

Corporate Farming

can be seen that nearly half of the corporate farm borrowers in the Tenth District have a debt-to-asset ratio of between 50 and 74 per cent. The cost of credit, as reflected by average effective interest rates, is shown in Table 3. Both corporate and partnership farm borrowers paid considerably below the average rate for all borrowers.

These data define the magnitude of agriculture's capital and credit needs. The dimensions are large and growing. The increasing importance of nonfarm capital in agriculture will continue to influence structural and organizational change.

CLOSELY HELD AND PUBLICLY HELD FARM CORPORATIONS

A closely held corporation is one in which the ownership and the control of the corporation belongs to a small number of shareholders. The entire outstanding stock may be owned by a single individual, the members of a family, or a small group. Officers and directors own the majority of stock and, thereby, control the corporation.

A publicly held corporation generally has widely distributed stock held by unrelated stockholders. The right to buy and sell stock in publicly held corporations at competitively

bid market prices is not normally restricted. Separation of ownership from management is quite common.

Most farm corporations are closely held family corporations. Their reasons for incorporating are typically: (1) to facilitate gift transfer of property for estate and retirement planning, (2) to provide for business continuity, (3) to gain income tax advantages, (4) to limit personal liability, and (5) to improve access to capital. These motives, however, are not always clear-cut advantages for the closely held corporation. Liability may not be limited if the major stockholder must sign personally for obligations of the corporation or if most of his assets are invested in the corporation. There is no assurance of improved management through incorporation, since owner, director, and officer are likely to be the same person after incorporation as before. The availability of equity and debt financing to a farm may not be enhanced. An established market does not exist for the securities of a closely held farm corporation, but family members may choose to leave capital in the farm business rather than receive dividends. Some financial institutions place restrictions on lending to farm corporations.

Tax considerations are numerous and complex, requiring careful attention prior to incorporation. Some of the most important are amount of net farm income, motives of property transfer and estate development, and alternative tenure arrangements. In certain cases, it is advantageous for farm corporations to be taxed as partnerships under subchapter S of the Internal Revenue Code.⁴

To date, most studies of corporate farming have dealt with the family farm and closely held corporations. Most findings have been favorable toward incorporation. There is general agreement that the corporate form does

Table 3
AVERAGE EFFECTIVE INTEREST RATES FOR
AGRICULTURAL LOANS BY FORM OF
ORGANIZATION AND DEBT-TO-
ASSET RATIO
Tenth Federal Reserve District
June 30, 1966

Total Debt of Borrower as a Per Cent of Total Assets	Form of Organization			Average for Debt Ratio
	Sole Propri- etorships	Corporate Farms	Partnerships	
	(Per Cent)			
Less than 25	6.6	5.8	6.3	6.5
25-49	6.7	6.3	6.2	6.6
50-74	6.8	6.3	6.3	6.8
75 and over	7.0	6.1	6.3	6.7
Not reported	8.4	5.9	6.0	8.4
All Borrowers	6.7	6.2	6.2	6.7

⁴For an authoritative discussion of tax considerations see "Technical, Legal, and Economic Aspects of Farm Corporations," Iowa State University Cooperative Extension Service, Law-Econ. 19 (Rev.), July 1967.