, federal income tax and state income tax as well as other deductions as allowed.
7. Get worker's compensation insurance when necessary. Talk to your insurance agent about the requirements given your situation.
8. Adopt workplace safety measures when necessary and post required notices.
9. Record Keeping requirements
 - Personal information, including employee's name, home address, occupations, gender, and birth date if under 19 years of age
 - Hour and day when workweek begins
 - Total hours worked each workday and each workweek
 - Total daily or weekly straight-time earnings
 - Regular hourly pay rate for any week when overtime is worked
 - Total overtime pay for the workweek
 - Deductions from or additions to wages
 - Total wages paid each pay period
 - Date of payment and pay period covered

Records required for exempt employees differ from those for nonexempt workers. Special information is required for homeworkers, for employees working under uncommon pay arrangements, for employees to

whom lodging or other facilities are furnished, and for employees receiving remedial education. Always make sure that you are following all the rules that pertain to your particular situation.

10. If you have any employee benefits such as health insurance or a retirement plan establish sign up procedures.
11. Consider compiling an employee handbook.
12. File all required forms with the IRS and DRS and pay all taxes when due. You are required to give each employee a W-2 annually. Post all materials as required by the Department of Labor.

Useful Publications

- [IRS Publication 225 – Farmers Tax Guide](#)
- [IRS Publication 51 – Circular A – Agricultural Employer’s Tax Guide](#)
- [IRS Publication – Circular E – Employers Tax Guide](#)
- [IRS Publication 17 – Your Federal Income Tax](#)
- [IRS Publication 583 – Starting a Business and Keeping Records](#)
- [Circular CT - Connecticut Employer’s Tax Guide](#)
- [Handy Reference Guide to the Fair Labor Standards Act](#)
- [Agricultural Employers Under the Fair Labor Standards Act \(FLSA\)](#)

Section IV. Succession Planning

Transferring the farm business to the next generation generally takes place over a number of years. The entering generation needs to establish a firm financial footing as well as learning to manage the business. The retiring generation has to be willing to turn over control of the business and trust that the successor will do well. The transition process must be well thought out and implemented prudently, given the potential financial consequences to all involved. The following information will help you with this process.

Understanding Farm Business Transfers

<https://www.extension.iastate.edu/agdm/wholefarm/pdf/c4-10.pdf>

Overview of succession planning for farmers

<http://alfalfa.ucdavis.edu/+symposium/proceedings/2006/06-285.pdf>

<http://www.beginningfarmers.org/farm-succession/>

Succession Planning Tool: An excellent free online tool that guides farmers through the process of developing a written business transfer/succession plan is listed below:

<http://www.extension.umn.edu/agriculture/business/farm-transfer-estate-planning/>

Note: All worksheets on this document are from the Minnesota Institute for Sustainable Agriculture "*Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses*".