

## Taxation Tidbits

### Farm Labor Tax

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Many farmers only hire part-time employees or hire help for special projects. Keeping current on labor tax regulations can be especially difficult for these farmers. The following is the basic information agricultural employers should know. As a general rule, Social Security and Medicare must be withheld and matched on wages paid to employees of your business. Additionally, wages subject to Social Security and Medicare taxes are also subject to income tax withholding.

#### **The \$150 or the \$2,500 Test:**

Wages paid during the year for farm work are subject to Social Security and Medicare taxes **and** income tax withholding if either of the following two tests is met:

- You pay wages to an employee totaling \$150 or more for the year for farm work, or
- The total wages (cash and noncash) paid during the year for farm work to all your employees is \$2,500 or more.

#### **Employment of Family Members:**

Wages paid to **your children** under age 18 are exempt from income tax withholding, Social Security and Medicare taxes. If your child becomes 18 during the year, wages paid following that date are not exempt. Wages paid to your children are included in calculating the \$2,500 test.

Compensation paid to **your parents** is exempt from income tax withholding, Social Security and Medicare taxes, **if** the work:

- is for domestic services in or about the private home of the son or daughter,
- or**
- is performed outside of the son's or daughter's trade or business.

#### **Payment of Labor Taxes:**

As a general rule, labor taxes need to be deposited monthly or semiweekly. If your total labor tax for 2007 (the lookback period for 2009) was less than \$50,000 – you should deposit your labor taxes monthly. If you meet the requirements for making monthly deposits – the deposit for the liability for a calendar month must be made by the 15<sup>th</sup> day of the following month. However, if you are sure your 2009 total labor taxes will be less than \$2,500 – you are not required to make deposits and should send your total labor tax payment with Form 943 “Employer's Annual Tax Return for Agricultural Employees”.

#### **Wages Paid-in-Kind:**

Commodity wages are not considered cash wages and are therefore not subject to Social Security and Medicare taxes or income tax withholding. Several i's must be dotted and t's crossed in order to insure commodity wages are not reclassified by the IRS as cash wages. Work with a tax specialist if you desire to utilize commodity wages in your employees' compensation package.

As an agricultural employer you need to have a basic understanding of the labor tax regulations. Withholding labor taxes correctly is the best policy for you and your employees. Explaining the reason for corrective withholdings later in the year can be embarrassing for you and might create financial concerns for your employees.

Source: IRS Circular A, “Agricultural Employer's Tax Guide”

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