



What to keep in mind when choosing an accountant

By PADMA NAGAPPAN
For the Capital Press

Trust is critical in a relationship with your accountant, especially because some polls say you trust your CPA more than you do your own spouse, so choosing an accountant calls for careful, deliberate decision-making.

Some growers with small operations may only need to talk to their accountant twice a year, whereas others may need ongoing consulting.

“Choose someone who will return your phone calls and offers good communications,” suggested Erik Gillam, a CPA and partner at Aldrich CPAs who leads the firm’s ag business practice. He is based out of Portland, Ore., but the firm has offices in California, Oregon, and Alaska. “You want an ag CPA who knows the industry.”

An accountant can help farmers and ranchers tap tax benefits, and decide if it’s best to determine your

income on a cash basis, which is most beneficial for small farms, or on an accrual basis.

Cash or accrual?

With the cash basis method, what you receive is income and what you spend is a deductible expense. Even if you buy fertilizer a few months ahead of when you need it, you can expense it. With accrual, money paid out early would show as pre-paid on the balance sheet.

While this works for tax purposes, when it comes to evaluating your business, the accrual basis works better to give a true picture, he cautioned. One mistake many growers make is using cash basis throughout, because that’s the way it’s always been done in their family, or because it’s easier, but it helps to pay attention to such nuances, he said.

Farm buildings qualify for bonus depreciation, so farmers can accelerate it and expense it all in one year, if preferred.

“This is not something a lot of people take advantage of, because their accountants may not know it,” Gillam said.

Another useful strategy an ag accountant can advise you on is farm income averaging, where you take income from the last three years, and average out the taxes you pay over the three years, balancing slow years with better years.

Unique deductions

“I would look for an accountant who understands my business and the cyclical nature of it, and how the cash flows work,” he said. “Knowing the tax benefits will help clients, so you don’t miss out on ag specific deductions.”

For example, with citrus or avocado, an accountant who understands commodity prices will better understand the operation.

“It also helps to choose someone who has relationships with ag bankers because when you’re starting out, the model may be cash heavy at the front so you want a banker who understands that, and what

an accountant who has a relationship with an ag banker can do is help you build trust with the banker — since the banker will know and trust the numbers they present on your behalf,” Gillam explained.

Experienced accountants can also help the business transition from one generation to another, help the new generation get a better handle on the operations, and sort out conflicting issues among family members.

Due diligence

Many times, growers choose a CPA they went to school with, or simply because they know them through family or friends, but it helps to do due diligence, he said.

For farms in remote areas, cloud based accounting technology enables someone outside to do your accounting for you regardless of where you’re based, so it frees up your time to focus on your business. It would help if the accountant

came out for farm visits to better understand the business, and build a good relationship, but it’s not necessary if you only need them occasionally.

It can help with some operations, as in the case of a growers’ co-op in Idaho that flew Gillam out recently to meet with its board, which wanted insights on how they’re doing financially, and to have him evaluate the internal safeguards they have in place to ensure no one is stealing from them.



Erik Gillam

What to look for when choosing a bank

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For the Capital Press

The relationship farmers or ranchers have with their bank is one of the most important ones for their business, and can provide a stepping stone to success.

When it’s time to decide which bank to take your business to, it helps to keep certain key points in mind. Have a good idea of the lending products the bank offers and if these work well with your needs, such as short-term working capital loans and long-term mortgage loans.

Ascertain if the bank will finance construction projects and equipment purchases.

Product selection

“Make sure the bank has a product selection that works best for you,” said Allison Paap, an ag banker in Southern California. “Be sure you’re satisfied with the level of expertise they have, that they understand your operation and its historical cash flows, beyond the forms you submit.”

“It’s a long-term relationship, so make sure you’re comfortable with them and

that they will work with you in the long term, not just for that particular transaction,” Paap said. “Ag is a cyclical business and the banker needs to understand it.”

For growers of highly seasonal products, she advises ensuring the loans are structured properly. Monthly payments may be hard for growers who get the bulk of their sales over a couple months a year, such as flower growers for example, so in such cases annual payments will work better.

But in the case of a dairy, which gets monthly payments from the creamery, making payments each month can work better.

Key questions

When seeking construction loans or long-term loans, some lenders may not be able to finance it with only farm property as collateral, and will look for other assets, so these are questions to ask in initial meetings.

She emphasized the importance of maintaining good records that show a history of farm income, and if you have a day job or other business interests, then records of income streams from those avenues, too.

It will help to work with an accountant to streamline these records before approaching a bank for a loan.

Lenders will also often ask for production reports, which will help determine projected income for a particular grove or block of acreage on the farm, so growers will need to piece together production figures on yield and prices for each. Loan appraisers will evaluate these reports to see if it’s viable to extend a loan.

“If they want a \$3 million loan and the grove produces about \$10,000, then the production report will help determine if they can repay the loan,” Paap said.

She cautioned against using short term working capital loans to buy long-term equipment, which can place farmers in tight situations, since equipment loans tend to be for periods of three, five or seven years, paid back over several seasons.

Leading indicators for 2019 show that interest rates will increase, so it’s important to have a clear understanding of your budget and what the cost of borrowing will be, Paap said.

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