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Business Management Essentials

Managing a business is not the same as working in a business. A worker is concerned with the business operations - producing and selling. A manager must be concerned with operations and also regulatory compliance (things the government requires) and short- and long-term strategic management (things required in order to make a profit and attain long-term financial security).

Regulatory Compliance Essentials

Income Tax: A business owner must report the income and expense of the business on the appropriate state and federal income tax return forms.

The IRS requires you to have evidence sufficient to demonstrate that the statements on your income tax returns are true and accurate. The rules for what kind of evidence you need to have include general rules and special rules for certain types of transactions.

In the event of an IRS inquiry or audit you are required to present evidence to substantiate any claims the IRS questions. In the absence of evidence the IRS may force you to take the least favorable tax position and in some cases you may incur negligence penalties.

Property Tax: Businesses with more than a certain amount of business property may need to file County Business Property Tax forms. Check with your County Tax Assessor to see the limits for your county.

Sales Tax: In California, food items are exempt from sales tax. Flowers and fiber are not. Check with the California Department of Tax and Fee Administration for more information.

Financial Records: You are required to keep financial records that are adequate to support the items of income and expenses that you must report on income tax, property tax, and sales tax returns.

Labor: California has strict laws protecting workers. If you employ anyone other than your legally married spouse or your children or parents to help you in your business, they must be covered by a workers compensation policy. Most workers on a farm or ranch are required to be on payroll with state and federal payroll taxes paid. In addition, you are required to keep detailed records showing that you are in compliance with laws covering hours worked, breaks given, the time, manner and amount of payment, safety training, heat and illness prevention, and a number of other protections.

Environmental Regulations: California has strong environmental protections particularly with respect to water, land use, and waste disposal. Almost anything you want to do that involves moving earth or water requires a county permit, and there are special rules for disposal of waste generated by a business. Check with your county agricultural commissioner, or county agricultural extension office for more information.

Food Safety: Farms are subject to food safety regulations. Here are a few resources to get you started: [https://www.cdffa.ca.gov/is/i & c/sffsg.html](https://www.cdffa.ca.gov/is/i%20%26%20c/sffsg.html) and <https://ucsmallfarmfoodsafety.ucdavis.edu/>.

Management Records and Plans

In addition to the basic financial records you are required to keep to comply with tax reporting requirements, you need additional financial and other **records** in order to make **plans** to manage your business for current and future profits.

Essential Non-Financial Records

Production Records help you to make better decisions in the future based on what you did in the past. They are also required in order to access business credit, crop insurance programs, and disaster assistance, and will affect the value of your land if you own land and later sell it. Production records include:

- What, where and when you planted;
- Harvest dates and yield amounts;
- Volumes of catch during various fishing seasons;
- Animal breeding records with breeding and birthing dates, weights, growth rates and vaccination schedule.

Sales Records help you to make better decisions in the future based on what you did in the past. They are also required in order to access agricultural credit, crop insurance programs, and disaster assistance. Sales records include:

- Product and amounts sold by customer or market;
- Price per unit;
- Payment terms;
- Customer payment performance.

Equipment Records help you to manage one of the most important parts of your operation. You need basic equipment lists to comply with tax reporting requirements but you also need use and maintenance data to plan for future equipment maintenance or replacement.

Essential Plans

Marketing plans include specific plans for how a product will be packaged and transported to market and specific plans for where products will be sold.

Production plans are specific plans for what will be produced in the next 1-4 seasons taking into account rotations, market demand and availability of seed, equipment and labor.

Management plans are specific plans for ensuring you are operating your business to attain current and future profits and minimize your risk of loss. These include plans for:

- Financial Recordkeeping: Keeping track of transactions on a daily and weekly basis
- Bookkeeping: Organizing financial records into a standard system designed to provide you with current, accurate, and meaningful information
- Labor Management: Managing all of the regulatory requirements associated with labor, as well as managing contact information, scheduling, hiring, performance evaluations, etc.
- Cash and Credit: Systems to ensure you receive prompt payment and pay your financial obligations as they come due. Systems to help you evaluate your predicted cash availability and cash needs (cash flow) and your need for credit to help manage cash flow or to help you purchase equipment or land.
- Risk Management: Adequate insurance including property insurance, liability insurance and crop insurance as well as plans to evaluate and mitigate physical risks associated with land and operations and financial risks associated with your markets, buyers, customers and key vendors.