



Introduction to Fam and Ranch Taxes
Lesson 4: Entities Training

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Legal Disclaimer

This presentation is intended to provide general information on agricultural income tax issues and should not be construed as providing legal advice. It should not be cited or relied upon as legal authority. State laws vary and no attempt is made to discuss state specific laws. For advice about how these issues might apply to your individual situation, consult an attorney.

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Program Overview

1. Filing: Federal Income Tax Filing Requirements
2. Records: Recordkeeping Requirements
3. Taxes: Individual Federal Income Tax Return
4. **Entities: Business Entities and Federal Tax** < We are here.
5. Agricultural Income: Special Rules



Overview of Lesson 4: Entities Training

1. Why form a business entity?
2. Federal Income Tax Filing requirements for business entities




1. Why form a business entity?




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Are you and your business the same legal person?

- As soon as you begin a business - working with the intent to profit - you are a sole proprietor. You do not have to do anything else to become a sole proprietor.


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What is a business entity?

- A business entity is a legal entity that is distinct from the owner.
- There is no legal distinction between an individual and their business if the business is a sole proprietorship.
- All other forms of businesses are some type of "business entity" with some type of legal distinction between the individual owners and the business itself.


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Unlimited Liability

- When there is no legal distinction between the owner and the business the owner is responsible for any liabilities (debts, fines, or legal judgments) associated with the business.

Unlimited Liability and General Partnerships

- As soon as you start a business (intent to profit) with someone other than your spouse (intent to share effort and profits) you are a partnership.

Limiting Liability

- You may limit your liability by forming a limited partnership or a limited liability company under state or Tribal law.
- This is all background to explain what business entities are so we can discuss the federal tax filing requirements for any business entities you might own.
- **More on how the entity files taxes in a minute, but first an important warning**

But wait!! USDA Farm Program Payment Limitations Discourage You From Limiting Liability

- USDA farm programs with payment limitations are: Commodity programs PLC, ARC, Conservation programs CRP, ECP, EFRP, CSP, EQIP, AMA, Disaster Assistance Programs LFP, NAP, TAP.
- If any of these programs are important to your farm/ranch revenue, be sure to consult an attorney who has specific knowledge of USDA program payment limitations and entities.

2. Federal Tax Reporting Requirements for business entities



General Rule

- The general rule is: any business other than a sole proprietorship files its own tax returns.

Special Rule for "Disregarded entity"

- A single-member LLC does not have to file its own tax return.
- An LLC with more than one owner may file a partnership tax return (rather than a more complicated corporate return).

Disregarded entities and Qualified Marital Joint Ventures

- If the two owners are a legally married couple and they form an LLC, then the "disregarded entity" election cannot be used to continue filing as a "Qualified Marital Joint Venture" in order for both to pay into Social Security /Medicare, instead they have to file a partnership tax return.

When unmarried owners must file a partnership tax return

- *Example: My brother and I farm some fields together and each of us farm some fields on our own. We just file our own tax returns and split the income and expense on the fields we farm together. Is that ok?*

What is an S-Corporation and why would I elect to be taxed as one?

- An S-corporation is a creature of tax law. It is designed to give owners some of the benefits of corporate taxation while also incorporating many of the (simpler?) provisions of partnership taxation.
- One of the key benefits is owners put themselves on payroll and deduct salary and payroll taxes from earnings - this resulted in lower taxes for the owners than if they paid self-employment taxes on all of their earnings.
- QBID is a new, easier way to give S-corporation benefits to more people.

Special considerations for S-Corporations

- An S-corporation may be a good entity for the activities of farming, but because of some of the special tax rules related to S-Corporation taxation it is not considered a good entity for owning the land where a farm or ranch business operates.
- There are special rules for assets you take out of an S-Corporation when you end the S-Corporation's existence.

Questions?

Thank you!

How do I learn more about federal income taxes and my farm or ranch?

There are a total of five lessons in this series. For each lesson there is a short set of questions you can answer to help you decide if the training will be useful to you.

You can access the questions and the trainings at: <https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php>

Additional project resources are available here: <https://agftap.org/>

How do I learn more about federal income taxes and my farm or ranch?

- IRS Publication 225, The Farmers Tax Guide
- RuralTax.org
- IRS website and publications

