



# Business Structure Basics for Your Farm

# Introductions



**Food Animal Concerns Trust (FACT)** is a national nonprofit organization that works to ensure that all food-producing animals are raised in a humane and healthy manner.



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**FACT's services to support livestock and poultry farmers include:**

- **Conference scholarships** (ongoing)
- **Customized handouts** (ongoing)
- **Free webinars** (ongoing)
- **Fund-a-Farmer Grants** (not currently accepting applications)
- **Humane Farming Mentorship Program** (not currently accepting applications)
- **Financial and Business Training** (not currently accepting applications)

# Our Presenter



**Rachel Armstrong**

**Farm Commons**



# FARM COMMONS

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# **BUSINESS STRUCTURE BASICS**

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**RACHEL ARMSTRONG, SPRING 2022**



## About Farm Commons

- **We empower agricultural communities to address their own legal vulnerabilities, within an ecosystem of support**
  - Educational resources: guides, workshops, webinars, podcasts, Q&A platform
  - Leadership development: solutions by and for farmers

**Membership makes it possible!** See if membership meets your needs for developing legal resilience in your community.



## I'm Rachel

- Executive Director, Founder, and Attorney
- Live in Duluth, MN
- I founded Farm Commons because I believe you deserve this information so you can develop resilience, consistent with your values.





## How about you?

- Use the Question box for questions as we go!

Folks say they want to learn about...

- Do multiple LLCs protect various aspects of the farm?
- What is the difference between a partnership and an LLC?
- How does limited liability work?
- ...and more!



## Poll

- Which business structure is your farm organized as right now?
  - LLC
  - Corporation
  - Sole Proprietorship
  - Partnership
  - Nonprofit
  - Unsure
  - Something else

# Sole Proprietorships and Partnerships

- This is the default business structure
- The moment you start selling a product or service, you have one of these!
  - Are you the owner? You have a sole proprietorship.
  - Working with someone else? If so, you have a partnership

# Sole Proprietorships and Partnerships

- Drawback: Personal assets are exposed to business liabilities.
- In a partnership: exposure is multiplied

# Limited Liability Entities

- LLCs and Corporations protect personal assets from business liabilities!

## Personal Assets ONLY are protected!

- Which business structures protect business assets from business liabilities?
  - NONE.
- How does a farm protect business assets from business liabilities?
  - Insurance

## Protection needs to be earned

- Separate bank accounts and clear balance sheets help earn the protection.
- Maintain filing obligations with the state.

## Corporation or LLC?

- LLCs are more flexible than corporations...
  - Can have more than 100 members
  - Members can be other LLCs or corporations
  - Operating agreement and officers not required
- These points of flexibility are **not** very helpful.

## A Tax Advantage?

- Tax forms are different but the tax effect tends to be the same between
  - LLCs
  - S Corporations.
- What is an S corporation?"
  - A corporation that has elected to be taxed under subchapter S, which stands for small business
  - Wide majority of small businesses will chose subchapter S taxation



## Why Choose Subchapter S?

- SOME personal income may be taxable at the dividends rate rather than personal income rate.
- Generally useful where a farmer is making more in income from farming than the average farmer.
- BOTH LLCs and corporations can choose subchapter S taxation.



# Question Break

## How do we form an LLC or S corporation?

- File a form with your Secretary of State, generally.
  - List owners and contact information
  - List registered agent
- Not everyone is comfortable forming an LLC or S corporation.

# Anti-Corporate Farming Laws

- Can restrict non-related persons from forming LLCs and corporations to lease farmland or conduct farming.
- Iowa, Kansas, Minnesota, Missouri, North Dakota, Oklahoma, South Dakota and Wisconsin

# Nonprofits and Cooperatives

- Nonprofits: Useful if your farm is exclusively devoted to pursuits that are scientific, educational, or for “relief of the poor.” (AND you do not compete with for-profit farms).
- Cooperatives: Decisions made via one member, one vote.



## Your Turn

- Think of the last farm business you know that went out of business, failed, sold the assets, etc.
- What caused it? Please type in the chat box your answers.

## Here's what no one said:

- No one ever says, "That farm failed because they chose an LLC and not an S corporation."
- The D's sink most farms: death, disagreement, debt, disability
- What can we do about that?



Video Here



## The biggest source of resilience?

- Write a governance document!!
- Checklists and models in the Farmers' Guide to Business Structures



## Learn More!

- Discovering Resilience:
  - Learn the 10 legal best practices of a resilient farm or ranch business
  - Create a customized action plan to develop legal resilience
  - On your own time or with a cohort of peers



## Learn More!

- Access 100+ guides, models and checklists on a range of farm business law issues
- Take our advanced farm law course(s)
- Ask questions on our Q&A platform



## Join us as a Producer Member

- Take 30% off the annual membership fee with FACT30 coupon code.
  - Take advantage of it before December 2022



*Any questions?*

# Connect with **FACT**

Food Animal Concerns Trust

## Upcoming webinars

🐔 **April 6:** Using Botanicals with Livestock

## Grants, Scholarships, Training, Mentorship & More!

🐔 **Scholarships** – *ongoing*

🐔 **Customized handouts** on the nutritional benefits of food from pastured animals

Sign up for emails @ [foodanimalconcernstrust.org/](http://foodanimalconcernstrust.org/)

## Join us on social media

