Section L: Type of Organization



Hunter Peoples Mountain Region



United States Department of Agriculture National Agricultural Statistics Service



Why Do We Ask This?

- Over the nation's history, farms have gotten larger and more sophisticated
- The traditional "one farm, one farmer, one household" concept became inadequate
- ERS examines changes to the tax code and the potential impacts on agribusinesses
- A farm's legal structure determines how benefits are distributed





Is This a Family Farm?

- Family Farm = At least 50% of the operation's assets are owned by the principal producer or those related by blood, marriage, or adoption
- <u>Not</u> a Family Farm = More than 50% of the operation's assets are owned by people unrelated to the principal producer, household members or relatives

In 20XX, was more than 50 percent of this operation owned by one of the producers of this operation, their household, or extended family?
Select "yes" if more than 50% of the assets of this operation are owned by any of the producers, members of his/her household, and/or other persons related to him/her by blood, marriage, or adoption, including relatives not residing in your household. Consider only farm or ranch assets owned – not rented or leased – by this operation, and exclude the assets held by non-family landlords and contractors.

1 🗌 Yes - Go to Item 1a 3 🔲 No - Go to Item 2





How Many Owners?

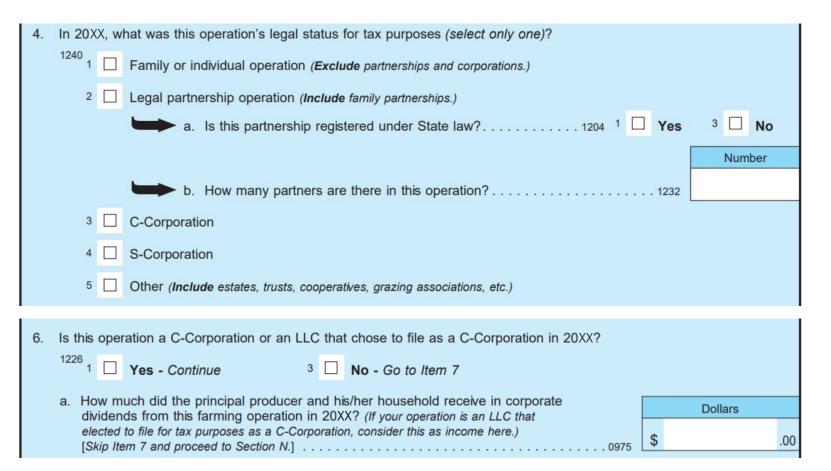
- Question 2 asks how many people own the operation, including those outside the operator's household
 - Based on the operation's assets
 - Exclude landlords, contractors, and lenders
- Question 2a is asking the percentage that the principal producer and their household own

2.	In 20XX, how many people owned this operation? (<i>Exclude</i> landlords, contractors, and lending institutions holding farm debt. <i>Include</i> the principal producer if he/she has an ownership interest.)	
	a. What percent of the ownership interest did the principal producer and his/her household hold? (<i>Exclude relatives not living in his/her household.</i>)1248	Percent %





An Operation's Legal Status







Legal Status Definitions

- Family Operation: No partners or shareholders; regarded as selfemployed and taxed as such
- **C-Corporation:** Owners and shareholders are taxed separately from the entity at the corporate level
- S-Corporation: Small business entity taxed like a partnership or sole proprietor





Legal Status Definitions

- Limited Liability Company (LLC): Provides limited liability for owners at the state level.
 - An LLC with a single member may be considered an individual operation for tax purposes, unless said member is a corporation
 - In this case, the operation should be classified as a C-Corp or S-Corp
 - Example: If a married couple owns an operation, they should be considered a sole-proprietorship, unless it is legally organized as a partnership or corporation





Share of the Net Farm Income

- Question 7 asks what percent of the net farm income the principal producer and their household entitled to
 - If they own more than 50% of the assets, then they should receive more than 50% of the net income
- Expect an answer when it's family operation, legal partnership or an LLC

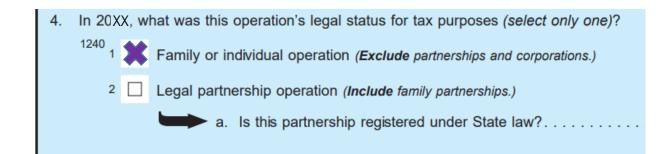
7	7. What percent of net income (whether profit or loss) were the principal producer and his/her household entitled to receive from this farming operation in 20XX?	Percent
	(If the operation is an LLC that elected to report income for tax purposes as a pass-through, consider this as income here.)	%





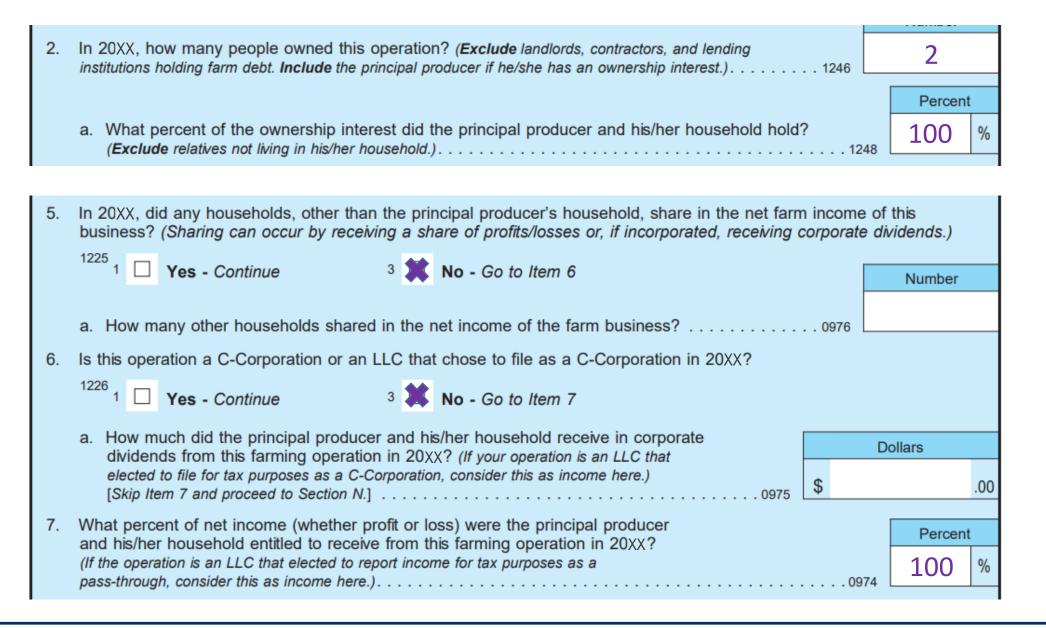
Example #1

- A married couple are owner operators, with no other partners
- Their operation is classified as a non-LLC family operation
- They own 100% of the farm and are entitled to receive 100% of the NFI







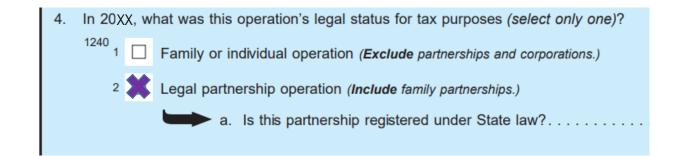






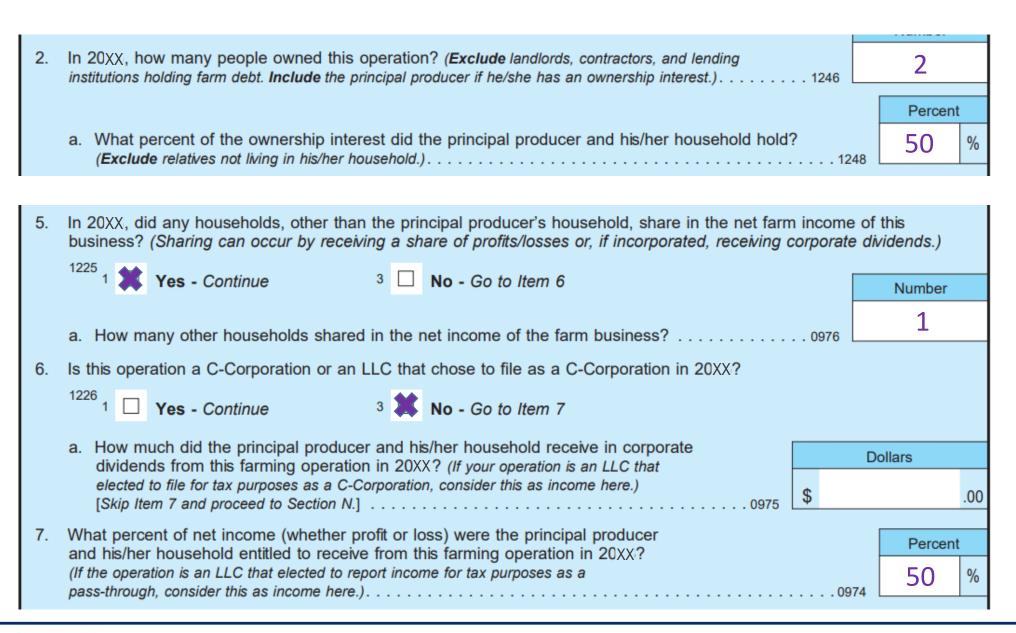
Example #2

- Two operators are unrelated by blood, marriage, or adoption
- Their operation is classified as a legal partnership
- One of them is sharing in the Net Farm Income













Conclusion

- A farm's legal structure determines how benefits are distributed
- If more than 50% of an operation's assets are owned by the principal producer or those related to them by blood, marriage, or adoption, then it's a family farm.
- Ask about dividends (Question 6) if the operation is a C-Corp
 - If Yes, then record dividends and **skip** Question 7
- Question 2a asks for the percent of ownership interest the principal producer's household has, Question 7 asks for the percent of NFI that household shares



