

Section M: Type of Organization



United States Department of Agriculture
National Agricultural Statistics Service



Why Do We Ask This?

- The downfall of missing data in the late 70s and 80s also gave an early look at how farms were changing.
- 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



Section M Uses?

- Changing farm structure affects the distribution of benefits from farm programs, and the specific elements of farm program design can affect farm structure.
- The legal organization of a farm determines how its income is taxed. ERS is called on to examine changes to the tax code and potential impact on farm businesses.
- Defense/Context: agriculture opponents and “corporate farms”



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



Family Farm Question Considerations

- Family farm: the majority of the business is owned by a producer (aka operator) and individuals related to the producer by blood, marriage, or adoption, including relatives who do not live in the producer household.
- Family farms account for 98% of farms.
- Example of Non-Family owned: Some large hog farms are owned by a single family that owns multiple farms and relies on hired managers to operate the farms. These would not be classified as family farms unless the hired managers were also part of the family that owns the farms. (However, the contractees of these large operations may be family farms)



Family Farm Check

- Bill owns 49 percent of the farm, and his cousin owns 51 percent. Is it a family operation?
- What if Bill owns 50 percent and his partner-an old friend from high school-owns the other 50 percent?



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 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	<input type="text"/>				
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	<table border="1"><thead><tr><th colspan="2">Percent</th></tr></thead><tbody><tr><td><input type="text"/></td><td>%</td></tr></tbody></table>	Percent		<input type="text"/>	%
Percent					
<input type="text"/>	%				



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



Legal Status Definitions

- **Family Operation:** No partners or shareholders; regarded as self-employed 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. 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 #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
- 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

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	
100	%

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

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	
100	%



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
- 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

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
- 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



Questions?



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