Start 2021 off right financially

Source: Jerry Pierce, program coordinator, Kentucky Farm Business Management Program

2020 ended up being a more profitable year than expected for some Kentucky producers. This is largely due to increased grain prices and direct government payments. As a result, some farmers may have some unexpected profits. You can use this money to improve your financial situation in 2021.

While 2020 ended better than expected for some operations, much uncertainty and volatility still exist in the agricultural markets. In addition, there continue to be a lot of supply chain issues because of the COVID-19 pandemic, which can affect how and when producers can sell their product. While producers received large direct government payments in 2020, questions remain if there will be future payments.

If you experienced a more profitable year than you expected, work with your financial team to develop a plan for it. The earlier you have this conversation, the better. Talk with your major lenders and your tax preparer. They are the ones who can best advise you on how to put your earnings to work.

Building working capital is one of the best ways to put the farm business in a better position for the new year. It can help you to manage the opportunities and challenges that will come during the year. You can use unexpected extra funds to increase your working capital. You can do this by building up your cash reserves. You can also increase your working capital by reducing the amount of principal due in the next year and by paying off debts, especially short-term debts and loans with high interest rates.

Avoid unnecessary capital expenditures. These include unnecessary equipment purchases, facility upgrades and land purchases that can be delayed. These decrease your working capital, increase your principal due in the next 12 months and do not help build your current assets.

Remember moderation in everything. You may be tempted to increase your family living expenses due to the increased profits, but it is important to maintain your current level of living and save the money for farming purposes. This will allow you to better weather future financial downturns.

The Kentucky Farm Business Management Program helps producers make sound financial decisions. The program has limited opportunities for new clients. You can find out more about the program at <http://agecon.ca.uky.edu/kfbm> or by contacting the (COUNTY NAME) office of the University of Kentucky Cooperative Extension Service.

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