Farm Transition Planning
Business & Business Entities

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Agenda

• Wisconsin Farm Center Overview
• Farm Business Entities
• Questions and Discussion
Farm Center Services

- Transition Planning and Beginning Farmer Assistance
- Financial Analysis and Planning
- Dairy 30x20
- Grazing, Organics, and Specialty Crop Consulting
- Rural Electric Power Service
Farm Center Services, Cont.

- Herd-based Diagnostics
- Mediation
- Counseling
- Minority Farmer Outreach
- Livestock and Meat Consulting
- Help Line
Farm Business Entity Options

- Sole Proprietorship
- Partnerships (Informal, General, & Limited)
- Corporation ("C" & "S")
- Limited Liability Company (LLC)
Sole Proprietorship: *Advantages*

- Easy to set up and flexible
- No business partners
- All profits go to the owner
- Few legal or tax limitations to transfer funds
- Income taxation at individual tax rates
Sole Proprietorship: *Disadvantages*

- Personally liable for debts, taxes, and liabilities
- All losses accrue to the owner
- Access to loans is limited to personal credit rating
- Business ends when owner dies or sells assets
Partnerships

Two or more people, or entities, doing business together. There are three main types of partnerships.

• Informal Partnership
• General Partnership
• Limited Partnership
Informal Partnership

• Not a “true” legal entity, but rather two sole proprietors doing business together

• Benefits are the same as sole proprietorship

• Has some additional disadvantages
General Partnership

- Has two or more partners and each of these partners is fully liable for the others

- The partnership ends upon the death of one of its members
Limited & Limited Liability Partnership

• Requires one partner to hold unlimited liability while the others maintain limited liability

• The partnership ends upon the death of one of its members
Partnerships: *Advantages*

- Easy form
- Income is divided among partners
- Tax is paid at partner level
- Limited liability for some partners
- Relatively easy to dissolve
Partnerships: *Disadvantages*

- Unlimited liability for some partners
- Terminates if a partner dies or declares bankruptcy
- Must have complete trust in partners
- Complicated reporting requirements
Corporations

A legal entity that is separate from its owners.

- “C” Corporation
- “S” Corporation
Articles of Incorporation

- Articles of incorporation determine the purposes & powers of the corporation
- This document must be approved by the state & becomes the formal charter under which the corporation exists
Bylaws or Operating Agreement

• The shareholders or directors enact corporate bylaws/operating agreement to regulate the everyday affairs & establish routine procedures of operation

• No state approval is required of the bylaws
Structure of Corporation

• Shares of stock are issued/sold to the owners of the corporation

• Shareholders own the corporation but are not necessarily the managers

• In a family corporation, one can likely be a shareholder, director & officer
Limited Liability

- Shareholders are typically not liable for corporate debt & have no more risk than what they invested.

- However, in many cases a lender will require the shareholders to personally guarantee loans to the corporation.
Continuity of Operation

• A corporation exists as long as the shareholders desire it & continues to fulfill the lawful requirements.

• The life of the corporation does not depend upon the lives of the people.
Income Taxation

• Under general rule, a corporation is a tax paying entity.

• It reports its income & deductions & pays tax on its net income.
Ownership Transfer

• Shares of stock provide a convenient way to make lifetime & death transfers.

• A share of stock may be sold, given away, or transferred at death.
C Corporations: Advantages

- Limited liability of shareholders
- Business continues after a death
- Easy transfer of ownership
C Corporations: *Disadvantages*

- Additional paperwork to establish corporation
- Double taxation
- Gain is recognized when assets are distributed to shareholders
S Corporations: Advantages

• Limited liability of shareholders
• Perpetual existence
• Easy transfer of ownership
• Income taxed only at shareholder level
S Corporations: *Disadvantages*

- More paperwork to establish
- Restrictions on the number & type of shareholders
- Only one class of stock is permitted
Limitied Liability Companies

• LLCs are formed by registering with the Dept of Financial Institutions.

• Provides the limited liability advantages of a corporation & the tax advantages of a partnership.

• Can have one or more members.
LLCs

• Property transferred to the LLC is the property of the LLC

• A member’s interest in the LLC is personal property

• An LLC with more than one member can be taxed like a partnership or corporation
Limited Liability Companies: 
Advantages

• Taxed like a partnership
• Limited liability for members
Limited Liability Companies: Disadvantages

- More paperwork to establish
- Fewer after-tax fringe benefits
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