

Section M: Type of Organization



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
- **Not a Family Farm** = More than 50% of the operation's assets are owned by people unrelated to the principal producer, household members or relatives

SECTION M TYPE OF ORGANIZATION

1. In 2023, 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.

¹²⁴⁹ 1 Yes - Go to Item 1a 3 No - Go to Item 2



An Operation's Legal Status

4. In 2023, what was this operation's legal status for tax purposes (select only one)?

1240 1 Family or individual operation (Exclude partnerships and corporations.)

2 Legal partnership operation (Include family partnerships.)

 ➔ a. Is this partnership registered under State law? 1204 1 Yes 3 No

 ➔ b. How many partners are there in this operation? 1232

Number

3 C-Corporation

4 S-Corporation

5 Other (Include estates, trusts, cooperatives, grazing associations, etc.)

6. Is this operation a C-Corporation or an LLC that chose to file as a C-Corporation in 2023?

1226 1 Yes - Continue 3 No - Go to Item 7

a. How much did the principal producer and his/her household receive in corporate dividends from this farming operation in 2023? (If your operation is an LLC that elected to file for tax purposes as a C-Corporation, consider this as income here.) [Skip Item 7 and proceed to Section N.] 0975

Dollars
\$.00



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. 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 2023?
(If the operation is an LLC that elected to report income for tax purposes as a pass-through, consider this as income here.)0974

Percent	
	%



Example

- Two operators are unrelated by blood, marriage, or adoption
- Their operation is classified as a non-LLC legal partnership
- Each own 50% and are entitled to 50% of the Net Farm Income
- How would Section M be filled out?

4. In 2023, what was this operation's legal status for tax purposes (*select only one*)?

1240 1 Family or individual operation (*Exclude partnerships and corporations.*)

2 Legal partnership operation (*Include family partnerships.*)

➔ a. Is this partnership registered under State law?



2. In 2023, how many people owned this operation? (**Exclude** landlords, contractors, and lending institutions holding farm debt. **Include** the principal producer if he/she has an ownership interest.) 1246

Number
2

a. What percent of the ownership interest did the principal producer and his/her household hold? (**Exclude** relatives not living in his/her household.) 1248

Percent	
50	%

5. In 2023, did any households, other than the principal producer's household, share in the net farm income of this business? (*Sharing can occur by receiving a share of profits/losses or, if incorporated, receiving corporate dividends.*)

1225 1 **Yes - Continue** 3 **No - Go to Item 6**

a. How many other households shared in the net income of the farm business? 0976

Number
1

6. Is this operation a C-Corporation or an LLC that chose to file as a C-Corporation in 2023?

1226 1 **Yes - Continue** 3 **No - Go to Item 7**

a. How much did the principal producer and his/her household receive in corporate dividends from this farming operation in 2023? (*If your operation is an LLC that elected to file for tax purposes as a C-Corporation, consider this as income here.*)
[Skip Item 7 and proceed to Section N.] 0975

Dollars	
\$.00

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 2023? (*If the operation is an LLC that elected to report income for tax purposes as a pass-through, consider this as income here.*) 0974

Percent	
50	%



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

