

# Dairy Farm Transitions

*A resource for considering changes on the farm.*



**Cornell Cooperative Extension**  
**North Country Regional Ag Team**

# Table of Contents:

*Preface: Please note, should you have any*

Page 3- *What does it cost me to live?* - Making a household budget

Page 4- *What will I do next?*- Earning a living after farming

Page 5- *Renting the Farm*– What to consider

Page 6- *Example farm rental agreement*

Page 7– *Renting the Farm Land*– What to consider

Page 8– *Example farmland rental agreement*

Page 9- *Raising Heifers*– What to consider

Page 10-11– *Example heifer raising contract*

Page 12- *Working for another Farm*– Knowing your value

Page 13– *Example Resume*

Page 14- *Moving to Industry*– Evaluating a job in sales/consulting

Page 15– *Keeping or selling the farm*- What to consider

Page 16–18 *The basic tax implications*- Tax considerations

Page 19- *Family Stress Checklist*–Self Evaluation

Page 20– *Personal Resources*

*\*Please note, should you have any questions, concerns, or if you would like to discuss these options with someone please reach out to your local Cornell Cooperative Extension Office or Kelsey O’Shea at [kio3@cornell.edu](mailto:kio3@cornell.edu) or 315-955-2795.*

# What does it cost me to live? - Making a household budget



## Household Budgeting Worksheet

Photocopy this sheet before using it

The Credit Counseling Professionals

Make sure that you include all take-home income and expenses as accurately as possible. The information you provide will be used to compute your household budgeting plan. Try not to inflate the numbers, but do not underestimate either. If a monthly expense is automatically deducted from your take-home income, do not enter it below.

### Monthly Take-Home Income

Salary/Wages	\$ _____
Salary/Wages (Spouse)	\$ _____
Social Security	\$ _____
Military Pay	\$ _____
Pension Plan/Retirement	\$ _____
Interest Income	\$ _____
Alimony/Child Support	\$ _____
Real Estate (Rent)	\$ _____
Dividends (Investments)	\$ _____
Unemployment/Food Stamps	\$ _____
Royalties/Other Income	\$ _____
<b>Total Income</b>	\$ _____

### Monthly Secured Debts

Rent (Apartment, etc)	\$ _____
1st Mortgage/Taxes/Insurance	\$ _____
2nd Mortgage/Taxes/Insurance	\$ _____
Trailer Park Space Rent	\$ _____
Student Loans	\$ _____
Auto Loans/Leases	\$ _____
Recreation Toys (Watercraft, etc.)	\$ _____
Past-Due Taxes	\$ _____
Other Secured Debts	\$ _____
Other Secured Loans	\$ _____
<b>Total Secured Debt</b>	\$ _____

### Monthly Living Expenses

Food (Home, Work, School)	\$ _____
Household Items	\$ _____
Clothing	\$ _____
Laundry/Dry Cleaning	\$ _____
Telephone (Home, Cell, Pager)	\$ _____
Internet Service	\$ _____
Cable TV/Satellite	\$ _____
Electric	\$ _____
Gas/Oil	\$ _____
Water/In-Home Service	\$ _____
Trash Service	\$ _____
Auto Gas/Maintenance	\$ _____
Auto Insurance	\$ _____
Health & Dental Insurance	\$ _____
Life & Disability Insurance	\$ _____
Homeowners/Renters Insurance	\$ _____
Education (Tuition, Supplies)	\$ _____
Personal Care (Hair, Nails, etc)	\$ _____
Medical Care (Prescriptions, etc.)	\$ _____
Child Care (Nanny, Day Care)	\$ _____
Children Activities (Sports, etc.)	\$ _____
Alimony/Child Support	\$ _____
Gardener/Pool/Alarm Service	\$ _____
Entertainment	\$ _____
Homeowner Dues	\$ _____
Subscriptions	\$ _____
Health Club Membership	\$ _____
Contributions/Donations/Gifts	\$ _____
Other Expenses (Misc.)	\$ _____
<b>Total Expenses</b>	\$ _____

### Monthly Unsecured Debts

Credit Card	\$ _____
Credit Card	\$ _____
Credit Card	\$ _____
Credit Card	\$ _____
Credit Card	\$ _____
Credit Card	\$ _____
Personal Loan	\$ _____
Personal Loan	\$ _____
Medical/Dental Bills	\$ _____
Other Unsecured Loans	\$ _____
<b>Total Unsecured Debt</b>	\$ _____

### Summary of Budget

Total Take-Home Income	\$ _____
	(minus)
Total Living Expense Payments	\$ _____
Total Secured Debt Payments	\$ _____
Total Unsecured Debt Payments	\$ _____
	(equals)
<b>Your Disposable Income or Deficit</b>	\$ _____
<b>Note:</b> If you have a deficit, you should seek the help of a credit counseling agency to help you reduce expenses as well as create a workable budget for you and your family.	

130 Rumford Ave, Suite 202, Auburndale, MA 02466-1371  
 Toll Free: 1-800-769-3571 ~ Fax: 617-244-1116  
 ConsumerCredit.com

## ***What will I do next?- Earning a living after farming***

Considering a career change is a big decision no matter what industry you are in. Luckily, there are considerable opportunities still in the agricultural industry even if you decide to not dairy farm. When transitioning to a new career, asking yourself the following can be helpful: How do I want to spend my time? What do I really enjoy doing? How much would I like to get paid for my work? Even though transitioning out of dairy farming may not be your first choice, with this change you are afforded a new opportunity to *choose* what you will do. Taking some time and consideration with your next job choice will make for an easier transition.

In this document, we explore four career/earnings options. These are just suggestions, we would suggest reviewing each of them and evaluating how they might be applicable in your situation. With any of the options, both the feasibility and passion or interest should play a big part in your decision making process. Here are the four options we explore:

1. Renting the farm to another farmer- This could mean just renting the land or renting the land and facilities. We provide example contracts and prices.
2. Raising dairy heifers for a neighboring farm- There are many different agreement options for this, from full boarding to just providing the basics. We provide example prices and considerations.
3. Working for another farm- This option has many different variations. It gives you the potential to chose a position that requires you to do the parts of farming you like the best.
4. Working for industry- This option is most likely the biggest lifestyle change, but could offer experiences that you haven't had such as more travel to new places, working with numerous operations, and focusing on one area of farming that you are interested in.

# Renting the Farm— What to consider

When considering renting the farm, there are two approaches to searching for tenant. The first is to privately reach out a neighboring operation or operations, while the second would be to send an offer letter to all surrounding farms with an open bid/offer of rent. Either approach can allow negotiations on price. Below are some average rental prices to consider when approaching farms or sending out a letter (these are averages for the area and may seem low

or high when considering your specific location.)

Rental Rates & Fees For Land and Buildings	
<b>Good Pasture</b>	\$10-\$15 / cow / month
Water & Fence	\$7.50-\$10 / heifer / month
	\$30 -\$40 / animal / season
<b>Tillable Cropland</b>	\$30 -\$85 / acre
Based on fertility & demand	
<b>Standing Hayland</b>	*\$.20 -\$1.50 / "Kicker" Bale
	<i>**Price determined by forage quality</i>
<b>**Dairy Facilities:</b>	\$ 8 - \$12 average barn
Stall / month	\$12 - \$16 modern facility
	<i>**Utilities &amp; Land not included</i>
<b>Custom Heifer Raising</b>	\$1.75 - \$2.25 / Hd / Day
<b>Housing (Building Only):</b>	
Yearlings	\$4 - \$ 5.50 / mo.
Calves	\$2 - \$ 3.50 / mo.
<b>Silos</b>	\$1.25 - \$1.50 / wet ton
<b>Hay Storage</b>	\$3 - \$5 / ton / season

We recommended before setting a price, you know and understand what it is going to cost your to keep the farm property including taxes, insurance, maintenance, utilities, and debt payments to name a few. From there, adding 5-10% on top of the total cost will ensure that you are making a return on your investment.

It is always recommended to get all contracts in writing **and reviewed by an attorney.** Having the terms

written out helps prevent issues and disputes later on. It also helps ensure that you are paid the correct amounts at the correct times. Importantly as well, if payment does not occur you are able to take the action needed find a new tenant.

Remember that the rental agreement on the next page is an EXAMPLE and that we highly recommend you use an attorney to draft one specific to your situation.

# Farm Rental Contract

This lease is entered in this 1st day of \_\_\_\_\_, 20\_\_\_\_ between \_\_\_\_\_

The landlord hereby leases to the tenant to use for agricultural purposes the following buildings two barns, a house and four silos and various storage buildings located in the town of Turin and County of Lewis and commonly known as the Cummings farm.

The tenant will pay the landlord \$\_\_\_\_\_ per year for buildings and land with payment to be made as follows \_\_\_\_\_/month. The tenant will pay \_\_\_\_\_ for the lease of the equipment with payment to be made as follows; \_\_\_\_\_ The tenant will be required to make ordinary repairs to maintain the buildings and equipment used and pay for any other utilities, such as electricity used during the period lease. **The tenant will be responsible for shoveling the roofs of all buildings.**

The landlord will pay the taxes, fire insurance on buildings and major repairs The landlord has the right to inspect or enter the property at anytime.

The lease shall be for five years beginning \_\_\_\_\_ **1, 20** \_\_\_\_ and ending \_\_\_\_\_, **20** \_\_\_\_ At the end of the lease the property will be left in the same condition as found. The tenant has the first option to buy at a price of \$ \_\_\_\_\_

Any differences between the landlord and tenants as to their rights and obligations under this lease that are not settled by mutual agreement shall be submitted to one disinterested person agreeable to both and the arbitrator's decision shall be final.

It is agreed that the stipulations of this lease are to apply to and bind the heirs, executors, administrators and assigns of the respective parties and is made and executed in duplicate.

In witness whereof the parties have signed this lease of the date first above written.

Signed:

Witness: \_\_\_\_\_ Landlord

\_\_\_\_\_ Tenant



# Renting the Farm Land– What to consider

When considering just renting the farm land, there are still two approaches to searching for tenant. The first is to privately reach out a neighboring operation or operations the second would be to send an offer letter to all surrounding farms with an open bid/offer. Either approach can allow negotiations on price. Below are some average rental prices to consider when approaching farms or sending out at letter (these are averages for the area and

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	\$30 -\$40 / animal / season
<b>Tillable Cropland</b>	\$30 -\$85 / acre
	Based on fertility & demand
<b>Standing Hayland</b>	*\$ .20 -\$1.50 / "Kicker" Bale
	<i>**Price determined by forage quality</i>
<b>**Dairy Facilities:</b>	\$ 8 - \$12 average barn
Stall / month	\$12 - \$16 modern facility
	<i>**Utilities &amp; Land not included</i>
<b>Custom Heifer Raising</b>	\$1.75 - \$2.25 / Hd / Day
<b>Housing (Building Only):</b>	
Yearlings	\$4 - \$ 5.50 / mo.
Calves	\$2 - \$ 3.50 / mo.
<b>Silos</b>	\$1.25 - \$1.50 / wet ton
<b>Hay Storage</b>	\$3 - \$5 / ton / season

may seem low or high when considering your specific location.)

We recommend before setting a price, you know and understand what it is going to cost your to keep the farm land including taxes, insurance, debt payments and soil health needs such as tiling, fertilizer etc. From there, adding 5-10% on top of that cost will ensure that you are making a return on your investment.

It is always recommended to get all contracts in writing and reviewed by an attorney Having the terms written

out helps prevent issues and disputes later on. It also helps ensure that you are paid the correct amounts at the correct times. Importantly as well, if payment does not occur you are able to take the action needed find a new tenant.

Remember that the rental agreement on the next page is an EXAMPLE and that we highly recommend you use an attorney to draft one specific to your situation.

# Land Rental Contract

This lease is entered in this \_\_\_\_\_ day of \_\_\_\_\_ between \_\_\_\_\_, landlord, and \_\_\_\_\_, tenant.

The landlord hereby leases to the tenant to use for agricultural purposes \_\_\_\_\_ acres of cropland (more or less) located in the town of \_\_\_\_\_ and County of Jefferson and commonly known as the \_\_\_\_\_.

The tenant will pay the landlord \$\_\_\_\_\_ acre with payment to be made in the month of \_\_\_\_\_. The tenant will also pay all costs of planting; growing and harvesting crops grown on the land.

The tenant will follow recommended conservation practices in working the land and adhere to the prescribed nutrient management plan for the property. No green or growing timber will be cut from the property by the tenant. The landlord has the right to inspect or enter the property at anytime.

The lease shall be for \_\_\_\_\_ years beginning \_\_\_\_\_

Any differences between the landlord and tenants as to their rights and obligations under this lease that are not settled by mutual agreement shall be submitted to one disinterested person agreeable to both and the arbitrator's decision shall be final.

It is agreed that the stipulations of this lease are to apply to and bind the heirs, executors, administrators and assigns of the respective parties and is made and executed in duplicate.

Signed:

\_\_\_\_\_ Landlord

\_\_\_\_\_ Tenant



## Page 7- Raising Heifers– What to consider

In some cases, there may be farms in your area that are in need of more housing for their heifers. In addition, they may have poorer quality facilities than you or may want someone to dedicate more time and attention to their youngstock. This is a good option for those with facilities that are suited for heifers and those that are looking for less of a lifestyle change. Most likely, you were already raising heifers before for your own dairy operation.

Rental Rates & Fees For Land and Buildings	
<b>Good Pasture</b>	\$10-\$15 / cow / month
Water & Fence	\$7.50-\$10 / heifer / month
	\$30 -\$40 / animal / season
<b>Tillable Cropland</b>	\$30 -\$85 / acre
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Yearlings	\$4 - \$ 5.50 / mo.
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<b>Silos</b>	\$1.25 - \$1.50 / wet ton
<b>Hay Storage</b>	\$3 - \$5 / ton / season

It is important to consider the price you would charge. In the chart to the left there is a range of per head per day rates. It is important however to look at your specific cost of raising those heifers including but not limited to: feed, vet, breeding, facilities maintenance, utilities, taxes, debt payments, and bedding. Calculating these expenses on a per head per day basis will allow you to determine how much you need to charge a prospective farm to ensure that the expenses are covered and that you have the means to cover

family living costs.

It is always recommended to get all contracts in writing and reviewed by an attorney. Having the terms written out helps prevent issues and disputes later on. In addition, should a farm not pay you will most likely have already incurred expenses associated with the heifers you are boarding, it is key to include language that allows you to take possession of the animals should payment not occur.

# DIRECT CONTRACT FOR RAISING REPLACEMENTS

\_\_\_\_\_ COUNTY \_\_\_\_\_ DAIRYMAN \_\_\_\_\_ GROWER

**CLAUSE I: PARTIES INVOLVED:** This contract is entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_; between \_\_, the grower of \_\_, County of \_\_\_\_\_, State of \_\_\_\_\_; and \_\_\_\_\_, the dairyman of \_\_\_\_\_, County of \_\_\_\_\_, State of \_\_\_\_\_.

**CLAUSE II: TERM OF CONTRACT:** The term of this contract shall be from the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, to the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, and shall be automatically renewed from year to year unless otherwise terminated in accordance with the provisions herein or amended in writing as mutually agree upon.

The dairyman agrees to furnish the grower with the heifer calves listed on the description sheet attached hereto and made a part hereof.

The dairyman agrees to assume all legal responsibility as owner of the animals listed on the attached Description Sheet and will not hold the grower liable for injury or death losses to the animals, except those due to negligence on the part of the grower.

**CLAUSE III: TERMINATION OF CONTRACT:** This contract may be terminated at any time by mutual agreement in writing or by at least three months written notice from either party prior to the annual renewal date. The animals on hand will be finished out or disposed of by the written terms in the contract.

**CLAUSE IV: ARBITRATION:** Any dispute arising under the terms of this contract may be referred by the parties hereto to an arbitrator, or if one person cannot be found who is acceptable to both parties, then each shall choose an arbitrator and the two chosen shall select a third. The majority decision of the arbitrator(s) shall be presented to both parties in writing. The arbitrator(s) shall have the power to make an award or determination on any issue which arises out of the contract and it shall be binding on both parties. The expense of the arbitrator(s) shall be divided equally between the parties.

Pending final decision of a dispute hereunder, the parties hereto shall proceed diligently with the performance of the contract.

**CLAUSE V: THE GROWER:** The grower agrees to pick up the heifer calves at \_\_\_\_\_ days of age. These animals will be listed on the description sheet.

**CLAUSE VI: ADDITIONAL ANIMALS:** Additional animals may be added to this contract and all conditions of the contract shall apply to the additions. Both parties shall initial entries and exits on the description sheet of all original and additional animals.

**CLAUSE VII: OTHER CONSIDERATIONS:** The DAIRYMAN further agrees to:

Pay for all registration costs and retain registration certificates when registered animals are involved.

Bear the transportation expenses of moving the heifers from the grower's farm to the dairyman's farm.

The GROWER further agrees to:

- Bear transportation expenses of moving the heifers from the dairyman's farm to the grower's farm.
- Pay veterinarian fees and medication bills for non-routine treatment.
- Have heifers vaccinated if requested by the dairyman.
- Dehorn all animals at earliest convenience.
- In case of death (of an animal listed on the description sheet) for any reason not covered by insurance, the grower will credit the dairyman with 100 percent of total fee paid by the dairyman on said animal. This clause is null and void if the animal is not picked up by specified time.

The dairyman shall have the privilege of inspecting the growing animal at regular intervals convenient to both parties.

**CLAUSE VIII: PICK UP OF HEIFERS:** The dairyman shall pick up said animals at approximately months of age. The date of pick-up will be established for both parties by using the birth date of the calf and monthly payment will be handled in this manner: The dairyman will pay the grower at a rate of \_\_\_ per day, payable at \_\_\_\_\_ per month. Payment is to be made on \_\_\_\_\_ of each month.

Witness the hand of the undersigned parties of this

\_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_ GROWER

\_\_\_\_\_ DAIRYMAN

Source: <https://extension.psu.edu/dairy-heifer-contracting-fundamentals>

## ***Working for another Farm– Knowing your value***

One of the perks of looking for a job at another farm is that you may be given the option or choice to focus on those tasks you liked best while farming. For example, if you really enjoyed working with cows but always had to complete crops to feed them, you may be able to just focus on cow work. It is important to consider as well how you feel about working for someone else, some see this a chance to have less stress or burden because the big decisions are now left to someone else. While others prefer to be in control and maybe wouldn't enjoy working for someone else.

If you believe this may be a good fit for you, the next step is to determine what you are work to another farm. The first priority should be being paid enough to cover your costs of living and debt obligations that you currently have. If you completed the household budget, this will give you a starting point of what you need to be paid. The second priority would be getting paid accordingly for your skills and talents. While you may not have worked for another farm before, you do have year of hands on experience to contribute to another business. Be sure to include these facts when you are drafting your resume.

The next thing to consider is that if you are put on payroll at another farm, you will have taxes withheld each paycheck instead of taking a draw from your won businesses. This means that if you are paid \$4,000 per month, depending on your specific tax situation a rule of thumb can be 25% in taxes. This would mean your take home pay is \$3,021. That's a roughly \$1,000 difference when planning out your budgets. There are some businesses that prefer to pay people hourly versus salary or visa versa. Either is a viable option, be sure to consider what you would prefer. Do you want to be paid for the time you work exactly via hourly pay? Or would you prefer to have some flexibility but know that your responsibilities or hours may vary with salary pay?

Most farms of a larger size and scale are regularly looking for skilled labor. They often post jobs on platforms such as but not limited to: Facebook, Craigslist, Indeed, Local Newspapers, or recruitment agencies. In addition, if there is a specific farm you are familiar with, approaching them to inquire about a job can be a viable option as well. As said before, most farms are always looking for skilled labor.

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# Example Farmer Resume

823 Tyson Ln., Gramsville, IA 11111  
T: 555-234-3434 E: jparton@anymail.com

## Professional Summary

Experienced agricultural professional with expertise in tasks such as crop management and fertilization, farm equipment maintenance and repair, and field cultivation. Excellent ability to apply agricultural skills to practice and yield excellent results from work. Prior experience farming in various capacities, including dairy farm, vegetable farm, and orchard settings. Took on managerial roles in prior positions and supervised progress in agricultural tasks completed by other workers. Successfully doubled yield for crops while managing farm and oversaw a 40 percent increase in profits from sales.

## Skills

- Exemplary leadership and supervisory skills
- Proficient in budgeting and sales management
- Innovative problem solving abilities
- Excellent written and verbal communication skills
- Skilled in mechanical and physical requirements of work
- Knowledge of quality control processes, and storage and handling techniques

## Work Experience

### Farming Manager- December 2016-Present

- Oversaw all functions of farm and delegated tasks to workers in order to ensure daily operations ran smoothly
- Managed pricing and sales of all produce by establishing relationships with clients and proactively pricing competitively
- Resolved problems that arose throughout processes, including harvesting, managing equipment, and selling produce to clients

### Field Supervisor- July 2015-December 2016

- Worked alongside farmhands to plant, harvest, and fertilize crops on land while supervising and resolving problems
- Received directives for farm managers and delegated tasks to farmhands accordingly while ensuring that all tasks were accomplished satisfactorily
- Worked between farmhands and management to communicate and mediate any issues that may arise on either side

### Senior Farmhand- November 2013-July 2015

- Worked in field performing various agricultural functions in order to cultivate crops and ensure their high quality was maintained
- Performed specialized tasks such as crop management and fertilization while working in the field
- Received directives from supervisors and management and carried out tasks such as equipment repair and harvesting accordingly

## Education

### Certificate in Agriculture- 2013

### Bachelor of Business Administration- Iowa State School of Business- 2016

## Hobbies and Interests

I enjoy spending my spare time outside and engaging in activities such as hiking, swimming, biking, and jogging. These activities are part of my dedication to physical fitness and wellness, which I take very seriously, and which motivates me to volunteer my time, too. Some of the volunteer work I do includes leading group fitness at the YMCA and offering nutrition workshops, too. In addition to this, I enjoy teaching friends and family about the joys of sustainable farming and how easy it is to get started.

## ***Moving to Industry– Evaluating a job in sales/consulting***

This option would most likely be the biggest lifestyle change from owning and managing your own dairy. These are usually sales or consulting positions that require some level of travel and regular hours. However, if you are willing or interested in traveling this could be a great new career to transition to. The hours will most likely be regular day hours with nights and weekends off leaving more time for family or other hobbies. This also can allow you to focus on one area of farming that you were particularly good at or interested in.

As with taking a position with another farm, this would be a career where gross pay versus take home pay needs to be assessed and considered. In some cases as well, some companies pay sales or services individuals as “independent contractors” in which case you would need your own insurance in addition to keeping track of work related expenses. You may also need to make quarterly estimated tax payments as no taxes would be withheld. As state before, be sure to consider what your family living costs will be to ensure you secure a position that pays enough to cover your obligations going forward. The amount of money you will need for family living will depend on if you intent to keep all of your farmland.

The example resume on the previous page can be used for applying for industry jobs as well. Having a strong, professional resume can give you a competitive edge when applying for a new job. Most ag-related businesses are advertising on similar platforms as farms including: Facebook, Craigslist, Indeed, Local Newspapers, on their company’s website, or recruitment agencies.



## ***Should I keep the Farm or sell the Farm?- What to consid-***

While you may decide to stop milking cows, this doesn't mean that you have to sell the farm. However, depending on your financial situation and location, it may be advantageous to sell part of all of the farm. Regardless, it is important to have honest and open discussion with family member and key stakeholders regarding what happens to the farm property. Whether you plan to keep the farm, or sell the farm there are a few points to consider.

If you are planning on keeping the farm property including land and buildings, there are many expenses that will remain even though you are no longer selling milk. Taxes, insurance, repairs, possibly utilities, and possibly debt payments will all still have to be covered. If you plan to move to a wage or off farm job, this is when renting the farm can provide a source of income to cover those expenses while not necessarily providing family living. In addition, it may make sense to sell a portion of the farm and keep the farmstead. Many families choose to keep the farm property in the event that later generations show an interest in farming. It is good to review these options with a financial advisor.

If you are planning on selling the farm property there are many tax implications and timing factors to consider. First, if you plan to sell the farm in it's entirety there is a good chance that this will take a minimum of 6 to 12 months to complete to achieve your desired price. How will you cover expenses until the sale occurs? In addition, if you choose to sell the farm all at once, will there be significant tax implications that need to be accounted for? If so, do you have the cash reserves or enough remaining proceeds from the sale to cover those tax implications? Later in this packet we will cover the tax basics to consider. However, we highly recommend reaching out to your tax preparer or consultant to review your specific situation.

If you need references or contact information for appraisers, attorneys, auctioneers, or lenders please reach out to your local extension office for those in your specific area.

## Know the Tax Consequences Before Selling Dairy Farm Assets

*By Stuart Smith*

Selling all or part of the dairy farm business is going to be easier and more profitable if you recognize and take control of all the costs associated with the sale. The magnitude of the income tax resulting from the sale of farm assets is often a shock to farm families and can exceed the net sale proceeds after farm debts. Knowing the approximate amount of income tax that will result from selling dairy farm assets will help the farm family make better informed sale decisions and provide time for planning alternatives. While this document provides information on the basics of taxation in a farm sale situation, it is absolutely necessary to contact a tax preparer directly to review your specific options. Each farm's tax situation is different, requiring specific and special considerations when planning for a sale.

### **Here are some basic income tax rules and facts for dairy farm business owner to keep in mind:**

1. Gain from the sale of machinery, equipment, stored crops, and supplies is all going to be ordinary income and will be added to the sale of milk, rent received, wages, interest and any other ordinary income generated in the year of the sale. Gain from the sale of machinery and equipment equals sale proceeds less the depreciated balance, and is subject to ordinary income tax, but not self-employment tax. When crops and supplies are sold, the entire sales proceeds are gain subject to ordinary income tax and self-employment tax.
2. All income from the sale of raised dairy cows (2 years old or more) is capital gain subject to the 0% or 15% capital gains rates. The 0 percent rate applies to gain that falls into the taxpayer's 10 and 15 percent federal tax brackets. Income from the sale of dairy animals less than 2 years old is short term gain, taxed as ordinary income. Gain from the sale of purchased dairy cattle must be placed in two categories. Gain to the extent of depreciation claimed is ordinary income, while gain in excess of depreciation claimed is capital gain. Gains from the sales of dairy cattle are not subject to self-employment taxes.
3. Operating expenses may be much lower in the year of sale if the dairy farm business is sold before the current year's crop expenses occur and/or before year-end feed and supplies are purchased. Cash basis taxpayers in this situation will have higher taxable incomes and the gains from the sale of farm assets will fall into higher tax brackets. It is also important to consider that the payoff of open accounts payable for operating expenses are deductible and may help offset income.
4. Determining the tax resulting from the sale of farm buildings and real estate improvements is complicated. When single-purpose dairy structures, silos, fences and paved barnyards are sold, all gain to the extent of depreciation claimed is ordinary income. Gain in excess of depreciation claimed is capital gain subject to the 15 or 0 percent capital gain rate. The 0 percent rate applies to gain that is taxed up to the top of the 15-percent federal tax brackets. Some buildings used in a dairy farm business will be classified as general-purpose farm buildings. Gain on the sale of general-purpose farm buildings that have been on straight line depreciation is capital gain that will be taxed at 25 percent. Rapid depreciation claimed after 1969 must be recaptured as ordinary income. General-purpose farm buildings include tenant housing, machinery storages, supply storages and farm shops.
5. Gain from the sale of land and unharvested crops from the land sold to the same person is all capital gain taxed at 15 percent (0 percent on amount within the 10 and 15 percent tax brackets.) Gain from the sale of the farm owner's principal residence will be totally excluded from taxation under the following conditions:
  - The farmer (taxpayer) has owned and used the home as his/her principal residence for at least 2 out of the last 5 years.
  - The farmer has not used the exclusion in the last 2 years.
  - The gain on the residence does not exceed \$250,000 (\$500,000 on a joint tax return.)

6. When farm assets are sold the gain is determined by combining the selling costs and tax basis of the property and subtracting them from the selling price. The selling price is the total amount received for the property. It includes money, notes, mortgages, or other debts assumed by the buyer and the fair market value of any other property the seller receives as part of the sale. Debt forgiven by a creditor must also be included in the selling price (See discharge of debt for exception.) Interest paid, but not principal, may be claimed as a farm deduction.
7. Selling expenses include commissions, survey fees, legal fees, advertising costs and loan charges paid by the seller. The tax basis of machinery, equipment, farm buildings and livestock is generally the undepreciated balance of the property. The tax basis of land and the personal residence is its purchase price plus the cost of all capital improvements made. When property is inherited its tax basis is changed to equal its appraised value in the estate of the deceased.
8. If the farm business is financially distressed, some of the farm debt may be forgiven by a creditor. The discharge of debt is treated as income to the business owner (the debtor) unless one of the following exceptions applies:
  - The farmer would have been allowed to deduct the debt discharged as interest if he had made the payment
  - The farmer was in bankruptcy or insolvent at the time the debt was discharged.
  - The seller acquired the debt as part of an installment contract and the original purchaser owes the debt discharged.
  - The debt discharged is qualified farm indebtedness defined as follows: 1) debt incurred directly in connection with operating the farm business, 2) 50 percent or more of the taxpayer's gross receipts for the 3 previous years must have been from farming, and 3) the discharging creditor must be in the business of lending money, not related to the farmer, did not sell the property to the farmer and did not receive a fee for the farmer's investment in the property.
9. A farmer may be unable to qualify as a "farm taxpayer" after selling farm assets. If two-thirds of a "farmer's" gross income is not from farming, he/she is subject to quarterly estimates following a one year grace period. Gain from the sale of land, farm machinery and buildings is not classified as income from farming.
10. The tax consequences of selling an incorporated dairy farm business can be more complicated and severe than from the sale of one that is not incorporated. Expert tax advice should be obtained to minimize double taxation.

*See next page for an example.*

**Here is an example that illustrates the potential tax consequence of selling dairy farm assets:**

Harry Hardluck (a cash method taxpayer) had two consecutive years of operating losses in his dairy business. His farm losses on Schedule F were \$5,000 in 2001 and \$10,000 in 2002. Net operating losses were carried back to 2000. In 2003 he was able to pay only one-half of his scheduled \$8,000 monthly debt payment. His accounts payable increased and he couldn't borrow additional capital for needed improvements. His creditor advised selling his farm and paying \$370,000 of debt.

Harry's tax advisor estimated the taxable gain from the \$600,000 sale of these assets as follows:

Land; \$150,000 less \$40,000 basis = \$110,000 capital gain  
Dairy structures; \$100,000 less \$30,000 basis = \$70,000 ordinary income  
Other buildings; \$45,000 less \$5,000 basis = \$40,000 capital gain  
Machinery & equipment; \$120,000 less \$30,000 basis = \$90,000 ordinary income  
Raised cows; \$60,000 less \$0 basis = \$60,000 capital gain.  
Purchased cows; \$40,000 less \$10,000 basis = \$30,000 ordinary income  
Raised youngstock; \$35,000 less \$0 basis = \$35,000 ordinary income  
Feed & supplies; \$50,000 less \$0 basis = \$50,000 ordinary income subject to income taxes and self-employment tax.

The projected gain from the sale was \$485,000. Ordinary income was for \$275,000 and capital gain was \$210,000.

Harry uses the cash method of reporting receipts and expenses. His 2003 pre-sale receipts came primarily from his milk sales that were down \$35,000. Operating expenses were down \$40,000. Depreciation dropped about \$15,000 because he did not purchase cattle and machinery in 2003. Harry's net farm profit was \$20,000 higher than in 2002 or \$10,000 without including the sale proceeds. Estimated Schedule F net farm profit plus the ordinary income from the sale of assets was \$285,000. Mr. and Mrs. Hardluck file a joint return. Their personal exemptions and standard deduction are about equal to Mrs. Hardluck's non-farm income.

The estimated taxes and net after tax proceeds of the proposed sale are as follows:

Federal Income Tax on \$285,000 ordinary income = \$69,267  
Self Employment Tax on \$60,000 = \$ 8478  
Federal Capital Gain Tax on \$210,000 @ 15% = \$31,500  
NYS Income Tax on \$495,000 and investment credit recapture = \$22,820  
Total Tax Related to Sale \$132,065

Projected Sale price \$600,000  
Sale Expenses \$ 60,000  
Debt Payment \$370,000  
Taxes \$

Net Proceeds after Debt Payment and taxes \$37,935

Harry Hardluck was very discouraged with his tax advisor's initial report. Sale projections could be off more than 5 percent leaving him with negative net proceeds. The good news is that the initial report does not include tax management suggestions.

*NY FarmNet Mission:*

*To provide farm families with a network of contacts and support services to help them develop skills for dealing with significant life challenges and transitions, through personalized education, confidential consulting and referral.*

NY FarmNet provides free and confidential outreach services - including access to a toll free 800 help-line, information and referral, and on-farm financial and family consulting - to farmers and growers in New York State. NY FarmNet community-based consultants work directly with farmers to help them address and reduce the harmful influence of stress on their family, individual and farm business health.

As a non-profit program sponsored by the New York State Department of Agriculture and Markets, grants and private donations, NY FarmNet is based at Cornell University in the Department of Applied Economics and Management. Since 1986, FarmNet has assisted farm families in addressing and reducing the stress associated with the inherent integration of farm and family life affected by the changes occurring in agriculture. NY FarmNet also supports and works with agricultural service professionals in addressing the collective needs of the farm community by sponsoring and offering workshops.

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**For more information, contact NY FarmNet at 1-800-547-3276; Department of Applied Economics and Management, 415 Warren Hall, Cornell University, Ithaca, NY, 14853; or on the web at [www.nyfarmnet.org](http://www.nyfarmnet.org).**



**SIGNS OF FARM STRESS**

The last few years have been difficult for farm families and many are experiencing financial and emotional stress as a result. There are several signs or symptoms when a farm family may be in need of help. These are signs that can be observed by friends, extended family members, neighbors, milk haulers, veterinarians, feed/seed dealers, clergy persons, school personnel or health and human service workers. These signs include:

- **Change in routines.** The farmer or farm family stops attending church, drops out of 4-H, Homemakers or other groups, or no longer stops in at the local coffee shop or feed mill.
- **Increase in illness.** Farmers or farm family members may experience more upper respiratory illnesses (colds, flu) or other chronic conditions (aches, pains, persistent cough).
- **Appearance of farmstead declines.** The farm family no longer takes pride in the way farm buildings and grounds appear or no longer has the time to do maintenance work.
- **Care of livestock declines.** Cattle may not be cared for in the usual way; they may lose condition, appear gaunt or show signs of neglect or physical abuse.
- **Increase in farm accidents.** The risk of farm accidents increases due to fatigue or loss of ability to concentrate; children may be at risk if there isn't adequate child care.
- **Children show signs of stress.** Farm children may act out, decline in academic performance or be increasingly absent from school; they may also show signs of physical abuse or neglect.

**SIGNS OF CHRONIC, PROLONGED STRESS**

When farm families are under stress for long periods of time—chronic, prolonged stress—they may experience a number of signs and symptoms. Watch for the following effects in farm families you see on a day-to-day basis:

Physical	Emotional	Behavioral
<input type="checkbox"/> Headaches	<input type="checkbox"/> Sadness	<input type="checkbox"/> Irritability
<input type="checkbox"/> Backaches	<input type="checkbox"/> Depression	<input type="checkbox"/> Backbiting
<input type="checkbox"/> Ulcers	<input type="checkbox"/> Bitterness	<input type="checkbox"/> Acting Out
<input type="checkbox"/> Eating Irregularities	<input type="checkbox"/> Anger	<input type="checkbox"/> Withdrawal
<input type="checkbox"/> Sleep Disturbances	<input type="checkbox"/> Anxiety	<input type="checkbox"/> Passive-Aggressiveness
<input type="checkbox"/> Frequent Sickness	<input type="checkbox"/> Loss of Spirit	<input type="checkbox"/> Alcoholism
<input type="checkbox"/> Exhaustion	<input type="checkbox"/> Loss of Humor	<input type="checkbox"/> Violence
Cognitive	Self-Esteem	
<input type="checkbox"/> Memory Loss	<input type="checkbox"/> "I'm a failure."	
<input type="checkbox"/> Lack of Concentration	<input type="checkbox"/> "I blew it."	
<input type="checkbox"/> Inability to Make Decisions	<input type="checkbox"/> "Why can't I ...?"	

**SIGNS OF DEPRESSION OR SUICIDAL INTENT**

The greater the number of signs or symptoms a farm family member is experiencing, the greater your concern should be. In addition, if farm family members are exhibiting the following signs of depression or suicidal intent, it is important that they get linked up with help as soon as possible. All cries for help should be taken seriously.

Signs of Depression	Signs of Suicidal Intent
<input type="checkbox"/> <b>Appearance:</b> Sad face, slow movements, unkempt look	<input type="checkbox"/> <b>Anxiety and/or depression:</b> Severe, intense feelings of anxiety <u>or</u> depression; <u>both</u> may be present
<input type="checkbox"/> <b>Unhappy feelings:</b> Feeling sad, hopeless, discouraged, listless	<input type="checkbox"/> <b>Withdrawal or isolation:</b> Withdrawn, alone, lack of friends and supports
<input type="checkbox"/> <b>Negative thoughts:</b> "I'm a failure," "I'm no good," "No one cares"	<input type="checkbox"/> <b>Helpless and hopeless:</b> Sense of complete powerlessness, a hopeless feeling
<input type="checkbox"/> <b>Reduced activity:</b> "Doing anything is just too much of an effort"	<input type="checkbox"/> <b>Alcohol abuse:</b> There is often a link between alcoholism and suicide
<input type="checkbox"/> <b>People problems:</b> "I don't want anyone to see me," "I feel so lonely"	<input type="checkbox"/> <b>Previous suicidal attempts:</b> <u>May</u> be previous attempts of low to high lethality
<input type="checkbox"/> <b>Physical problems:</b> Sleeping problems, decreased sexual interest, headaches	<input type="checkbox"/> <b>Suicidal plan:</b> Frequent or constant thoughts with a specific plan in mind
<input type="checkbox"/> <b>Guilt and low self-esteem:</b> "It's all my fault," "I should be punished"	<input type="checkbox"/> <b>Cries for help:</b> Making a will, giving possessions away, making statements such as "I'm calling it quits" or "Maybe my family would be better off without me"

For more information about Managing through Difficult Times go to:  
[www.uwex.edu/ces/ag/farmingindifficulttimes](http://www.uwex.edu/ces/ag/farmingindifficulttimes) or contact Wisconsin Farm Center, DATCP 800-942-2474

