



Brockett's Ag Advice

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Should I Incorporate?

This is a question I often receive when discussing ways to enter a farm business. It is not an easy one to answer because there are a number of advantages to farm families if they form a corporation. Unfortunately there are also many disadvantages. Before answering the title question a number of factors must be considered. These factors would include reasons for incorporating, problems with incorporating, property to go into the corporation, shareholders, and tax consequences.

What it can do for you
A corporation could save some

taxes. It could make estate planning easier. It would help you to bring a third generation into the business, pay some personal insurance expenses, own your automobile, and borrow money.

What Taxes? If properly formed and if the business is profitable, a corporation could save Federal income taxes. How? A corporation is an "entity" or a "person". As such, it becomes the employer of everyone who works on the corporate farm including the shareholder owners. An employer can deduct as a business expense certain fringe benefits it pays for hired help. Thus items such as

premiums from health insurance, retirement plans, or buy person life insurance can be paid by the corporation as a business expense. These would reduce the taxable income of the corporation and ultimately you if that corporation was a sub chapter S corporation.

Estate Planning? Sure you can sell, will or gift shares of the corporation to children or a spouse (or anyone else). This makes it easier than a partnership or sold proprietorship when it comes to reducing the estate.

Borrow Money? Yes a corporation can borrow money if the asset value is high enough to warrant it. However you may have to co-sign the note.

What it can't do for you
A corporation can not make your business profitable. It also may cost you more in other areas such as taxes, social security payments, workmens compensation, records and tax preparation.

What Taxes? Pennsylvania taxes may be higher unless the state chooses to let family corporations off the hook. (at present, Pennsylvania only recognizes one class of corporation so all corporate net income is taxed at corporate rates - 10.5% in 1983). The Federal government allows a sub chapter S corporation to pass profits and losses through to stock holders the same way a partnership does. (investment credit is

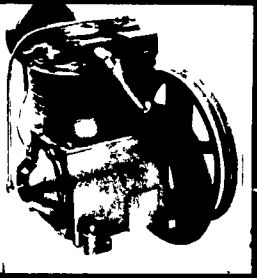
also passed through to the shareholders). Therefore even if the corporation has a loss, the shareholders will pay more Pennsylvania tax with it than with a partnership because they can not deduct the loss for Pa. taxes.

Transfer Tax: If you sell, give or transfer real estate into a corporation, Pennsylvania will charge a 2% transfer tax on market value.

Social Security: In time this will no-longer be a factor because self employed social security taxes will be the same as employer-employee social security (FICA) taxes. However they are lower now (1984-self employed people will pay 11.3% whereas the total of em-

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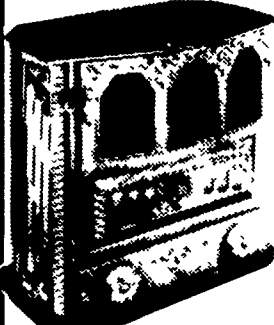
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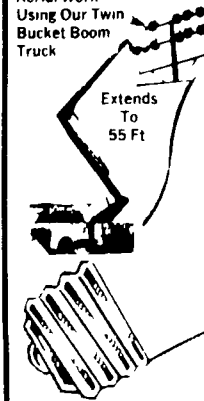
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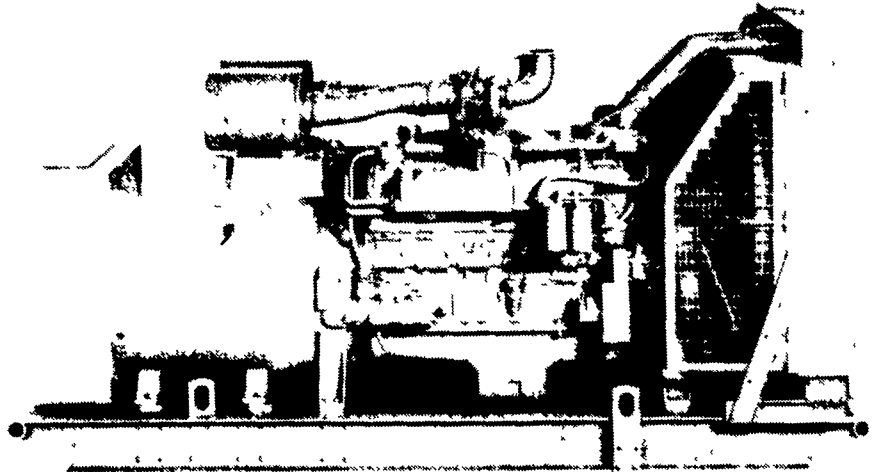
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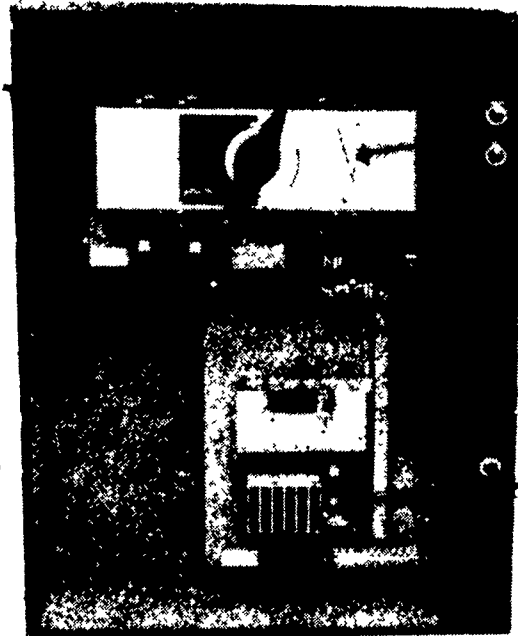
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