When it comes to your farm or ranch, nobody knows the operation like you. You know how many acres you’re operating, and you have inventories on all your commodities. Hopefully, you even know what assets and liabilities you have by taking a quick look at your net worth statement. But what steps have you taken when it comes to managing for taxes or assessing legal risks? By reviewing your operation’s business structure, you may find creating a business entity could provide your operation with added benefits.

According to the U.S. Department of Agriculture National Agricultural Statistics Service’s 2012 Census of Agriculture, agriculture operations could be categorized as: individual and family ownership (sole proprietorship), partnership, corporation, or limited liability company (LLC). Of all the operations reported, 84 percent were listed as sole ownerships, 6.3 percent as partnerships, 5 percent as corporations, and 4.7 percent as...
Here’s where the water can get really muddy. Corporations become their own entities. They receive their own profits and are accountable for their own liabilities. Company investors and owners own shares of the corporation. There are two corporation types: S corps and C corps. Without going into the details of each of these, they both have advantages when it comes to liabilities and taxation. On the other hand, there is a lot of work that goes into a corporation. The amount of time and paperwork that go into running a corporation may be more than what you need.

LIMITED LIABILITY COMPANY (LLC)

An LLC is a combination of the first three structures. One of the greatest advantages of an LLC is the liability protection of a corporation on a limited basis, while keeping some of the operating benefits of sole proprietorship or partnership. There are many different ways to structure an LLC that allow for it to best fit your operation’s needs.

While an LLC may seem like a win-win business structure, it’s important to discuss all the options with a lawyer. Knowing the correct paperwork to file for each business structure and understanding the tax obligations are critical when establishing a business entity. If you feel like one of these business structures might provide some long-term benefits to your operation, speak to someone who can give you legal and tax advice. Just make sure they know the rules that will apply to you. Not all areas have the same requirements for businesses.