

# STARTING A FARM OR RANCH BUSINESS IN IDAHO

## BUSINESS STRUCTURES

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Once you've secured land and created a business plan, you'll want to decide on a business structure. The structure of your business will affect how personally liable you, as the owner, are for business debts, what your taxes look like, and how you operate. Idaho food and farm businesses are most often structured as sole proprietorships, limited liability companies, or corporations. Other types of entities include general partnerships, limited partnerships, and limited liability partnerships. Below is a basic overview of these business types.

### SOLE PROPRIETORSHIP

If you operate your business by yourself and you do not take any steps to create a separate legal entity, your business will be deemed to be a sole proprietorship. A sole proprietorship, sometimes called an individual proprietorship, is the most common form of business ownership and the easiest to enter and operate. Sole proprietorships are limited to one owner and are not considered a separate entity from that owner, meaning your personal assets and liabilities are the same as the business assets and liabilities. As the owner of a sole proprietorship, you are personally liable for any business debts, loans, or liabilities, and your creditors can go after your personal assets to satisfy those obligations. The income and expenses of your sole proprietorship are reported on your personal tax return. Sole proprietorships end upon the owner's death or bankruptcy and assets are distributed in accordance with the owner's will or in accordance with a court order.

#### *Partnerships*

Partnerships are a form of business ownership that involves two or more people. There are three main kinds of partnerships: general partnerships, limited partnerships (LP), and limited liability partnerships

(LLP). Partnerships may have unlimited owners and necessitate the development of a Partnership Agreement.

#### *General Partnership*

A general partnership is similar to a sole proprietorship in that the owners of the business are each personally liable for the business debts and liabilities. That includes liability for debts and liabilities incurred by your partners. The owners pay taxes on profit shares, but no tax is paid on the partnership itself.

#### *Limited Partnership*

A limited partnership is a combination of at least one general partner (see above), and at least one partner with limited liability. Limited partners are not personally liable for the debts of the partnership, so long as they are not taking an active role in the management of the partnership.

#### *Limited Liability Partnership (LLP)*

This partnership type protects individual partners from being personally liable for the acts of the partnership, or the acts of their partners. The tax structure for a limited liability partnership is the same as the general partnership.

Before entering into a partnership, all parties should be aware of, and in agreement on, how much liability they will personally assume, what personal investments they will make, how profits and losses will be shared, the salary or drawing account arrangements for each partner, restraints on each partner (if any), and how or when the partnership will be terminated.

## LIMITED LIABILITY COMPANY (LLC)

LLCs can be taxed like a sole proprietorship (if one owner), partnership (if multiple owners), or corporation (if the owners so choose) and provide the liability protection of a corporation. Owners or members are not personally liable for the business's debts unless they have personally guaranteed the debt, or if individual action, outside of being a member, has made them liable. Essentially, members only risk what they have financially invested in the LLC. Multi-member LLCs should have an Operating Agreement that provides for allocation of profits and losses, determines how management decisions are made, and includes provisions for termination.

## CORPORATION

A corporation is a legal entity that is distinct from its owners, and owners are not personally liable for business debts by being owners. Corporations are created by filing documents with the Secretary of State, known as the Articles of Incorporation. Corporations must also adopt corporate bylaws. Corporations may be perpetual and continue after the death of an owner or shareholder.

### *C Corporation*

Corporations, sometimes called c-corps, are taxed differently than sole proprietorships and partnerships. The company files a tax return, and if the owners (shareholders) receive a dividend from the corporation, tax on that income will be taxed by the shareholder. C-corps may have unlimited owners.

### *S Corporation*

An S corporation, or S-corp, is a tax designation designed to avoid the double taxation that occurs in C-corps. Corporations and LLCs may elect to be taxed as S-corps if they qualify. In an S-corp, profits (and some losses) can be passed to owners' personal income without being subject to corporate tax rates. S-corps are limited to 100 or fewer owners and have other restrictions. Check the IRS website for specific requirements.

## CONSIDERATIONS

Partnerships, LLCs and corporations are formed by registering with the Idaho Secretary of State's office. All entity types must file an annual report with the Idaho Secretary of State's office.

Choosing a business structure is an important aspect of owning a farm or ranch business. In some cases, farm or ranch operations are structured as multiple businesses with the same or different owners or shareholders. For instance, one business may own the land and non-movable infrastructure of the farm while another entity owns the brand, managerial and disposable assets of the farm including crops and livestock. Clarifying your short- and long-term goals for both your land and your farm business will help you determine which business entity(ies) will work best for you and your farm partners and ultimately support the transition of your farm or ranch to the next generation.

### REMEMBER...

This fact sheet is not intended to be a comprehensive list of business entity types nor is it a substitute for legal or tax advice from your specific advisors. When choosing and forming a business entity, owners ought to consult with legal, accounting and tax professionals with expertise in farm and ranch businesses and farm succession planning.

## QUICK CHART COMPARISON

<b>Business Structure</b>	<b>Ownership</b>	<b>Liability</b>	<b>Taxes</b>
Sole Proprietorship	One Person	Personally Liable	Personal Tax
General Partnership	Two or More People	Personally Liable	Personal Tax
Limited Partnership	Two or More People	General Partners are Personally Liable, Limited Partners are Not	Personal Tax
Limited Liability Partnership	Two or More People	Owners are Not Personally Liable as Owners	Personal Tax
Limited Liability Company	One or More People	Owners are Not Personally Liable as Owners	Personal tax or Corporate Tax
C Corporation	One or More People	Owners are Not Personally Liable as Owners	Corporate Tax and Personal Tax
S Corporation	One or More People	Owners are Not Personally Liable as Owners	Personal Tax

