

General Topics

Setting Up a Farm Business



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SECTIONS

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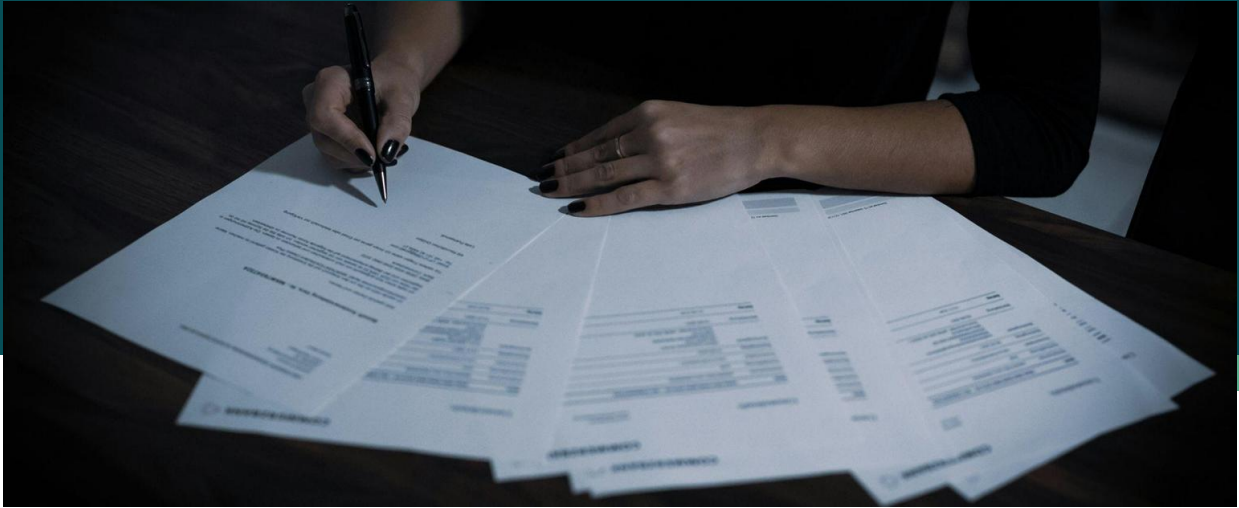


INTRODUCTION

Beginning farmers may wish to formally set up their farm as a business for a number of reasons, including tax benefits, risk and liability management and others. Setting up a farm as a business involves deciding on a business structure, registering the business with the appropriate governmental agencies, establishing separate financial accounts for the business and considering insurance needs for the business.

It is also good for beginning farmers to know that the United States Government defines a farm and farm business by the following financial measures:

- [**USDA Economic Research Service**](#) defines a farm as any place from which \$1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the year.
- Farms are eligible to file taxes as a farm if they meet the IRS definition of a farm business from the [**Farmers Tax Guide**](#): a farm is a business if it cultivates, operates and manages for profit. The IRS uses nine criteria to evaluate whether a farm can be considered a business.



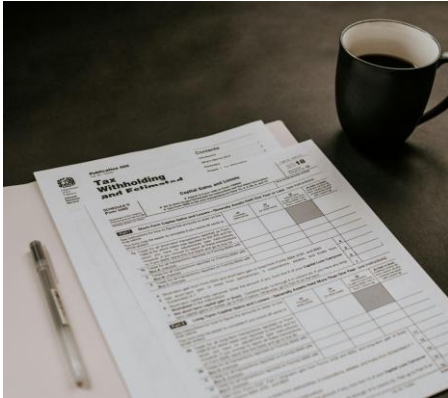
SECTION 1

Deciding on a Business Structure

Primary Considerations

- Goals of farm owners and decision makers
- Farm vision, mission and values

Process for Getting Started



- If you plan to operate the business as an individual with no separate entity for the business, you are operating as a sole proprietorship. Effectively operating a business as a sole proprietorship requires you to keep the finances of the business separate from your personal finances.
- If you are not a sole proprietorship, bring together anyone who will be a co-owner of the business to decide on a business structure.
- Consult an attorney/and or tax professional to discuss your ideas and get their opinion on which business structure may be right for your farm business.

Disclaimer: For a specific list of resources in the above description, view the Necessary Resources area of this section.



SECTION 1

COMMON QUESTIONS

01

Do I need to establish my farm as a business?

No, but any income generated from your farming activities still needs to be reported to the IRS, even if you are just selling to family, friends and neighbors. There are some tax benefits of establishing a farm as a business. In particular, your farm expenses cannot be deducted from your tax return if your farm is not a business. Farm businesses in Michigan are also exempt from paying sales tax. Refer to the Tax Management chapter of this guide for more information on farm taxes.

02

What options do I have for structuring my farm business?

Sole Proprietorship

A structure for a business that has a single owner. In a sole proprietorship, there is no legal separation between the business and the owner, so the owner personally assumes all liability risk and owns all liabilities and debts of the business. Business taxes will be filed on the owner's personal tax return.

Partnership

This structure works for businesses that have two or more owners. In a general partnership, the business may own farm assets and files its own Schedule F. However, the partners assume all risk for liability and debts of the business. A partnership can also be set up as a limited partnership that can have "limited partners" whose individual liability is limited to their investment in the partnership.

Limited Liability Company (LLC)

A limited liability company, or LLC, can have one or more owners. The LLC is a separate business entity that owns assets and conducts operations. As a result, owners do not have the risk for liability and creditors. However, there is more complexity in establishing and maintaining the business. LLCs offer a lot of flexibility in structure and taxation, but they require more formality than a sole proprietorship or partnership (although less than a corporation).

C-Corporations

Structuring a business as a corporation establishes the business as a separate legal entity from its owners, removing any personal liability. A corporation must establish a governance structure, including a board of directors hired by shareholders and officers hired by the board of directors, who run the company day-to-day. A significant amount of formality is required to maintain this business structure.

S-Corporations

Small corporations and LLCs can request the IRS to consider them subchapter S corporations, which allows them some potential tax advantages over other business structures. In order to qualify for subchapter S, corporations must meet a series of requirements, including having 100 or fewer shareholders. Care must be taken to meet all the formal requirements of this business type to maintain S- status.

Low-Profit Limited Liability Company (L3C)

This is a newer business structure available in a handful of states, including Michigan. The Low-Profit Limited Liability Company is a structure that combines some of the aspects of a for-profit business with aspects that traditionally only applied to non-profits.

Cooperative

In the agricultural industry, many cooperatives are formed for the purpose of marketing and selling products. However, this business structure can also work for groups of farmers who are farming collaboratively on a single farm site. A cooperative is a business that is owned and operated by members.

501(c)(3) Nonprofit

For farms that have a mission centered on education, food access or other charitable goals, a 501(c)(3) nonprofit structure may be the right fit. It’s important to note that farms can have a social mission and impact even if they are set up as one the other types of business structures.

Entity Comparison Chart

		LLC	C Corp	B Corp	S Corp	Cooper-ative	Non-Profit	Sole Propri- etor	General Partner- ship
Formalities and Structure	Organizing document is required		✓	✓	✓	✓	✓		
	Annual meetings are required		✓	✓	✓	✓	✓		
	One owner is okay	✓	✓	✓	✓			✓	
Benefits	Can sell or transfer entity to others	✓	✓	✓	✓	✓			
	Personal liability is protected	✓	✓	✓	✓	✓	✓		
	Owners can make a profit	✓	✓	✓	✓	✓		✓	✓
	Can prioritize a social purpose over making profits	✓		✓	✓	✓	✓	✓	✓
Tax Implications	Entity does not have to pay taxes (pass-through)	✓			✓			✓	✓
	Potential self-employment tax savings				✓				
	Potential to be tax exempt						✓		
	Potential for donors to receive a tax deduction						✓		
	Potential for favorable tax deductions on business entity's earnings					✓			

03

Does my business need an operating (or governance) document?

All businesses should have a governance document that outlines ownership, operation and management, although the requirements and form vary with business entity type.

- A. Partnership:** A partnership agreement is a contract between partners that sets out each partner's rights, responsibilities, and share of profits and losses. It should cover decision-making authority, capital contributions, dispute resolution and exit strategies. Though not always legally required, it is essential for preventing conflicts and clarifying expectations.
- B. Corporation:** Bylaws are the governing rules for a corporation, outlining how the organization will operate. They typically include procedures for electing directors and officers, holding meetings, voting, and managing corporate records. Bylaws are required under Michigan law for corporations and must be adopted at the first meeting.
- C. LLC:** An operating agreement is an internal document for LLCs that defines how the business will be managed and operated. It typically includes ownership percentages, voting rights, profit distribution, management roles, and procedures for adding or removing members. While it is not legally required in Michigan, it is strongly recommended for multi-member LLCs and often needed for banking and financing.

04

How do liability and risk differ between business structures?

Liability protection varies significantly by structure. Sole proprietorships and general partnerships do not separate personal and business assets sufficiently to protect owners from being personally responsible for debts and legal claims. LLCs and corporations create a legal barrier between the business and its owners, which reduces personal risk to the ownership of the business entity. However, this protection depends on following required formalities.

05

Can I change my business structure later if my farm grows or my goals change?

Yes, most farms can change their business structure as they evolve. For example, a sole proprietorship can convert to an LLC or corporation to gain liability protection. Restructuring may involve filing new paperwork, paying fees and updating tax registrations, so it's best to plan ahead and consult a professional.



SECTION 1

RESOURCES & PARTNERS

Necessary Resources

- [Farmers' Guide to Business Structures](#) – SARE Publication
- [Michigan Cooperative Development Program](#)
- [Basic Considerations for Choosing a Nonprofit Farm](#) article from Farm Commons
- [Michigan Small Business Development Center Guide to Starting and Operating a Small Business](#)

Partners

- Michigan Small Business Development Center (MSBDC):
<https://michigansbdc.org/>



SECTION 2

Filing Legal Paperwork to Establish Your Business

Primary Considerations

- Business Structure
- Business Plan

Process for Getting Started

It's recommended that you have a business plan written prior to filing legal documentation for your farm business. For business plan writing resources, refer to the chapter on Farm Business Planning.

- You'll need to have a name selected for your business when you file paperwork. For sole proprietorships and general partnerships, you can use your legal name (or your partner's legal name in the case of a partnership) or you can choose to use a different name for the business. For other business types, you'll need to choose a business name.

Start with your local government

- Check to see if your city, village, township, etc. has any requirements for registering businesses.
- If you wish to operate your business as a sole proprietorship or general partnership under a business name that is not your personal name or your partner's name, file a "doing business as" or DBA certificate with your county clerk.

File business paperwork with the state and federal government

- If your business is structured as a limited partnership, LLC, C corporation or S corporation you will need to file with the [Michigan Department of Licensing and Regulatory Affairs \(LARA\)](#)
 - A limited partnership will file a document called a "certificate of limited partnership."
 - An LLC, C corporation or S corporation will file a document called "articles of incorporation." There is a fee associated with the initial filing of the articles of incorporation as well as an annual fee each year to maintain the business' legal structure.

Register your business for state and federal taxes

- Apply for an Employer Identification Number (EIN) – This is required if you are in a corporation or partnership, an LLC with two or more members or a single member hiring employees. An EIN is optional for other LLCs and sole proprietors.
 - Complete the [Online EIN Application](#)
 - Fill out [form SS-4](#) and mail to the IRS

Register your business for Michigan State Taxes

- Complete the [Online New Business Registration](#) process through the Michigan Treasury Office
 - If your sales are going to be taxable, you can obtain a sales tax license through this same online process.
 - OR download and print the [State of Michigan Business Taxes Registration Booklet](#) (Form 518) and mail it to the address listed on the form.
- If you are farming in the city limits of a [Michigan city that collects an income tax](#), contact the city treasurer's office for more information.

Complete a sales tax exemption form.

- In Michigan, farms are exempt from paying sales tax on agricultural inputs. In order to receive the exception, complete the [Michigan Sales and Use Tax Certification of Exemption](#) (Form 3372) and present it to vendors when you are purchasing eligible items for agricultural production.

Disclaimer: For a specific list of resources in the above description, view the Necessary Resources area of this section.



SECTION 2

COMMON QUESTIONS

01

Do I need to have an Employer Identification (EIN) Number if I'm not planning to hire employees?

It depends. Some business structures are required to apply for an EIN number regardless of whether the founder(s) of the farm will be doing all of the work. These include:

- a. Partnerships
- b. LLCs with two or more members
- c. Corporations

02

How can I purchase supplies for my farm without being charged sales tax?

In the State of Michigan, there is no requirement for a sales tax exemption number for tangible personal property purchased for agricultural production. Tangible personal property could be items like seeds, fertilizer, spray materials, feed and similar items. When purchasing sales tax exempt agricultural items in Michigan, you must sign a certificate stating that the item is for agricultural production. For most agricultural retailers this certificate is part of the invoice or bill of sale. However other retailers may not be aware of this certificate and may ask for a sales tax exempt number. In this case, you'll need to show the certificate and inform the clerk that a sales tax exempt number is not required for farms. A copy of this certificate of exemption is available at the [State of Michigan's website](#).

Items that are used in land improvement, real estate fixtures or motor vehicles used on highways are not sales tax exempt. Examples of non-sales tax exempt items include: fencing materials, barn cleaners, drain tile, lawn mowers, pumps, trucks and building materials.

03

How do I know if I will need to charge sales tax?

In Michigan, human food and food ingredients are generally [exempt from sales and use tax](#) with some exceptions:

- Prepared food
- Alcoholic beverages
- Tobacco

If you are selling your products as inputs to other farmers, the agricultural production exemption would apply, as defined by the [Michigan Revenue Administrative Bulletin 2023-9](#). Items used or consumed directly or indirectly in tilling, planting, draining, caring for, maintaining, or harvesting things of the soil; breeding, raising or caring for livestock, poultry, or horticultural products, including transfers of livestock, poultry, or horticultural products for further growth.

For retail sale of all other items, you will need to charge 6% sales tax.

04

I haven't decided on a name for my farm business yet. What should I consider?

Sometimes a farm business name comes naturally, but other times it can be a very challenging task. Here are some things to think about when selecting a name for your farm business:

- What message do you want your farm name to convey?
 - Product-focused: clearly state what you sell, ex. Veggie Acres, Goats R Us
 - Location-based: use geographical features, ex. Main Street Urban Farm, Creekside Farm
 - Family or personal meaning: include your name or something very close to your heart, ex. Cindy's Flock, Jones Family Farm
 - Values-driven: highlight key attributes of your product or business, ex. Shared Abundance Acres, Soil First Farm
 - Creative and memorable: use wordplay, alliteration, or humor for an unforgettable name, ex. Grain-ing Momentum, Ewe-nique Pastures
- Is anyone else already using this business name? This is important for both legal registration of the business name and also ensuring that potential customers can easily find your business when searching online. Here are some ways to find out if another business is using the same name or something very similar:
 - Do a web search for the business name
 - Search the availability of domain names that use the business name using a domain availability search tool. Most websites that sell domain names such as Wix, GoDaddy, Squarespace, Network Solutions and others have a domain availability search tool.
 - Conduct a [trademark search](#) to see if any other business has already trademarked the name.

05

Why is it important to file paperwork correctly or on time?

Filing paperwork accurately and meeting deadlines ensures your business remains in good standing and retains its legal protections. Missing filings or making errors can lead to penalties, late fees, or loss of liability protection. Failure to maintain S-corporation formalities, in particular, can result in loss of S- status and its tax advantages. Failure to file correct and on-time paperwork can also delay tax registration and access to financing, so review requirements carefully and seek professional help when needed.



SECTION 2

RESOURCES & PARTNERS

Necessary Resources

- [Sales and Use Tax – Food for Human Consumption](#) – Michigan Department of Treasury
- Sales and Use Tax Agricultural Production Exemption– [Michigan Revenue Administrative Bulletin 2023–9](#)
- [Michigan Sales and Use Tax Certificate of Exemption](#)
- [Which Cities Impose an Income Tax?](#) – State of Michigan
- [State of Michigan Business Taxes Registration Booklet](#) (Form 518)
- [Online New Business Registration](#) – Michigan Treasury Office
- Employer Identification Number (EIN) [Online EIN Application](#) or fill out [form SS-4](#) and mail to the IRS
- [Michigan Department of Licensing and Regulatory Affairs](#) (LARA)
- [Trademark Search](#) – United States Patent and Trademark Office



SECTION 3

Additional Steps in Establishing Your Farm Business

Primary Considerations

- Separate farm finances from personal finances
- Position your farm to be ready for financing through USDA or other lenders
- Secure eligibility for funding through USDA farm conservation programs

Process for Getting Started

- Set up a business checking account that is separate from your personal bank account. Ensure that all business transactions go through the business checking account and personal transactions through your personal account. You may draw funds out of the business account for personal use.
- Register for a farm number to participate in USDA programs
- Consider whether you need business insurance – contact an insurance agent to discuss the types of insurance your farm business may need

Disclaimer: For a specific list of resources in the above description, view the Necessary Resources area of this section.



SECTION 3

COMMON QUESTIONS

01

Why do I need a separate checking account for my farm business?

Establishing a dedicated checking account for your farm business is important for a number of reasons:

- Separating your business finances from your personal finances makes accounting, tax preparation and business planning and decision-making much easier and prevents confusion of which transactions are associated with the farm and which are personal.
- By having a dedicated business account, you can establish a financial history for the farm that is crucial for establishing credit for the business and applying to loans, grants and other financial assistance programs.

02

Why do I need a farm number and how do I get one?

Farm numbers are assigned by the USDA Farm Service Agency (FSA) and are required to access USDA programs such as loans, disaster assistance, crop insurance and payments for implementing conservation programs. Farms with a farm number will also receive the Agricultural Census, which is important for collecting agricultural data and allocating government resources to agriculture. The USDA has service centers located around the state where you can register for a farm number and learn about programs offered through FSA and the Natural Resources Conservation Service (NRCS). You can find your local service center at this website:

<https://www.farmers.gov/working-with-us/USDA-service-centers>

03

What type of insurance do I need?

The answer to this question really depends on a number of factors, including what your farm produces, where you are selling it, whether you have employees, if the public is entering your farm and more. The best way to answer this question is to talk with a licensed insurance agent who is familiar with the type of farm business you are in.

04

What records should I keep to stay organized and prepare for financing or taxes?

Keeping accurate records is essential for managing your farm business and meeting legal and financial obligations. At a minimum, you will need detailed income and expense records, receipts for purchases, invoices for sales, and bank statements for your business account. These records help you track profitability, prepare tax returns, and demonstrate eligibility for loans or grants. In addition to financial records, keep copies of legal documents such as your business registration, operating or partnership agreements, as well as insurance policies and permits. Good recordkeeping makes compliance easier and builds credibility with lenders and partners.

05

What do I need to do to prepare for hiring employees?

Before bringing employees onboard, you need to set up the administrative framework for complying with labor laws and managing payroll correctly. This includes registering for tax accounts, securing insurance and creating systems for recordkeeping and wage reporting:

- An Employer Identification Number (EIN) is required for payroll and filing tax returns.
- Register with the IRS and the state payroll systems, including any online systems:
 - IRS for federal withholding, Social Security and Medicare contributions, and federal unemployment (if required)
 - Michigan Department of Treasury for state withholding
 - Michigan Unemployment Insurance Agency for state unemployment.[CC1]
- Set up a payroll system with software or a service provider to calculate wages, withhold taxes, and issue paychecks
- Secure workers' compensation insurance through a licensed insurance company
- Complete and maintain required employee records, like W-4 forms, I-9 forms, and timekeeping records



SECTION 3

RESOURCES & PARTNERS

Necessary Resources

- [Getting Started at Your USDA Service Center](#)
- [Registering with USDA Farm Service Agency](#) guide from MIFFS
- [The MIFFS Farmers' Guide to EQIP](#)
- IRS: [Tax withholding](#) and [EFTPS payment system](#)
- State of Michigan [Business Taxes](#)
- [Michigan Unemployment Employer Help Center](#)

Partners

- Michigan Food & Farming Systems – <https://miffs.org/>