

Farm Transfer
Financial Considerations
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Farm Transfer
Financial Considerations

How can I determine if the farm business arrangement can achieve the financial performance adequate to satisfy everyone involved?

Financial Considerations
Questions To Answer

- **Family Living Requirements?**
- **Contribution To The Farm Business?**
- **Farm Financial Performance?**

Financial Considerations

- **Family Living Requirements**
 - Single
 - Married
 - Retiring

Financial Considerations

- **Family Living Requirements**
- **Potential changes**
 - Single ----- Married
 - Married ----- Children
 - Retiring ----- Travel, Health

Financial Considerations
Family Living – Monthly Expenses

• Housing	• Clothing & Personal
• Food	• Education/Recreation
• Transportation	• Contributions/Gifts
• Medical/Dental	• Other
• Child Care	• Savings

Financial Considerations

Questions To Answer

- Family Living Requirements?
- **Contribution To The Farm Business?**
- Farm Financial Performance?

Financial Considerations

- **Contribution To The Farm Business**
 - Land
 - Buildings
 - Machinery & Equipment
 - Livestock
 - Labor & Management

Financial Considerations

- Calculation of contribution (annual contribution)

Multi-Person
Farm Operating
Agreement Worksheet

Contribution	Landlord or Tenant		Landlord or Tenant		Landlord or Tenant	
	(1)	(2)	(3)	(4)	(5)	(6)
	Value (\$)	Rate (%)	Value (\$)	Rate (%)	Value (\$)	Rate (%)
1. Interest						
2. Taxes						
3. Other Value						
Buildings						
4. Capital Recovery Factor						
5. Taxes						
6. Insurance						
7. Other Value						
Machinery and Equipment						
8. Capital Recovery Factor						
9. Taxes						
10. Insurance						
11. Other Value						
Livestock (Breeding or Dairy)						
12. Capital Recovery Factor						
13. Interest						
14. Taxes						
15. Other Value						
Labor and Management						
16. Labor and Management						
Other Contributions						
17. Total Annual Contribution (2+3+4+5+6+7+8+9+10+11+12+13+14+15+16)						
18. Total Annual Contribution (2+3+4+5+6+7+8+9+10+11+12+13+14+15+16)						
19. Percent Total Contribution (17/18)						

Financial Considerations

- Calculation of contribution (annual contribution)

Capital Recovery Charge (CRC)
Proxy for ownership cost of assets > 1 yr. Life

Cost associated with:

- Obsolescence
- Depreciation
- Opportunity interest (& interest on salvage value)

Financial Considerations

- Calculation of contribution (annual contribution)
Capital Recovery Charge (CRC)

Typical CRC Charges:

- 16-20% of investment in Equipment
- 10-13% of investment in Buildings
- 22-26% of investment in Livestock
- 2-6% of investment in Land

Financial Considerations

Multi-Person
Operating
Agreement

Case study of
Einar/Genevieve
and Olaf and
Helga

Contribution	Landlord or Tenant		Landlord or Tenant		Landlord or Tenant	
	(1)	(2)	(3)	(4)	(5)	(6)
	Value (\$)	Rate (%)	Value (\$)	Rate (%)	Value (\$)	Rate (%)
1. Interest						
2. Taxes						
3. Other Value						
Buildings						
4. Capital Recovery Factor						
5. Taxes						
6. Insurance						
7. Other Value						
Machinery and Equipment						
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Labor and Management						
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Other Contributions						
17. Total Annual Contribution (2+3+4+5+6+7+8+9+10+11+12+13+14+15+16)						
18. Total Annual Contribution (2+3+4+5+6+7+8+9+10+11+12+13+14+15+16)						
19. Percent Total Contribution (17/18)						

Financial Considerations

- Multi-Person

Farm Operating Agreement Worksheet

(1)	Landlord or <i>Owner</i>			Tenant or <i>New Participant</i>		
	(2) Value (\$)	(3) Rate (%)	(4) Value of Annual Contribution (\$) (2 x 3)	(5) Value (\$)	(6) Rate (%)	(7) Value of Annual Contribution (\$) (5 x 6)
Contribution						
Land						
1. Interest	578,000	4%				
2. Taxes		0.5%				
3. (Total Value)	\$	6%	\$ 34,560	\$		\$ 0
Buildings						
4. Capital Recovery Factor		11%				
5. Repair	144,000	2.5%				
6. Taxes		0.5%				
7. Insurance		1.0%				
8. (Total Value)	\$	15%	\$ 21,600	\$		\$ 0

Financial Considerations

- Multi-Person

Farm Operating Agreement Worksheet

Machinery and Equipment						
9. Capital Recovery Factor	130,000	18%				
10. Repair		4%				
11. Taxes						
12. Insurance		1%				
13. (Total Value)	\$	23%	\$ 34,500	\$		\$ 0
Livestock (Breeding or Dairy)						
14. Capital Recovery Factor	108,000	10%				
15. Interest						
16. Taxes						
17. Insurance		1%				
18. (Total Value)	\$	11%	\$ 11,880	\$		\$ 11,880

Financial Considerations

- Multi-Person

Farm Operating Agreement Worksheet

19. Labor and Management			\$ 40,000			\$ 40,000
20. Other Contributions	\$		\$	\$		\$
21. \$ 142,540	21. Total Annual Contribution (3+8+13+18+19+20)		\$ 142,540	22. Total Annual Contribution (3+8+13+18+19+20)		\$ 51,880
22. \$ 51,880	24. Percent Total Contribution (21÷23)		73%	25. Percent Total Contribution (22÷23)		27%
23. \$ 194,420 (21+22)						

Financial Considerations

- Multi-Person

Farm Operating Agreement Worksheet

19. Labor and Management			\$ 40,000			\$ 40,000
20. Other Contributions	\$		\$	\$		\$
21. \$ 142,540	21. Total Annual Contribution (3+8+13+18+19+20)		\$ 142,540	22. Total Annual Contribution (3+8+13+18+19+20)		\$ 51,880
22. \$ 51,880	24. Percent Total Contribution (21÷23)		73%	25. Percent Total Contribution (22÷23)		27%
23. \$ 194,420 (21+22)						

Financial Considerations

- Contribution To The Farm Business

– Labor & Mngt	\$40,000	\$40,000
– Livestock	11,880	11,880
– Machinery	34,500	0
– Buildings	21,600	0
– Land	34,560	0
Total	\$142,540	\$51,880
	73%	27%

Financial Considerations

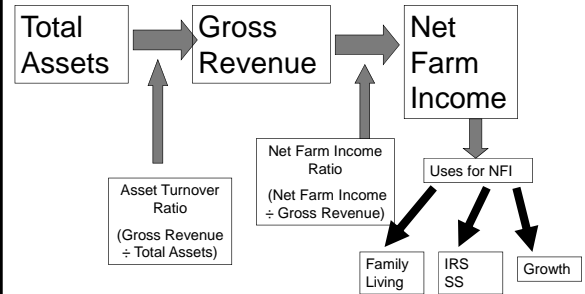
- Gross income from the business is \$333,100
 $333,100 \times .73 = \$243,163$
 $333,100 \times .27 = \$88,085$
- Expenses ----- thinking about who owns what, how do you think expenses should be distributed in this case study?

Financial Considerations

Questions To Answer

- **Family Living Requirements?**
- **Contribution To The Farm Business?**
 - 1st Family-----73% \$41,300 net farm income
 - 2nd Family-----27% \$15,000 net farm income
- **Farm Financial Performance?**

Income Needed to Achieve Goals



Question to Ask:

- How big is big enough?
 - Do you expect the farm to provide all of the family living expenses?
 - Will there be some off-farm income to reduce the income required by the farm?
 - What standard of living do the two generations expect?
 - Should the younger generation expect the same as friends in non-farm jobs --- or the older generation?

Questions?