Business Arrangements

Cooperative - A legally incorporated business entity, capitalized by its member patrons, that carries out business activities for its member patron/owners and remits margins to its patron/owners in proportion to their patronage business. Cooperative income is taxed at corporate rates, but patronage refunds are tax deductible to the cooperative if specific rules are met.

Corporation - An artificial being created under state law. It is a separate business entity, distinct from its owners, who are called shareholders because they own shares or interests of the corporation.

• Tax option corporation - Sometimes called an S corporation. It is a creation of federal tax law. It is a corporation in all respects except that the corporate entity pays no income tax because each shareholder owner reports a share of corporate income for income tax purposes.

Crop production contract - A legally binding agreement of a fixed term entered into before production begins in which a producer agrees to either sell or deliver all of a specifically designated crop raised on identified acres in a manner set forth in the agreement. The producer is paid according to a predetermined price or payment method and at a time determined in the contract.

Enterprise operating agreement - One party invests money, has a portion of the labor and management responsibility, and shares in the profits of an enterprise of another party’s farming operation. This arrangement is often used to start a young person in a farming operation. The younger party often works as an employee on the other enterprises.

Farm business operating agreement - An arrangement where two or more parties contribute labor and management, have capital invested in the crop and livestock programs, and share income generated from the farm business. Often used to bring a young person into a business. It is similar to a partnership and may be construed legally as a partnership.

Independent contractor - One who contracts to do work according to his/her own methods and is responsible for the results of that work.

Joint venture - An association of two or more persons or firms to carry out a single business project. It is designed to accomplish specific and mutually beneficial objectives. The specific contributions of each party are usually spelled out with a clearly defined accounting of the contributions of each, the risks involved, and an explanation of how direct economic benefits will be shared.

Labor and machinery sharing agreement - The managers of two operations share machinery and work together to carry-out their respective cropping programs. It works best in those situations where the individuals have insufficient machinery and/or labor to farm their individual operations. When the parties combine machinery and labor, they can efficiently operate both farms. The arrangement is commonly used by parents to help a child begin farming.

Limited liability company - A hybrid of the corporation and the partnership. It offers owners of the business limited liability like a corporation. However, it may be classified as a partnership for tax purposes. This allows the firm to obtain limited liability without facing the double tax on business income like a regular corporation.
**Livestock production contract** - A legally binding agreement of a fixed term in which a producer agrees to feed and care for livestock or poultry owned by the contractor until such time as the animals are removed. The producer is paid a predetermined fee or a payment based on a formula using the performance of the animals. Under the agreement, the producer typically has no title to the livestock. Instead, the producer is usually considered as a bailee and is declared to be an independent contractor and not an employee or involved in a joint venture with the contractor.

**Partnership** - An aggregation of owners. Two or more persons contribute their assets to the business and share with each other the management responsibility, profits, and losses. Each partner pledges faith in the other partners and stands liable for the actions of all partners, within the scope of partnership activities.

- **Limited partnership** - A special form of partnership permitted by state law to have one or more limited partners whose liability for partnership debts and obligations is limited to their investment in the business and one or more general partners with unlimited liability.

- **Limited partner** - A limited partner is just an investor. A limited partner who participates in management becomes liable for partnership obligations as a general partner.

**Sole proprietorship** - A form of business organization in which one operator or family provides the management and equity capital.

**Strategic alliance** - A long term relationship between two business entities for the purpose of mutual and often synergistic economic benefits. It’s a non-adversarial relationship based on an understanding and acceptance of mutually beneficial goals, trust and open communication, and a willingness to share benefits of the relationship.