

# BUSINESS OPERATIONS

## IN-KIND PAYMENTS

FACT  
SHEET  
2.9



In-kind payments are non-monetary forms of payment, such as housing or meals. How much and what kind of in-kind wages you can provide is limited by law. Providing in-kind payments either as a substitute for cash wages or as a benefit offered to encourage qualified applicants is a strategy many farmers use to mitigate cash flow issues and attract workers looking for a richer experience through shared meals or on-site living quarters. This is especially true in places that are isolated and rural. Using in-kind wages to meet minimum wage requirements is complicated. This Fact Sheet is designed to help you gain an understanding of the rules associated with in-kind payments.

### WHAT QUALIFIES

Housing, meals, and transportation can all potentially be counted as in-kind wages. There are two qualifiers for in-kind wage payments: In-kind wage provisions must be for the primary benefit of the worker, not the employer, and they must not be mandatory for employment.

For example, you can provide housing to benefit workers who would otherwise be in a tough housing market. However, you cannot require that an employee move out of their house and onto your property to be available for evening care of animals or to be on call. Similarly, you can provide rides to workers but cannot require that they utilize that service.

### *Meals vs Groceries*

Many farms and ranches are interested in paying workers in the form of their products. However, most interpretations have concluded that raw products or groceries cannot be counted as meals since they are not prepared. The best rule of thumb is to count these things as perks, not part of wages.

### *Trainings & Education*

Training your employee cannot ever equal payment. These are considered to be to the benefit of the employer, not the employee. If you want to provide in-depth education, you can offer classes and charge tuition. You cannot make your employees take these classes or educational courses. (See Fact Sheet 2.5 *Interns & Apprentices* for more information).

### CALCULATING VALUE

When calculating the value of the in-kind wages paid, you must use the lesser of either the fair market value of the product or service, or your actual incurred cost.

Loss of profit does not count as an incurred cost; this is your production cost or actual bills. For housing, utility bills like gas or electricity for the dwelling you are providing does count as actual incurred cost, as does the gas for transporting employees.

### SECURING AGREEMENT

You'll need to check with any existing or potential employees about paying with in-kind wages. If you move forward with using in-kind wages to meet minimum wage, you must secure written agreement from your employee stating they are willing to accept that arrangement. If they do not agree, you must be willing to pay in cash instead.

### PAYING & TRACKING

For accounting purposes, in-kind wages work as deductions from cash owed. You'll need to calculate what you owe each employee in cash, then subtract the value of the in-kind payments. These subtractions need to be itemized on every paystub, and you'll need to keep records showing how you calculated the incurred cost or market value of

each item, keeping records of things like grocery or utility bills. You then will pay cash for the amount remaining owed to the employee. We recommend working with a payroll specialist to set up your system for calculating in-kind payments, payroll, and tax purposes.

## **IN-KIND USED NOT AS WAGES**

If you are not required to pay the minimum wage or are meeting that requirement using cash, then you do not need to track each item to the same degree as listed above. Many farmers and ranchers use these bonuses as incentives to attract better quality workers or to increase employee retention.

### *Providing Housing in Addition to Wages*

Providing optional housing for employees is fairly common among farmers and ranchers, especially those attracting workers in rural areas or areas in high-cost housing markets. Many farmers and ranchers in this case assume a landlord tenant relationship, where the employee pays you rent for the dwelling, rather than using in-kind wage calculations. Talk to other producers with experience providing housing or your local extension office if you are interested in housing employees on your farm or ranch – they may have valuable insights and examples of rental agreements you can use or modify to fit your situation. Also, discuss the housing arrangements you plan to offer with your insurance provider and accountant to make sure you are following all required laws and recordkeeping. Make sure to check with your city or county clerk about applicable zoning laws before setting up lodging on your property!