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INCORPORATION of farm businesses is receiving more and more attention. As the size of farms has increased and land prices have risen, the capital investment per farm has similarly increased. This has presented the twin problems of (1) accumulation of adequate capital within the farm business and (2) the transfer of the business from one generation to the next without serious disruption. Under provisions of present laws, incorporation is one method of meeting these problems.

Taxation of income was one of the main disadvantages of the corporate form of organization prior to 1958. Until that time, taxes were paid on the profit of the corporation and then by the stockholder on dividends received from the corporation. Of course, some high-income farms found it advantageous to be taxed as a corporation. This is true because corporate tax rates at higher income levels are lower than individual tax rates.

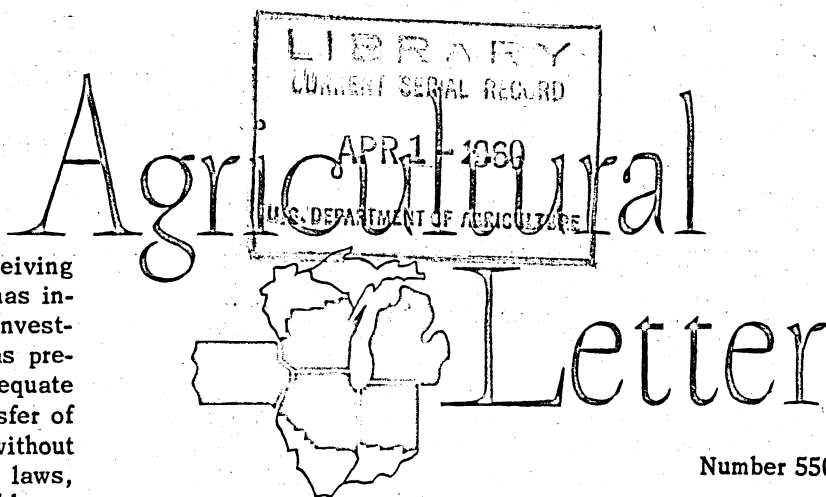
The first \$25,000 of taxable corporate income is taxed at 30 per cent. An additional 22 per cent (52 per cent total) is charged on income over \$25,000. The personal income tax rises to a marginal rate of 30 per cent for a married person with taxable income from \$12,000 to \$16,000, and the 53 per cent marginal rate is reached for income beginning at \$36,000. Thus, paying a corporate tax on income and retaining this income within the business could reduce total taxes and permit more rapid accumulation of capital within the business for farmers with high income.

Also, this tax disadvantage would not apply for firms with no net income. By planning the operation of a corporation so that all the receipts of the business could be paid as salaries and wages, many of the advantages of incorporation could be obtained without incurring the tax disadvantages.

The corporation tax handicap has been removed under a 1958 tax law revision. A qualifying corporation may now elect to be treated as a partnership for tax purposes. The shareholders are taxed directly as individuals on the income of the corporation. To qualify for this taxation procedure, a corporation must have only one class of stock, no more than ten shareholders and at least 80 per cent of its income from earnings. (This excludes interest, dividends, royalties or sales of stock.)

Continuity of operation is an important advantage of the corporation. It may exist as long as the shareholders desire. Should one of the stockholders die or decide to sell out there would be no need to break up the business, as in a partnership. It would merely be a matter of transferring the stock to a new owner. This ability to transfer ownership of undivided interests provides an easy means for oncoming generations to buy into the business.

Estate planning can be eased in some instances if the business is incorporated. Under Federal tax law,



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there is a specific exemption from gift taxes of a "lifetime" sum of \$30,000 per donor and, in addition, an annual exclusion of \$3,000 in gifts to each donee. If a husband and wife make gifts to a third party those amounts may be claimed by each spouse. For a farm operator who is planning to pass ownership to his heirs, it is not easy to break the farm business into parcels of the proper size to take advantage of these tax exemptions. But with the device of a corporation, it is possible to divide ownership into small units.

Fringe benefits may be obtained through a corporation, with advantages in terms of taxes or benefits. Social security benefits are determined by net earnings of the individual which qualify under social security legislation. For this reason it may be advantageous for the farm operator approaching retirement age of 65 to incorporate. As an employee of the corporation he can receive a constant salary for a short period of years, even though the corporation may show a loss.

The corporation for tax purposes may also deduct as business expenses fringe benefits such as medical payment plans, employee death benefits and group life insurance. Under a sole proprietorship such benefits cannot be deducted from taxes.

In view of the complexities involved in establishing a corporation, a qualified attorney should always be consulted.

THE SPRING PIG CROP is now reported to be down somewhat more than was indicated in earlier reports. The number of sows farrowing is expected to be 13 per cent below last year in ten states. The largest decline is in the early period, December through February, down 19 per cent. The March-through-May period is reported to be down 10 per cent. However, the current rise in hog prices is apparently having an influence on farmers' breeding intentions. The number of sows to farrow the first part of the fall pig crop, June through August, is down just 4 per cent.

The largest declines in prospective farrowings are reported in the western Corn Belt states of Minnesota, South Dakota, Nebraska and Kansas, while the smallest declines are in the eastern Corn Belt states of Ohio, Indiana and Illinois. The western states have typically shown larger variations in farrowings over the course of the hog cycle.

Research Department

FARM BUSINESS CONDITIONS, 1940-1959

ANNUAL SUMMARY

I T E M S	Calendar Years				
	1940	1945	1950	1958	1959 <sup>1</sup>
<b>PRICES:</b>					
Prices received by farmers ..... (1947-49=100) .....	37	76	95	92	89
Paid by farmers ..... (1947-49=100) .....	50	76	102	117	119
Parity price ratio ..... (1910-14=100) .....	81	109	101	85	80
Wholesale, all commodities ..... (1947-49=100) .....	51	69	103	119	120
Paid by consumers ..... (1947-49=100) .....	60	77	103	124	125
Wheat, No. 2 red winter, Chicago ..... (dol. per bu.) .....	.95	1.73	2.22	2.04	1.97
Corn, No. 2 yellow, Chicago ..... (dol. per bu.) .....	.63	1.21	1.50	1.26	1.23
Oats, No. 2 white, Chicago ..... (dol. per bu.) .....	.39	.74	.85	.69	.72
Soybeans, No. 1 yellow, Chicago ..... (dol. per bu.) .....	.95	2.20	2.74	2.23	2.22
Hogs, barrows and gilts, Chicago ..... (dol. per cwt.) .....	5.80	14.75	18.39	20.28	14.84
Beef steers, choice grade, Chicago ..... (dol. per cwt.) .....	11.86	17.30	29.68	27.42	27.83
Milk, wholesale, U. S. .... (dol. per cwt.) .....	1.82	3.19	3.95	4.15	4.16
Butterfat, local market, U. S. .... (dol. per lb.) .....	.28	.50	.62	.59	.59
Chickens, local markets, U. S. .... (dol. per lb.) .....	.14	.27	.25	.18	.15
Eggs, local markets, U. S. .... (dol. per doz.) .....	.18	.38	.37	.38	.31
Milk cows, U. S. .... (dol. per head) .....	61	111	198	209	232
Farm labor, U. S. <sup>2</sup> ..... (dol. per week without board) .....	9.38	25.25	31.00	42.50	44.50
Factory labor, U. S. .... (dol. earned per week) .....	25.20	44.39	59.33	83.50	89.47
<b>PRODUCTION:</b>					
Industrial <sup>3</sup> ..... (1947-49=100) .....	66	106	113	141	159
Farm marketings ..... (1947-49=100) .....	77	98	100	125	127
<b>INCOME:</b>					
Total personal ..... (bil. of dol.) .....	78.7	171.2	228.5	359.0	380.1
Farm:					
Cash receipts from marketings ..... (bil. of dol.) .....	8.4	21.7	28.5	33.6	32.8
Farm operators' net, total ..... (bil. of dol.) .....	4.6	12.4	14.0	14.2	11.8
Farm operators' net, per farm ..... (dollars) .....	720	2,080	2,479	2,990	2,530
Income of farm population from all sources ..... (bil. of dol.) .....	8.0	18.2	21.0	22.3	20.3
<b>EMPLOYMENT:</b>					
Farm ..... (millions) .....	9.5	8.6	7.5	5.8	5.8
Nonagricultural ..... (millions) .....	37.9	44.2	52.5	58.1	59.7
<b>FINANCIAL (District member banks): <sup>4</sup></b>					
Demand deposits:					
Agricultural banks (1955 monthly average = 100) .....	--	--	--	109.2	103.0
Nonagricultural banks (1955 monthly average = 100) .....	--	--	--	108.9	107.7
Time deposits:					
Agricultural banks (1955 monthly average = 100) .....	--	--	--	124.2	130.0
Nonagricultural banks (1955 monthly average = 100) .....	--	--	--	123.1	125.7

<sup>1</sup> Preliminary estimates.

<sup>2</sup> Estimates based on monthly wage rates for years prior to 1948.

<sup>3</sup> Revised series.

<sup>4</sup> December.