



# “Taxation of Agr. Labor”

**Robert D. Fleming**

*District Specialist, Farm Management*

OSU Extension ~ Northwest District

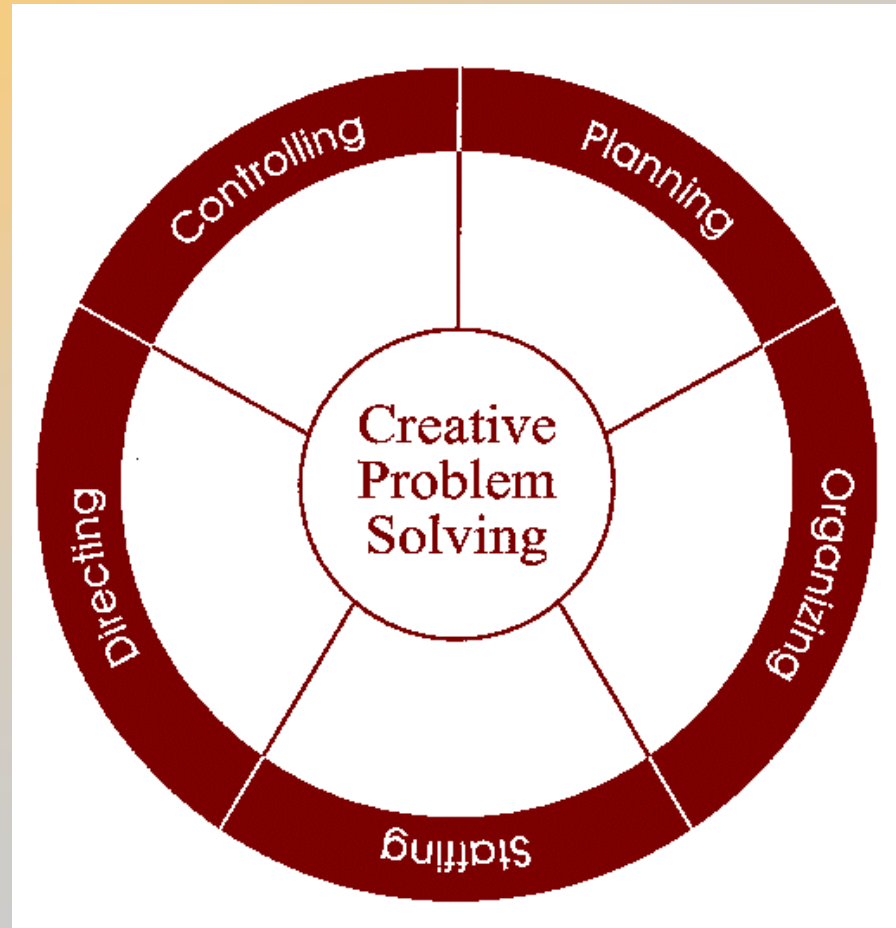
Dept. of Agricultural, Environmental &

Development Economics





# *ManagementEXCEL Wheel*





# Definition of Management

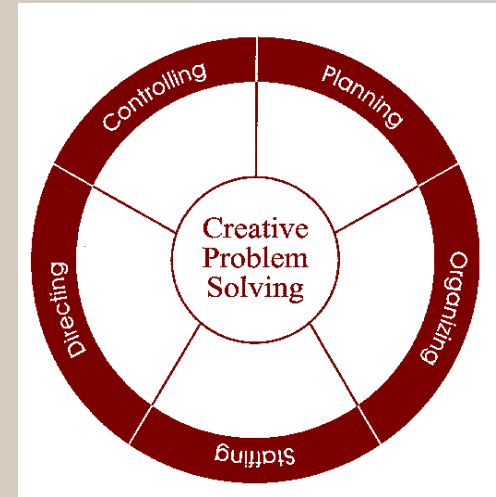
## Definition

**Management is determining what must be done and achieving results through the efforts of:**

*Oneself & Other People*

**Management is . . . . .**

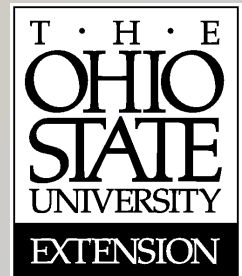
- ❖ **Planning,**
- ❖ **Organizing**
- ❖ **Staffing**
- ❖ **Directing &**
- ❖ **Controlling**



*The business' resources toward the accomplishment of*  
**ESTABLISHED OBJECTIVES & GOALS**

Grain Excel Mission Statement:

GrainExcel will provide long-term educational opportunities by teaching management skills for successful operation of farm businesses, according to participant objectives.





# *Objectives*

- ★ Review current requirements and procedures of farm employee taxation
- ★ Dispel some common myths and misunderstandings
- ★ Answer questions and provide references



# *Employer Identification Number (EIN)*

**Request using SS-4**

**Ohio (859) 292-5467**

Who

- ★ Pay wages
- ★ Have employee retirement plans

When

- ★ Acquire new business
- ★ Incorporate/form partnership
- ★ Plan to have employees



# *Who are Employees?*

- ★ Worker provides services
- ★ Employer retains right to control details of services
- ★ Highlights of IRS “20 Factor Test”
  - When, where, how to do work?
  - Provide training
  - Right to hire assistants
  - Continuing relationship
  - Right to discharge
- ★ Reference
  - Employer’s Supplemental Tax Guide (IRS Publication 15-A)



# *Who are Farm Employees?*

- ★ Raise or harvest agr/horticultural products
- ★ Operate or maintain farm tools or equipment
- ★ Handle, process, or package any agr/horticultural commodity if employer produced over 50% of commodity
- ★ Do housework in private home on farm operation for profit



# *Two Withholding Methods*

## 1) Wage Bracket

- ★ Payroll period
- ★ Marital status
- ★ No. withholding allowances

## 2) Percentage Method

Wage Payment

- (No. allowances x Rate)

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*Amount subject to withholding*

- x Single person rate



# *Taxable Wages / Federal Withholding*

*If subject to Social Security or Medicare, also subject to withholding*

The \$150/\$2500 Test

Withholding is required if either:

- ★ \$150 cash wages paid to an employee, or
- ★ Total payroll to all employees is \$2500/yr.



# *Exceptions to \$150/\$2500 Test*

***Pay < \$150 per employee, more than \$2,500  
IF:***

- ★ Hand harvest
- ★ Paid piece rates
- ★ Commutes daily
- ★ Employed in agriculture less than 13 weeks in previous year

**NOTE: Seasonal wages do count  
toward \$2500 Test**





# *Ohio Income Taxes*

## Optional for Farm Employees

- ★ If requested, employer may/may not agree.

## Deposits by Employer

- ★  $< \$2,000$  (Quarterly)
- ★  $> \$2,000$  but  $< \$84,000$  (Monthly)

## Estimated Tax Payments by Employees

- ★ If withholding (Not required)
- ★ Tax  $< \$500$  (Not required)
- ★ Tax  $> \$500$  (Quarterly payments)



# *Deposit Requirements*

- Employee S.S./Medicare
  - + Employer S.S./Medicare
  - + Withholding
- 

## **Net Tax Liability**

Lookback Period (2<sup>nd</sup> previous year)

- ★ \$50,000 or less ~ monthly
- ★ More than \$50,000 ~ semi-weekly



# *Deposit Requirements (cont.)*

## Exception

- ★ Net tax liability ~ 2001
- ★ Under \$2,500
- ★ File Form 943 and pay by January 31<sup>st</sup>

## Otherwise (over \$2,500)

- ★ Monthly deposits
- ★ Federal Tax Deposit Coupon – Form 8109



# *Federal Deposit Penalties*

2%                      1-5 days late

5%                      6-15 days late

10%                     16+ days late

10%                     Unauthorized deposits

15%                     Unpaid 10 days after notice



# *Ohio Deposit Penalties*

## Non-payment of Tax Withheld

- ★ Interest on tax due
- ★ + Penalty of 50% on tax due

## Late Payments

- ★ \$50 per month, up to \$500 *or*
- ★ 5% per month, up to 50% of tax due



# *New Program*

## File Information Returns Electronically (FIRE)

- ★ Must use if over 250 returns
  - 1098, 1099, 5498, W-2 G
- ★ Available to others?
- ★ Questions call (304) 263-8700





# *Myths*

Myth 1 ~ Family members are exempt.

## **FACT**

- ★ *Spouse is subject.*
- ★ *Your children under 18 are exempt.*

Myth 2 ~ Farm employees are exempt.

## **FACT**

- ★ *Exempt only from Ohio & School District withholding*
- ★ *Wages paid in commodities*





## *Myths (cont'd.)*

Myth 3 ~ Call them Independent Contractors.

### **FACT**

- ★ *IRS 20 Factor Test*
- ★ *Liability*
- ★ *Court cases favor employees*

Myth 4 ~ Pay wages in cash.

### **FACT**

- ★ *Workers compensation still required*
- ★ *Employer taxes still due*



# *Myths (cont'd.)*

Myth 5 ~ It's too complicated!

## **FACT**

- ★ *Annual return for many*
- ★ *Computer programs available*
- ★ *Ledgers work nicely*

Myth 6 ~ Workers Compensation not required for family.

## **FACT**

- ★ *Required on all employees including family members regardless of age or wages paid in commodities.*



# *Myths (cont'd.)*

Myth 7 ~ Farm employees are exempt from INS I-9 Form.

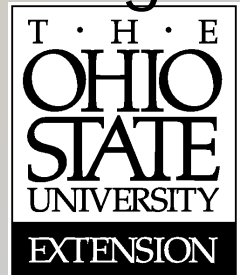
## **FACT**

- ★ *All new employees must complete the form*
- ★ *Retained by employer*

Myth 8 ~ All farm employees are exempt from Federal/State minimum wage.

## **FACT**

- ★ *Farmers are subject if they meet “man-days” test.*





# *Myths (cont'd.)*

Myth 9 ~ Employees just cause problems.

## **FACT**

- ★ *Many successful arrangements.*
- ★ *Employers can teach and learn.*

Myth 10 ~ Good employers are born!

## **FACT**

- ★ *It is a learned skill.*

Myth 11 ~ Good employees don't exist.

## **FACT**

- ★ *Recruitment and training required.*



# *Summary*

*This information won't affect your  
business unless ~*

**“You do use it!”**

*or*

**“You don't use it!”**

*Robert D. Fleming*

