

# Things to Consider for your New Farm (Ad)Venture

Tom Stanley

Extension Agent for Farm Business Management

Headquartered in Rockbridge County, VA

540-463-4734 ext. 2 or e-mail: [stanleyt@vt.edu](mailto:stanleyt@vt.edu)



**Virginia Cooperative Extension**

Virginia Tech • Virginia State University

# First . . . Do you want to make some money farming?

- If no – that’s OK! – Virginia Cooperative Extension has a wide range of useful resources for citizens in both rural and urban environments! – check us out: [www.ext.vt.edu](http://www.ext.vt.edu) and contact your local Extension Office!
- If yes – this short presentation will hopefully provide some helpful points to consider



**Virginia Cooperative Extension**

Virginia Tech • Virginia State University

# All Farms, Large and Small, have these:

- Land
  - Labor
  - Capital
  - Management
- 
- Land: 1,000 sq. ft. greenhouse or 10,000 acres; the land to which you have access is a major determinant of your options for the farm enterprise



**Virginia Cooperative Extension**

Virginia Tech • Virginia State University

# Capital (\$\$\$\$)

- How much money are you prepared to invest in your venture. A marketable vegetable or fruit crop could be grown for \$500 or less where as the purchase of livestock and/or equipment could cost \$10,000 or more.
- How much money are you prepared to loose? Taking a risk by investing money in your farm venture is not necessarily bad – its simply important to be aware of how much risk you are assuming and identify steps to mitigate that risk.



**Virginia Cooperative Extension**

Virginia Tech • Virginia State University

# Labor and Management

- For most small and medium size farms, labor and management are closely related because the person who makes marketing and production decisions is the same person who has to carry out those decisions!
- For the new farm venture: How much time are you prepared to devote to being on the farm? Are there particular seasons of the year you are more willing, or less willing to be tied-down to farm work?
  - In general, keeping animals is a year-round commitment.
  - Growing and marketing a crop can limit time commitments to certain parts of the year – but those points in the season can be very demanding!



**Virginia Cooperative Extension**

Virginia Tech • Virginia State University

# Insurance and Liability

- If you own a farm property, you need insurance whether you are actively farming or not.
- Several firms in Virginia specialize in insuring farm properties.
- The level of coverage you need is based on the type of farming you do and the extent to which your farm business engages with the public.
- Old adage is true: higher risk generally accompanies higher return



**Virginia Cooperative Extension**

Virginia Tech • Virginia State University

# Compare the risk exposure of these two farms

## Farm Wholesale

- 30 acres
- 40 sheep
- All lambs are sold through a regional livestock market
- Pre-school kids come to the farm each spring and fall for hayrides. These events are free-of-charge and limited to children enrolled in the pre-school.
- Very little liability – common farm insurance policy

## Farm Retail

- 30 acres
- 40 sheep
- Lambs are sold on-the-hoof to people who come to the farm and slaughter the lambs on site. You dispose of waste and provide a work area and running water
- Spring and fall events are held, open to the public, and \$5 per person admission is charged
- Significant insurance needs in addition to possible issues with zoning.

# Taxes

- IRS only requires that you report income . . . Reporting expenses is up to you!
- IRS and State of Virginia affords numerous benefits to farms, even really small farms! You can report a wide array of expenses and you can freely and (generally) without any penalty report significant losses
- Do you need a business license and do you need to set-up an Limited Liability Company (LLC)?
  - Maybe, but in many cases the answer is 'no' on both counts. In general, business licenses are handled by the locality where the farm is located and many localities do not require them of farms.
  - LLC's and other business organizations are most helpful when the farm operator has significant other assets that need to be protected and/or the farm operation is engaged in higher risk enterprises (think, Farm Retail in our previous example)



# How do I qualify as a Farm?

- IRS has 9 guidelines – these are not rules – they are simply indicators the IRS says are characteristics of genuine farms rather than a hobby or recreational pursuit:
- 1. The manner in which the taxpayer carries on the activity.
  - Is the business operated in a business-like manner?
  - Does the operation have complete and accurate books?
  - Is the operator changing production or management in order to improve profit?
  - Does the farm have a written business plan?
- 2. The Expertise of the taxpayer or their advisors.
  - Documenting your participation in Virginia Cooperative Extension programs is a good indicator you are trying to learn!

# IRS Nine Indicators of a Farm Business

- 3. The time and effort expended by taxpayer in carrying on the activity.
  - Do you devote much of your personal time and effort even though there may not be substantial personal or recreational aspects?
  - The amount of time devoted does not show lack of profit motive, just indicates you are making the effort to succeed.
- 4. Expectation that assets used in activity may appreciate in value
  - 'Profit' includes appreciation in the value of assets used in the activity. Thus the taxpayer may intend to derive a profit via the increase value of assets even though there may not be a profit in the business in the short term.
- 5. The success of the taxpayer in carrying on other similar or dissimilar activities.
  - Did you do similar activities in the past and convert them from unprofitable into profitable activities?

# IRS Nine Indicators of a Farm Business

- 6. The taxpayer's history of income or losses with this farm business.
  - Losing money as a start up is OK.
  - Legitimate losses can occur due to circumstances beyond the control of the farmer
  - Several years of profit is strong evidence of profit motive and in time, the farm should make some money
  - Or- the farm operator should be able to illustrate how they are working to become profitable.
- 7. The amount of occasional profits, if any which are earned.
  - Are profits relative to the losses incurred over previous years?
  - Are they in line with the time and financial investment into the activity,
- 8. The financial status of the taxpayer.
  - Does taxpayer have income or capital from other activities?
  - Does activity generate substantial tax benefits?
- 9. The elements of personal pleasure or recreation gained from the farming activities.
  - Does taxpayer have personal motives for the activity in addition to the profit?
  - Are there recreational or personal elements involved or is it part of the overall business plan?
  - Personal pleasure is not the only factor

# Good Luck on your Farming (Ad)Venture!

- Start small
  - Seek Advice
  - Tap into local knowledge
  - Virginia Cooperative Extension can help you access great resources!
- 
- Tom Stanley, Extension Agent for Farm Business Management
  - [stanleyt@vt.edu](mailto:stanleyt@vt.edu)
  - 540-463-4734 ext.2