

TRIBAL AGRICULTURE RECORD KEEPING AND BUDGETING

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FEDERALLY RECOGNIZED TRIBAL EXTENSION PROGRAM



OVERVIEW

- ✘ Livestock industry trends and marketing
- ✘ Livestock records management and record keeping
- ✘ Constructing enterprise budgets
- ✘ Reducing risk through federal insurance programs

AGRI BUSINESS PLANNING

- × Objectives
 - + To provide information to tribal and individual operators to improve operations
 - + To provide one-on-one consultations for those who want to develop their individualized system (Manual or Computerized)
 - + To provide operators with financial format information needed to obtain operating capital (How to get loans and amounts needed)

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GOALS

- × Agribusiness sustainability
- × Maximize profitability
- × Part-time or full-time operation
- × Identify resources
- × Obtain working capital



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AGRIBUSINESS ENTERPRISE ADVANTAGES

- × Costs of operation
 - + Range fees
 - ★ Usually less than outside (i.e. \$4.00 per year)
 - + Feed costs
 - + Land accessibility
 - ★ Tribal land
 - ★ Assignment land
 - ★ Allotment land
 - ★ Fee patented land
- × Tribal vs. federal vs. state regulation

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Farm income generated from soil and water conservation programs and agricultural commodity programs on Indian Trust lands

- × **Revenue Ruling 69-289**
- × Revenue Ruling 69-289 defines gross income from USDA programs on Indian Trust Lands: Payments made under USDA programs having as their general objectives the conservation of soil and water resources, the maintenance of reasonable and stable supplies of agricultural commodities, and the protection of farm income are considered payments “derived directly from the land.”
- × Under USDA programs, payments are made to Indians for agreeing to use the land in certain ways and agreeing not to use the land in certain ways. Therefore, these payments are considered to be income “derived directly from the land” to the same extent as would be rentals or the proceeds of sales of crops grown on the land, and are excludable from Indians’ gross income for Federal Income Tax purposes.

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Question: *So what does this mean?*

- × Indian producers receiving a 1099G form for USDA payments from soil and water conservation programs and agriculture commodity programs for the production of crops and livestock on Indian trust land may claim an exemption if:
 - + 1. The Indian operator or Indian Trust land owner is an enrolled member of a tribe and resides on their respective reservation.
 - + 2. The income reported on the 1099G form is from:
 - The conservation of soil and water resources, maintenance of reasonable and stable supplies of agricultural commodities, and the protection of farm income.
 - Crops, livestock or other agricultural products.
 - + 3. **AND** the Indian operator is operating on their own allotment in which case the income would be “derived directly from” Indian trust lands.
- × Then the agricultural income “derived directly from the land” may be reported as tax exempt.

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Question: *If you are an Indian producer, operating on Indian Trust Land, what do you do with the 1099G for you receive?*

- × Farm income reported on tax form 1099G should be reported on tax for **Schedule F-Profit or Loss from Farming, Form 1040**. Contact your accountant or tax advisor for further information.
- × There is no provision in the Internal Revenue Code of 1954 that exempts an individual from the payment of Federal Income Tax solely on the grounds that he/she is an Indian.

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SCHEDULE F - PAGE 1

SCHEDULE F (Form 1040) Profit or Loss From Farming OMB No. 1545-0074
 Department of the Treasury Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B. **08**
 Internal Revenue Service See instructions for Schedule F (Form 1040). **Attachment 14**

Name of proprietor _____ Social security number (SSN) _____
 a _____ b Enter code from Part IV _____
 c Accounting method: (1) L-1 Cash (2) L-1 Accrual _____ d Employer ID number (EIN), if any _____

Part I Did you "materially participate" in the operation of this business during 2008? If "No," see page F-3 for limit on passive losses. Yes No

Part II Farm Income—Cash Method. Complete Parts I and II (accrual method). Complete Parts II and III, and Part I, line 11.
 Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale	1			
2	Cost or other basis of livestock and other items reported on line 1	2			
3	Subtract line 2 from line 1	3			
4	Sales of livestock, produce, grains, and other products you raised	4			
5a	Cooperative distributions (Form 1099-PATN)	5a		5b Taxable amount	5b
6a	Agricultural program payments (see page F-3)	6a		6b Taxable amount	6b
7	Commodity Credit Corporation (CCC) loans (see page F-3):				
a	CCC loans reported under election	7a		7b Taxable amount	7b
b	CCC loans forfeited	7c		7d Taxable amount	7d
8	Crop insurance proceeds and federal crop disaster payments (see page F-3):				
a	Amount received in 2008	8a		8b Taxable amount	8b
c	If election to defer to 2009 is attached, check here <input type="checkbox"/>			8c Amount deferred from 2007	8c
9	Custom hire (machine work) income	9			
10	Other income, including federal and state gasoline or fuel tax credit or refund (see page F-4)	10			
11	Other income. Add amounts in the right column for lines 3 through 10. If you use the accrual method to figure your income, enter the amount from Part III, line 51.	11			

Part III Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses such as taxes, insurance, or repairs on your home.

12	Car and truck expense (see page F-5); also attach Form 4562	12		25	Pension and profit-sharing plans	25
13	Chemicals	13		26	Rent or lease (see page F-6):	
14	Communication expenses (see page F-5)	14		a	Equipment	26a
15	Custom hire (machine work) (see page F-5)	15		b	Other (fuel, animals, etc.)	26b
16	Depreciation and section 179 expense deduction not claimed elsewhere (see page F-5)	16		27	Repairs and maintenance	27
17	Employee benefit programs other than on line 25	17		28	Seeds and plants	28
18	Fuel	18		29	Storage and warehousing	29
19	Fertilizers and lime	19		30	Supplies	30
20	Freight and trucking	20		31	Taxes	31
21	Gasoline, fuel, and oil	21		32	Utilities	32
22	Insurance (other than health)	22		33	Veterinary, breeding, and medicine	33
23	Interest:			34	Other expenses (specify):	
a	Mortgage (paid to banks, etc.)	23a		a		34a
b	Other	23b		b		34b
24	Labor (see last enclosed credit)	24		c		34c
				d		34d
				e		34e
				f		34f
25	Total expenses. Add lines 12 through 24. If line 24 is negative, see instructions	25				35
26	Net farm profit or loss (see page F-7). Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.	26				36

Part IV Principal Agricultural Activity Codes

File Schedule C (Form 1040) or Schedule C-EZ (Form 1040) instead of Schedule F if all your principal source of income is from providing agricultural services such as soil preparation, veterinary, farm labor, horticulture, or management for a fee or on a contract basis, or if you are engaged in the business of breeding, raising, and caring for dogs, cats, or other pet animals.

These codes for the Principal Agricultural Activity classify farms by their primary activity to facilitate the administration of the Internal Revenue Code. These six digit codes are based on the North American Industry Classification System (NAICS).

Select the code that best identifies your primary farming activity and enter the six digit number on page 1, line 8.

Crop Production
 111100 Cereals and grain farming
 111210 Vegetable and melon farming

Animal Production
 111300 Fruit and tree nut farming
 111400 Greenhouse, nursery, and floriculture production
 111900 Other crop farming

Animal Production
 112111 Beef cattle ranching and farming
 110110 Cattle, calves
 112120 Dairy cattle and milk production
 112210 Hog and pig farming
 112300 Poultry and egg production
 110400 Sheep and goat farming
 110510 Aquaculture
 112900 Other animal production

Forestry and Logging
 113000 Forestry and logging (including forest nurseries and timber tracts)

SCHEDULE F - PAGE 2

Part III Farm Income—Accrual Method (see page F-7). Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797 and do not include the livestock on line 46 below.

36	Sales of livestock, produce, grains, and other products	36			
36a	Cooperative distributions (Form 1099-PATN)	36a		36b Taxable amount	36b
40a	Agricultural program payments	40a		40b Taxable amount	40b
41	Commodity Credit Corporation (CCC) loans:				
a	CCC loans reported under election	41a		41b Taxable amount	41b
b	CCC loans forfeited	41c		41d Taxable amount	41d
42	Crop insurance proceeds	42			
43	Custom hire (machine work) income	43			
44	Other income, including federal and state gasoline or fuel tax credit or refund	44			
45	Add amounts in the right column for lines 36 through 44	45			
46	Inventory of livestock, produce, grains, and other products at beginning of the year	46			
47	Cost of livestock, produce, grains, and other products purchased during the year	47			
48	Add lines 45 and 47	48			
49	Inventory of livestock, produce, grains, and other products at end of year	49			
50	Cost of livestock, produce, grains, and other products sold. Subtract line 49 from line 48	50			
51	Gross income. Subtract the 50 from line 48. Enter the result here and on Form 1, line 11	51			

If you use the unit-livestock-price method or the farm-price method of valuing inventory and the amount on line 49 is larger than the amount on line 50, subtract line 49 from line 48. Enter the result on line 50. Add lines 45 and 50. Enter the total on line 51 and on Part I, line 51.

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Question: What type of income from Indian Trust Land is tax exempt?

- × To be tax exempt, income must be derived directly or attributable to the use of the Indian Trust (allotted) land.
- × **Revenue Ruling 67-284**
- × Revenue Ruling 67-284, Gross Income Defined is the second most important ruling. This ruling outlines the general principles applicable to the federal income tax treatment of income received by Indians on Indian Trust (allotted) lands.
- × The Internal Revenue Service recognizes the exempt status of income received by an enrolled member of an Indian Tribe where **ALL** of the following five tests are met:
- × **1.** The land in question must be held in federal trust status by the United States Government;
- × **2.** Such land must be restricted and allotted land and is held for an individual Indian and not for a tribe;
- × **3.** The income must be derived directly from the Indian Trust land
- × **4.** The statute, treaty, or other authority involved must evidence congressional intent that the allotment be used as a means of protecting the Indian until such time as that land is removed from federal trust status;
- × **5.** The authority in question must contain language indicating clear congressional intent that the Indian Trust land is not subject to taxation.


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Farm/Pasture Leases or Range Unit Permits

- × **Revenue Ruling 57-523**
- × The third ruling that applies is Revenue Ruling 57-523, which states farm income derived from Indian Trust lands rented by an Indian operator (farm/pasture leases or range unit permits) is not considered income held in trust for or received by the allottee (land owner) and is included in gross income.


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AGRIBUSINESS CONSTRAINTS

- × Availability of operating funding 
- × Livestock operations graze through Livestock Associations (Must manage as a group)
- × Land accessibility
 - + Trust status limits ability to obtain operating and development loans from traditional lending institutions i.e. banks, PCA
- × Marketing
 - + Loss of revenue due to opportunities available
 - ★ Sales yards

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WHAT CAN RECORD KEEPING DO

- × Increase profitability
 - + Shows where profit is generated and how
- × Provide for informed short-term and long-term planning
- × Identify strengths
- × Identify weaknesses
- × Reduces business failure
- × Evaluate success of operation 

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WHAT CAN RECORD KEEPING DO (CONT'D)

- × Identify business assets
- × Identify liabilities
- × Identify income
- × Identify expenses
- × Document and track animal production
- × Document animal health treatments

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WAYS OF OBTAINING OPERATING CAPITAL

- + Forward Selling
 - × Alfalfa Hay (Dairy hay buyers)
 - × Cattle (Feedlots or cattle buyers)
- + Establishing Supply Accounts
- + Establishing Credit Lines
 - × Secured (First or Second Mortgages on house or property)
 - × Unsecured
- + Obtain operating loans (Direct and Gauranteed)
 - × Farm Service Agency
 - × Production Credit Association

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INFO NEEDED TO GET OPERATING CAPITAL

- + Historical Data of Sales
 - × How much hay do you produce for sale
 - × How many cattle do you produce for sale
- + Reputation
 - × Can you be trusted
 - × Do you pay your supply accounts on time
 - × Do you stand by your deal once made.
Honor your word.



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FINANCIAL HORIZONS CREDIT UNION (FHCU)

LENDING CRITERIA

- × The Credit Union will review your personal credit history and FICO score. Among the personal credit information that may be considered is:
 - × personal credit card debt
 - × personal loans
 - × liquid assets
 - × real estate holdings
 - × tax returns
 - × personal financial statements

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FHCU Six C's of Credit

- × *Character* of the borrower is the first factor and the most difficult to assess.

- × Length of current and previous residence
- × Length of current and previous employment
- × Proximity of personal references
- × Past experience with member

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FHCU six C's

- × **Capacity includes:**
 - + Length of current and previous residence
 - + Length of current and previous employment
 - + Proximity of personal references
 - + Past experience with member
- × **Capital**
 - + Capital deals with an assessment of the borrower's financial leverage, operating leverage, capital structure, and pro forma cash flow.

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FHCU Six C's

× Conditions

- + For businesses it includes assessment of industry trends, competition, labor situation, technology trends, pricing, raw material availability, and other factors that are generally beyond the control of the business.

× Collateral

- + Value of assets that can be used to repay a loan if internally generated cash or new financing is not available. Typically 80% of loan value.

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FHCU Six C's

× Control

- + The operating effectiveness of the information systems used by the borrower to manage the business. Not all borrowers have good internal financial and operating systems. This can lead to unexpected problems with meeting cash flow requirements. The lender and investor must be assured that the firm's accounting system is effective, that the firm meets all regulatory and other legal requirements, and that its management information systems are adequate to manage effectively.

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FARM SERVICE AGENCY LOAN REQUIREMENTS

- + Request For Direct Loan Assistance
- + A plan of proposed activities
- + Balance Sheet (within 90 days)
- + Have been denied from a commercial lender
- + Three year financial history
 - × Financial Records (income, expenses, and balance sheet)
- + Three production history

FINANCIAL STATEMENTS – BALANCE SHEET

This form is available electronically. Farm Approved - CAB No. 0900-0234

U.S. DEPARTMENT OF AGRICULTURE
Farm Service Agency
FARM BUSINESS PLAN WORKSHEET
FINANCIAL STATEMENTS

F-1 Name: _____ Date of Report: _____

A. CURRENT ASSETS				B. CURRENT LIABILITIES			
1. Cash and Equivalents				1. Accounts Payable			
2. Marketable Bonds and Securities				2. Notes Payable			
3. Accounts Receivable				3. Other Current Liabilities			
4. Other Current Assets				4. Other Current Liabilities			
TOTAL CURRENT ASSETS (Items 1A through 4A)				TOTAL CURRENT LIABILITIES (Items 1B through 4B)			

