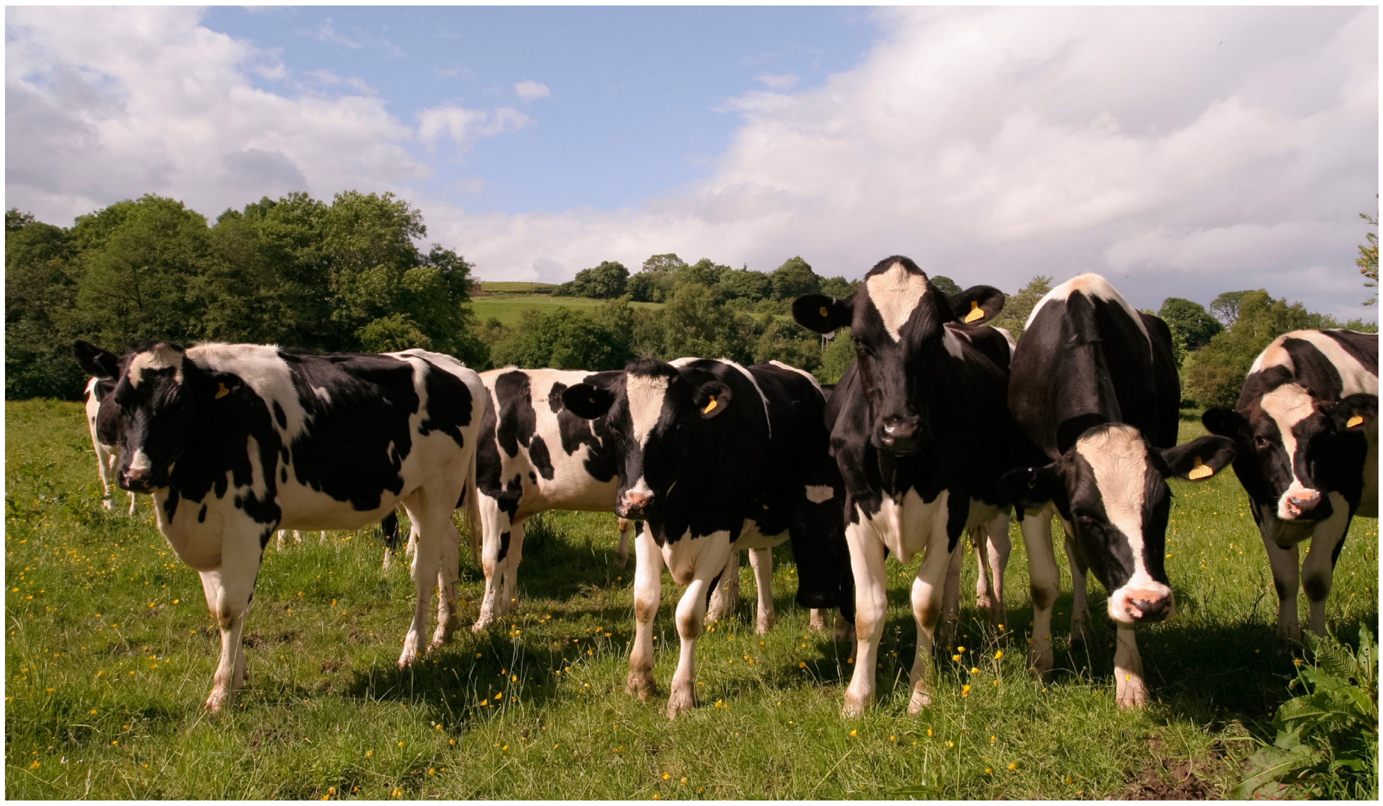
Farm Finance



Stock option: Disposing of excess stock can provide not alone a cash-flow boost, but also a permanent profit boost for some dairy farmers

Sooner rather than later is the time to take action on cash-flow issues

Low-interest loans, stock reduction and taxation adjustments are some of the options to look at if you are facing Covid-19 related financial problems

Advice
Martin O'Sullivan

My previous article dealt with a number of measures that can be taken to ensure that any negative financial impacts on your farm business from the Covid-19 pandemic can minimised.

In this article I will continue in the same vein, as the importance of making the correct decisions in times of uncertainty cannot be over emphasised.

Short/medium-term credit

If your farm is going to suffer a cash-flow deficit, this deficit will need to be financed by some means or other.

The last place you want to source credit is from your merchant, co-op, vet or contractor as such credit can be costly and stress ridden and anyway these people are not in the business of banking.

Availing of the many sources of short-term working capital from the main banks makes far more sense.

Farmers seeking medium term loan funding should enquire about the SBCI Future Growth Loan Scheme which is operated by the main pillar banks, is unsecured and available at a rate of 4.5pc for loan amounts of €50,000 or more repayable over 8-10 years,

Loan funding of up to €50,000 for three years (and possibly up to five years) is available from Micro Finance Ireland for farmers or agricultural contractors whose turnover or profit will be down by 15pc or more as a result of Covid 19 and who are not in a position to borrow from other lenders.

The interest rate is 5.5pc or 4.5pc where applied for through Leader or the Local Area Partnership office.

The important message is do your projections now and if it looks like you are going to need financial, support, apply for the loan in time. Don't wait until the problem has arisen as it may too late because you won't be the only person in that particular boat.

Stock reduction

Many farmers mistakenly take comfort in the security of adequate stock numbers even if they are not making money for them.

I recall a discussion with a dairy farmer client some time ago where I urged him to discontinue his dry-stock enterprise and concentrate on dairy which he was actually quite good at.

His reply was that the cattle paid the bills in the springtime – not to have animals to sell at that time would be unthinkable. The fact that replacing the dry-stock with a few extra cows would have made infinitely better sense from a financial and labour input perspective was lost on him.

For dairy farmers, disposing of excess stock can provide not alone a cash-flow boost, but also a permanent profit boost.

For many beef farmers, destocking of any kind may also provide both a cash-flow and a profit boost.

The Teagasc National Farm Survey has found in recent years that in the absence of subsidies, the average beef farm would be significantly loss-making. Of course, averages by their very nature comprise a mix of good and not so good and perhaps, in the case of the not so good ones, less could mean more.

Deferred capital investment

There is seldom a year that capital investment of some kind does not occur on farms.

The planned expenditure is often for something that was threatened for a long time that could wait for another year or two. If it is likely to put you under financial strain, hold off.

Shopping around

I commonly notice farmers dealing with the same suppliers year in, year out. This may be out of a sense of loyalty and acknowledgement of the provision of a good service but often it is because they are tied to the supplier due to the availability of credit.

This comes back to good cash-flow planning. If you are in a position to pay off your creditors and shop around, you could possibly save a lot of money. Even where farmers are good at shopping around for their major farm inputs such as feed and fertiliser, in my experience they tend to remain with the same suppliers of electricity, phone and insurance.

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These bills collectively can amount to a significant sum and substantial savings can be made by shopping around. Every little help counts.

Tax adjustments

Ironically, the restrictions imposed to curb the pandemic throw up the first obvious opportunity for reducing the current year's tax bill.

That relates to the fact that all teenagers are currently out of school and no doubt are helping out on the farm.

If you are earning a taxable income there is no reason why any teenager aged over 14 years, who does help out on the farm, should not be registered as an employee.

It is vital that the wage is actually paid, but such wages can be saved by the child for some future cost that the parent may otherwise have to contribute towards.

It is also vital that the child is registered immediately as it is no longer possible to introduce wages into the farm accounts retrospectively.

Another possibility worth considering by those farmers on income averaging availing of the option to step out of averaging for one year assuming that their profits for 2020 are down on previous years.

This means that rather than being taxed on a five-year average, you will be taxed on the actual profit for 2020. It is important to be aware that while this may represent a cash-flow saving in your 2020 preliminary tax, you will have to pay back the saving over the following four years.

Summary

While Covid-19 is likely to bring few positives, we cannot say with certainty that this year will be a bad year for farm incomes as our forever friend 'the weather' may also have a big say in matters.

A good year weather-wise would help a lot, but regardless of how things pan out, prudent cash-flow planning is an absolute essential for your business and your mental well-being.

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