ACCOUNTING FOR PROFIT

By Brandie O'Dell

Understanding Your Tax Responsibilities as an Employer

As family farms continue to expand, business management is increasing in importance. Effectively managing labor and farming operations can lead to a business' ultimate success. As a manager or business owner of a farming or dairy operation, it is important that you understand the labor laws that may affect you and your employees. The IRS has specific rules and regulations that affect all employers in the agriculture industry. Below are a few things to consider.

What is an employee?

An employee is a worker who performs services on your behalf and whom you have the right to control what and how the work will be done. Examples of duties that can be performed by agriculture employees are, but not limited to:

• Raise or harvest products on your farm (including livestock)

• Operate, manage, improve or maintain farm and any related equipment

• Handle commodities that you produced

• Any other work related to the operation or maintenance of irrigation facilities

Compensation

Cash wages are generally subject to employment taxes. Non-cash payments (including commodity wages) are treated as cash and subject to taxes if the substance of the transaction is a cash payment. Generally, payments to family members who are employees will also be subject to employment taxes. Exceptions could apply to wages paid to your child, spouse or parent.

Wages paid to H-2A visa holders in excess of $600 are subject to withholding taxes, but not Social Security or Medicare. There are special reporting requirements for these types of employees.

Employment Taxes (Tax Year 2015)

Generally, you must withhold Social Security, Medicare and withholding taxes on all employees. The exception is if cash wages per employee do not exceed $150 or $2,500 total for all employees during the year.

Social Security is 6.2% for both the employer and the employee on the first $118,500 paid to each employee. You must deduct this amount from each employee paycheck and then match the same amount.

Medicare is 1.45% for both the employer and the employee on all wages. You must deduct this amount from each employee paycheck and then match the same amount. There is an additional Medicare tax of 0.9% for any employee that has wages in excess of $200,000 per year.

Federal income taxes are withheld from employee paychecks based on the number of exemptions and filing status as reported on Form W4.

Federal Unemployment (FUTA) is an employer tax paid at 6.0% of the first $7,000 of wages paid to each employee. Generally, you may take a credit against your FUTA tax for amounts paid to state agencies. The credit in 2015 is 5.4% of subject wages. A credit reduction will apply if you employ workers in a state that has loans to federal government that need to be repaid.

The purpose of employment laws is to protect the employee and the employer from discrimination and mistreatment.

Federal employment taxes for farms are reported annually to the IRS. Social Security, Medicare and withholding are reported on Form 943 and Federal Unemployment is reported on Form 940. Although the forms are only filed annually, taxes are required to be paid throughout the year. Refer to IRS Publication 51 for specific instructions.

All states impose additional employment taxes (i.e. unemployment, disability and withholding). Please consult your state agencies for specific rates.

Other considerations

Minimum wage rates are set at the federal and state levels. Under federal regulations, farm workers of certain small farms are exempt from minimum wage rates.

For federal purposes, most farmworkers are exempt from overtime pay requirements. Since all states have different laws and regulation, employers must check state agencies for the specific regulations within their state. For example, California has different rules for different classifications of workers. Agricultural employees are not exempt from overtime pay, but overtime is only paid when the employee works more than 10 hours in a workday and for the first eight hours worked on the 7th consecutive day in a workweek.

Certain fringe benefits are considered wages and subject to employment taxes. Benefits that should be considered include, but are not limited to, employee housing, employer-provided vehicles, employer-provided cell phones, allowances, and meals. The general rule is that all fringe benefits are taxable to the employee; however, as with all other tax laws, there are exceptions.

The purpose of employment laws is to protect the employee and the employer from discrimination and mistreatment. All employers are encouraged to consult their accountant with any additional questions regarding wages, payroll taxes and other certain benefits. ✱

Brandie O'Dell is a CPA with Frazer, LLP, in Visalia, CA. Contact her at bodell@frazerllp.com.