



BUSINESS MANAGEMENT

AMERICAN SOD PRODUCERS ASSOCIATION

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NEW IRS UNIFORM CAPITALIZATION RULES RAISE TAXING QUESTIONS FOR SOD FARMS

There's no reason to be alarmed...maybe. If you haven't already done so, discuss the new uniform capitalization rules with your tax attorney and/or accountants. Obtain a copy of "Farmer's Tax Guide, For use in preparing 1987 Return," (Publication 225, Revised October, 1987) by calling the IRS at 1/800-424-3676.

According to the publication, "Under the new uniform capitalization rules, (contained in the Tax Reform Act of 1986), if it takes you more than 2 years to develop an item for use or sale in your business, you must generally capitalize all amounts paid or incurred while it is being developed. However, if you are a cash basis farmer and the preproductive period is 2 years or less, you may choose to either deduct or capitlize these costs."

Publication 225 also states, "The preproductive period of plants grown in commercial quantities in the U.S. is based on the weighted average preproductive period for such plants, determined on a nationwide basis." However, they also state that, "The preproductive period ends when the plant becomes productive in marketable quantities or when the plant is reasonably expected to be sold or otherwise disposed. (The IRS has no plans to prepare such a listing in the near future.)

Based on available knowledge and an informal polling of members, it is inconceivable to think that the IRS could determine that turfgrass sod in the U.S. has a preproductive period 2 years or greater; however, please consult private counsel for advise and personal determinations.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is provided with the understanding that this publisher is not engaged in rendering legal, accounting or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought. Published bi-monthly for members of the American Sod Producers Association, under the auspices of the ASPA Business Management Committee. We invite your comments and recommendations.

SOD, WATER, CONSERVATION ORDINANCES, REGS., ETC.
SOUGHT BY ASPA FOR MODEL DEVELOPMENT

All ASPA members are asked to send any laws, ordinances, rules or regs (municipal, regional or state), that could affect the use of turfgrass sod. For example, watering restrictions could reduce summer sales, while requirements to use sod to reduce erosion or prevent clogging of sewer systems could boost sales.

Based on what it receives, ASPA's Legal and Taxation Committee is prepared to draft model laws that could be very beneficial to all areas.

Please send your items to ASPA, 1855-A Hicks Road, Rolling Meadows, IL 60008.

U.S. TAX CHANGES FOR '88
AFFECT DAY-TO-DAY OPERATIONS

With apologies to the ASPA members outside of the U.S., the following listing of important changes in the U.S. tax structure are noted. All members are advised to review these items with the appropriate staff and counsel:

1. Social Security rates increase to 7.51% on wages up to \$45,000.
2. FICA (Federal Insurance Contributions Act) coverage was broadened to include certain agricultural employees. Previously, earnings of an agricultural employee were exempt unless the worker received more than \$150/year or he worked more than 20 days/year. The new proposal repeals the 20-day test and requires the FICA tax be paid on all wages if the employer pays more than \$2,500/year to all employees of such labor.
3. Form I-9 must be completed by all new employees hired on or after June 1, 1987 and copies of the items required as proof of eligibility for employment should be kept in files with the completed I-9.
4. Logs, or a diary, should still be kept for business automobile usage.
5. Travel and entertainment receipts should be maintained. Meal receipts, which are only 80% deductible, should clearly show who ate with you, the date and business purpose.
6. Receipts should be kept for all cash expenditures.

FIELD SANITATION BROCHURES
AVAILABLE FROM FARM BUREAU

To assist in the understanding and possible implementation of OSHA's new filed sanitation standards regarding toilets, drinking water and hand washing facilities for field workers, the American Farm Bureau has developed an informative brochure for employers and farm workers. Copies of the brochure may be obtained by writing, Information Division, AFBF, Park Ridge, Illinois, 312/399-5750.

USE 'SLACK SEASON' TO REALLY PREPARE
FOR HIGH PRESSURE, BUSY TIMES

Prepared by Ronald Nixon, Chairman
ASPA Business Management Committee

By now most turfgrass sod producers are in their slack season. Hope you are enjoying the slower pace of life. Even though the orders are not as often and the turfgrass is growing very little, it does not mean that this has to be an unproductive time of year. Now is the time to do the things that were put off when everybody needed their order like YESTERDAY!

Now, if I could just remember what all of those things were. The business is very different now than when it was in the Spring. Instead of pushing to get out as much work as possible in a day, the challenge now is to find enough to do until quitting time. The things that were put off last season do not seem as important right now, but they will be again soon. The peak turfgrass season is just around the next corner.

In trying to remember what some of those things were, I have stopped to ask myself some questions. Are there any legal changes to be made in areas such as incorporating, formatting a legal partnership agreement or updating insurance coverages? Are there any changes to be made in the chain of authority? Was there a weak or missing link in the daily operation of the farm last year? Are there any equipment changes or repairs that have been forgotten? Are there physical obstacles at the office, shop or farm that adversely affected the operation during busier times? What about changes in the irrigation system that need to be made? Are the spare parts organized and replenished? How about just a general clean-up of the entire area?

A person can get so caught up in the day-to-day running of a farm business that he may lose his perspective of the business as a whole. When this happens some time away from the business may be the most productive thing you can do. I have always found the ASPA Conference to be most helpful in this area. It is a relaxing time where I am introduced to new and different ideas. Being removed from the routine operations allows me time to evaluate different ideas and their possible affect on my farm business.

The preparations you make now will have long-term effects on your business in the busy season ahead. Work will go much smoother when there is a plan of direction. It is your responsibility as an owner or manager to provide the direction the business will take. If YOU don't do it, it won't be done!

CONTINGENCY PLANS... AN ESSENTIAL INGREDIENT TO SUCCESS

This "could never happen to you."

Business couldn't be better. You and your partner have increased sod acreage by another 25%, with 15% more planned. Sales have never been stronger, with the greatest worry being a shortage of inventory. Prices continue to climb as supply and demand spread further apart. Friends in the building business report strong future forecasts and your buddy at the bank approves extensive credit to cover the expansion plans and costs.

Then, the bottom falls out. The industries on which the area economy was based beginning showing huge loses and then begin massive layoffs, plant closings and move-outs. Government contracts are cut in half with the deficit reduction budget. Building stops. Your partner's heart starts giving him serious problems and this makes your banker very nervous and he begins to call in some of the loans. Other sod farms, hurt worse than you, begin a price war that gets worse when out-of-state sod hits the local market at even lower prices.

What good would contingency planning do? What is contingency planning and how does it work?

Most simply, contingency planning is an organized effort to identify possible shifts in the business and then be prepared to maximize the positive changes, or minimize the negative influences. It takes time, energy and thought, but the results can save farms.

Here are some possible approaches, or ideas to get started:

1. Establish a regular time to develop and then review your contingency plan. Every six months to a year may work.
2. Involve as many people as possible to get their ideas and so they understand the importance of the plan.
3. Avoid establishing any one person as so important that the company would be vulnerable if he/she weren't present.
4. Prepare a financial plan that would come into play if a disaster hit.
5. Learn to look for indicators of important shifts. Some that may work are changes in sales per customer or employee; administrative costs as a percent of total sales changes sharply; return on investment shifts. Look for deterioration as well as major movements.
6. Ask tough "what if?" questions. Such as, What if a new process/technique or material is developed by a competitor? What would increased competition do to your market share? How can competition be countered? Is price the only variable you have to deal with?
7. Be involved in local, state and national trade associations such as ASPA, the Farm Bureau, Chamber of Commerce, Home Builders and so on. The knowledge gained during one conversation easily pays for the dues, everything beyond that is increased investment return.