TABLE 1. Hay Yields for Sprinkler and Border-Flood Irrigated Alfalfa.

	Harvest Number								
	1	2	3	4	5	6	7	8	Total
	Tons/Acre								
Sprinkled	1.25	1.61	2.31	1.57	1.16	1.09	1.02	1.27	11.28
Flooded	1.30	1.57	2.14	1.36	0.94	0.76	0.86	1.16	10.09

TABLE 2. Income, Costs, and Net Profit, Per Acre, for Border-Flood Irrigated Alfalfa.

	Per Acre
Income:	(dollars)
8.7 tons hay at $65/ton	565.50
Costs:	
Water, 5.8 ac. ft. at $4.55/ac. ft.	26.39
Irrigation labor, etc.	25.45
Investment	
Level $400 at 8%	32.00
Ditches $50, depreciation	2.50
20 years' interest	2.00
Total irrigation cost	88.34
Other costs	420.00
Net Profit:	57.16

TABLE 3. Income, Costs, and Net Profit, Per Acre, for Operator-Owned Sideroll Sprinkler-Irrigated Alfalfa.

				Per Acre
Income:				(dollars)
9.7 tons hay at $65/ton				630.50
Costs:				
Water, 4.8 ac. ft. at $4.55/ac. ft.				21.84
Irrigation labor, etc.				75.55
Power for pumping				24.95
	Investment	Depreciation	Interest	
Pump	$165	$ 8.25	$ 6.60	
Sprinkler	415	41.25	16.60	
	$580	$49.50	$23.20	
				72.70
Total irrigation costs				195.04
Other costs*				432.00
Net Profit:				3.46

*Additional harvest costs, over border-flood irrigation, for 1 ton of hay was $12.

TABLE 4. Income, Costs, and Net Proft, Per Acre, for Rented Sideroll Sprinkler-Irrigated Alfalfa.

	Per Acre
	(dollars)
Income:	
9.7 tons hay at $65/ton	$630.50
Costs:	
Water 4.8 ac. ft. at $4.55/ac. ft.	21.84
Irrigation labor, etc.	75.55
Power for pumping	24.95
Rent on sprinklers	250.90
Total irrigation cost	373.24
Other costs*	432.00
Net Profit (loss):	-(174.74)

*Additional harvest cost, over border-flood irrigation, for 1 ton of hay was $12.

TABLE 5. ECe and P Content for Soil Samples Taken in April 1978 from Sprinkler and Border-Flood Irrigated Alfalfa.

	ECe		P	
Depth*	**Sprinkler**	**Border-Flood**	**Sprinkler**	**Border-Flood**
(feet)	*(mmhos/cm at 77°F)*		*(ppm)*	
0-1	1.9	3.0	14.9	15.3
1-2	4.0	5.0	8.7	10.8
2-3	4.6	6.0	7.4	6.2

*Statistically significant differences occurred between soil depths but not between irrigation methods.

Coming: More corporate farms in California

Hoy F. Carman

The value-laden term, "corporate farming," elicits a variety of opinions among those interested in agriculture. Opposition tends to outweigh support. Corporate farming is often viewed, not as a legal form of business organization, but as a threat to the family farm as a way of life. At least seven states have legislation sharply limiting corporate activities in production agriculture and others have reporting requirements.

Despite opposition, corporate farms in the United States and in California have been increasing. Recent corporate tax rate changes will likely accelerate their formation. This article describes some of the changes occurring in corporate farms in California, the advantages and disadvantages of the corporate form of organization, and the corporate tax rate changes that became effective in 1979 which will permit the growth-minded farmer to use tax savings from incorporation to help finance expansion.

The corporate form of business organization is becoming important in California. There were 2,601 corporate farms in California in 1974, more than double the 1,212 reported in 1969. The number is growing. The 1974 Census of Agriculture found that corporations were just over 5 percent of all California farms. Considering only farms with product sales of $2,500 or more, California had 2.9 percent of all U.S. farms but 9.1 percent of all corporate farms. Corporate farms controlled more than 18 percent of California land in farms, but they accounted for 36.3 percent of total agricultural product sales.

The majority of California farm corporations are family corporations, differing from sole proprietorship family farms only in the legal form of organization. More than 93 percent of California farm corporations in 1974 were classified as privately held. Most are closely held — 72.2 percent had one to five shareholders and another 13.4 percent listed six to ten shareholders.

California corporate farms are most visible in the largest product sales categories. Among farms with sales of $500,000 or more in 1974, 33.4 percent were corporations. Corporations accounted for 10.9 percent of California farms with sales between $100,000 and $499,999 and 3.2 percent of farms with sales between $20,000 and $99,999. Note that 1,496 of California's farm corporations had sales in excess of $200,000 in 1974. The average California farm in 1974 had 493 acres of land, an average value of land and buildings of $322,034, and average product sales of $109,342. The average California corporate farm had 2,339 acres of land, a value of land and buildings of $1,716,460, and product sales of $1,033,758.

The size, value, and sales of corporate farms are clearly related to the number of shareholders. Corporate farms with one to five shareholders had an average of 1,715 acres, a value of land and buildings of $1,236,479, and product sales of $808,323. The average for farms with six to ten shareholders was 2,200 acres of land, a value of land and buildings of $1,397,364, and sales of $1,104,046. Corporate farms with 11 or more shareholders had averages of 5,686 acres, a value of land and buildings of $5,760,651, and product sales of $2,684,944.

Corporate farms produce the same commodities produced on other California farms. A comparison of the percentage distribution of product sales by commodity groups for all California farms and corporations reveals only small differences. Corporate farms have smaller percentages of total sales in field crops (19.8 versus 24.9 percent); fruits, nuts, and berries (13.3 versus 19.6 percent), and dairy products (2.8 versus 10.6 percent). Compared with all farms, corporate farms have larger percentages of sales in vegetables (17.7 versus 14.2 percent), poultry (11.1 versus 8.0 percent), cattle and calves (25.0 versus 16.0 percent), and nursery and greenhouse products (9.8 versus 5.4 percent).

Why incorporate?

The corporation is a legal structure with economic motivations and consequences. It offers both a method of resource ownership and a means of allocating risk, control, and returns among parties to the enterprise. The increase in farm corporations is largely the result of careful planning, analysis, and conscious business decisions.

The advantages for incorporation are usually listed under the categories of fringe benefits, limited liability, intergeneration transfer of assets, and tax planning. The fringe benefits include retirement programs, group life insurance, and health and accident insurance for the benefit of the shareholder-employee. Even meals and housing for the shareholder-employees may qualify as tax deductable expenses. In addition to owner participation in tax-privileged employee benefits, the corporate form of business organization also offers the advantage of limited tort and contractual liability. We should note, however, that most financial institutions will require personal guarantees from the owners of small corporations before approving loans.

Other reasons for farm incorporation include its extended business life, improvements in estate planning, and easier intergeneration transfers of the farm business with savings in estate taxes, achievement of ownership security by younger members of the firm and maintenance of the resource combinations of a growing farm business. Under gift tax laws an individual may transfer up to $3,000 per year ($6,000 per year for an individual and spouse) to any other individual family member free of gift tax. Thus, a couple with two children can make annual tax-free gifts of $12,000. Incorporation facilitates this type of transfer through a gift of shares in the corporation. Several years of this practice can substantially reduce a taxable estate.

The corporate form of organization also has its disadvantages and costs. The organizational, operational and reporting requirements require time, legal assistance, accounting assistance, and other costs not incurred by the sole proprietor or partnership. There may also be a problem of double taxation of income, first as corporate income and then as dividend income to the individual. This problem can be avoided through the subchapter S election or through a growth strategy with retained earnings reinvested in the farm rather than being distributed to the shareholders as salary or dividends.

The increase in farm corporations is largely the result of careful planning, analysis and conscious business decisions.

Amendments to the Internal Revenue Code (subchapter S) in 1958 stimulated farmers' interest in incorporation. The subchapter S election permits small qualifying corporations (10 or fewer shareholders increasing to 15 or fewer shareholders after five years) to shift income or losses directly to the shareholders as in partnerships and to avoid the double tax at both the corporate and shareholder level. In addition, capital gains are passed through to the individual shareholder and taxed at the lower capital gains rate.

Ordinary farm corporations, taxed under the regular provisions of subchapter C of the Internal Revenue Code of 1954, can avoid double taxation by using retained earnings to expand. A corporate tax rate which is less progressive than individual income tax rates provides the incentive to use the corporate business form for expansion purposes. The corporation generates greater after-tax equity because of lower tax rates. The individual income tax is progressive, with the marginal tax rate for married taxpayers filing a joint return increasing from 14 percent for taxable income between $3,400 and $5,500 to 70 percent for taxable income over $215,400. Before 1975, there was a two-step tax schedule for corporate income, the first $25,000 of income was taxed at a rate of 22 percent and income above $25,000 was taxed at 48 percent. The Tax Reduction Act of 1975 established another tax bracket for corporations, but this was revised by the Revenue Act of 1978, which established a new tax rate schedule effective in 1979. Under this schedule the first $25,000 of corporate income is taxed at a rate of 17 percent, the second $25,000 is taxed at 20 percent, the third $25,000 at 30 percent, the fourth $25,000 at 40 percent, and any income above $100,000 is taxed at 46 percent. While it is difficult to compare individual and corporate tax rate schedules, it is clear that corporate tax rates are lower than individual tax rates for incomes above $25,000.

The tax aspects of incorporation can be illustrated with a simple example. Suppose we have a farmer with taxable income of $60,000. Assuming that he files a joint return, total federal income taxes would be $20,604, leaving after-tax income of $39,396. Now assume that he incorporates and pays himself a salary of $25,000 and has corporate income of $35,000. There would be personal income taxes of $4,633 and corporate income taxes of $6,250 for total income taxes of $10,883. After-tax personal income would be $20,367 and retained corporate earnings would be $28,750. The tax saving of $9,721 certainly adds to expansion possibilities. By using some financial leverage, this annual tax saving could support a major capital expansion. The tax saving is maximum where the marginal rates in personal and corporate income are equalized and increase as total income increases. Note that the retained earnings can be converted to long-term capital gains, when the corporate shares are eventually sold.

Conclusion

The recent corporation tax rate changes, combined with other corporate advantages, will likely lead to a substantial growth in the number of farm corporations in California as well as in other states. The prime candidates for incorporation are the largest farms and those interested in growth. The attractiveness of the subchapter C corporation is enhanced by the tax rate changes, and it will probably account for an increased share of farm corporations at the expense of the subchapter S form. Since most corporate farms will be committed to expansion and will have tax savings to finance expansion, a continued movement toward fewer and larger farms is encouraged.

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