

New Farmer's Guide to the Commercial Broiler Industry Business & Financing

► When purchasing or building a commercial farm, you are starting an agricultural business for which numerous legal and tax issues apply. Understanding business entities and structures and knowing the documentation required for securing financing will help you make informed decisions. Learn more in this fifth of a five-part series for new farmers in the commercial broiler industry.

Before starting a commercial poultry enterprise, you must decide what form of business entity to establish to best meet your needs and situation. This decision will determine the income tax return form you must file. The most common forms of business are sole proprietorship, partnership, corporation, and S corporation. A limited liability company (LLC) is a business structure allowed by state statute.

Sources you can turn to for information and help in selecting a business structure include the following:

- Internal Revenue Service website (www.irs.gov), Business Structures
- US Small Business Administration website (www.sba.gov)

For additional information on farm financial management, see Farm Management on the Alabama Extension website at www.aces.edu.

Discuss your decision with the lender, as it could affect the appropriate loan type.

Documentation Required to Secure Financing

Once it is decided that a farm meets all the requirements for purchase or that a new build is appropriate, it is time to start securing the financing. To speed up this process, do some homework before going to a lender. Following are financial records and statements a new grower should have at hand.



Balance sheet and personal financial statement.

- List of assets
 - Current assets: cash and cash equivalent investments, inventory, marketable stocks and bonds, etc. (Provide bank statements for these.)
 - Intermediate assets: personal vehicles, machinery and equipment, retirement accounts, etc.
 - Long-term assets: all personal real estate holdings plus the value of improvements on each tract. Include real estate listed in a business name on the business balance sheet.
 - List of liabilities (with current interest rate, the principal amount due, payment amount)
 - Current liabilities: liabilities due in 12 months (e.g., store accounts payable, credit card debt)
 - Intermediate liabilities: liabilities that will be paid off in 1 to 10 years (e.g., loans on vehicles, equipment, ATV, etc.)
 - Long-term liabilities: liabilities that will be paid off in more than 10 years (e.g., home mortgage, land purchase debts)

Letter of intent (LOI).

- This documentation attests to the integrator's willingness to provide a contract for the farm (along with a copy of any required work to be done to the houses in case of purchase.) In the case of a new build, include housing specifications and site plans if available. LOI should consist of a cash flow estimate from the integrator representing the qualified pay rate, expected bird numbers, flocks per year, expected pounds marketed, and expense estimates.

Personal and business income tax returns.

- Include returns for the past 3 years. (Schedule F or Schedule C, if incorporated)

Legible copies of identification.

- Driver's license, social security card, citizenship papers

If purchasing an existing farm, a sales agreement stating all conditions of the sale with a legal description of the property.

- Attach bids from a local poultry equipment/housing dealer representing the costs of any work that will be required to the houses to secure the contract.
- Contact the local utility company for costs to transfer utilities, water, gas, and electricity. Include documentation showing typical utility costs for the facility by month. A year's worth of utility bills or a summary report from the utility is best.

If building new, a legal description of the land for the build or deeds if the land is owned, and evidence of collateral property ownership as needed.

Insurance estimate and coverage descriptions of all property being purchased or built.

Copy of existing life insurance policy (may be required).

Copy of environmental permits for the farm (e.g., AFO/CAFO waste management permit).

- If purchasing, the seller should have these current permits at hand.
- If building, you must go to the local Natural Resources Conservation Service office and apply for permits.

If applying for a Farm Service Agency government-guaranteed loan, a USDA-FSA form AD-1026 (Highly Erodible Land Conservation (HELIC) and Wetland Conservation (CS) Certification form must be filled out, signed by both the farmer and an FSA agent, and a copy brought to the lender. Find this form at www.farmers.gov or pick up a form at the local FSA office. The FSA agents can help you complete the form.

If you intend to incorporate your business, you must provide the following documents:

- For an LLC, articles of incorporation, an operating agreement, and a tax ID
- For a corporation, articles of incorporation, corporation by-laws, and a tax ID

Definition of Terms

- **AFO/CAFO.** USDA Natural Resource Conservation Service designations for animal feeding operations and confined animal feeding operations. Any farm housing more than 100,000 birds at a time is considered a CAFO and required to meet stricter NRCS guidelines.
- **Broiler** – Chicken grown to a specified weight for meat production.
- **Integrator** – Major poultry-producing company (e.g., Tyson Foods, Pilgrim's, Koch Foods). These companies own the birds, supply the feed, and are responsible for all aspects of transporting, processing, and marketing the birds.



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