

**FAMILY FIRST:**  
Attention to detail — without getting hung up on all the little details — has made for a successful farm and close-knit family at Wachtel Farms Inc., operated by Kenneth, Gary, Calvin and Todd Wachtel.



# A family-friendly corporation

By HOLLY SPANGLER

**W**HEN the Wachtel family sat down 20 years ago to figure out how to better manage the operational side of their Altamont grain and hog farm, the main goal was to minimize taxes.

So when Kenneth and his sons, Gary and Calvin, huddled up in 1989 with their accountant, attorney and FBFM field man, they ultimately incorporated, creating Wachtel Farms Inc. That decision, as it turns out, has proven itself time and again over the years.

The Wachtels are able to reduce taxes because the corporation allows them to limit the amount of salary and Social Security tax paid. They don't save on income tax, but they do save in self-employment taxes.

Additionally, the corporation insulates them from a larger degree of liability and allows partners to move in and out with little fuss or fanfare.

In fact, Gary recalls that when his son, Todd, joined the farm, "it was just about as simple as adding it into the minutes of our annual meeting."

The Wachtel operation began when Kenneth and his wife, Betty, took over the farm in 1950. Their son, Gary, returned to the farm in 1972, and they formed a partnership.

When another son, Calvin, returned in 1976, they split into thirds. The family then formed a C corporation in '89, primarily to manage tax levels.

When Todd was ready to come back in 1992, the family ran the numbers and realized there weren't quite enough "plates at the table." So Todd sold structures for FS, while

**Key Points**

- Consider a business structure to separate operating and land.
- Insulate big assets from liability-prone side businesses.
- Run the numbers on all entity choices before choosing one.

the family added acreage and liquidated the hog operation.

### Two-tiered business

Six years later, they had room for everyone, and Todd came back full-time. They converted their corporation to an S type, in part so they could flow profits to the individual partners, making it easier for Todd to buy shares.

S and C corporations have distinct differences. The Wachtels' accountant, Darrell Dunteman, favors a two-tiered set of business structures. He often recommends an S corporation for the operating entity and an LLC, or limited liability company, for the land.

The Wachtel corporation owns the 80-acre farmstead, buildings and equipment, but no other land, and pays sala-

ries and dividends to the shareholders. And they have no more paperwork or bookwork with the corporation than they had in the partnership, says Calvin's wife, Chris, the long-time farm recordkeeper.

For the land, an LLC acts as a holding company, and in the Wachtels' case, helps Kenneth plan his estate.

"We're looking at putting all the land under one umbrella or LLC so we'd be shareholders in this company, thereby solidifying the land base for whoever's operating the farm," Todd describes. "I like that idea; you don't have to fight over which piece you'd own. Everybody has a third or a fourth of the shares in all the farms."

And the IRS now allows a 20% to 40% discount on the fair market value of land transfers (for estate and gift tax purposes) between family members, which is another advantage of the LLC.

Dunteman recommends LLCs strictly for the land portion of the operation, not the operating entity, because of Farm Service Agency payment limit implications. If the Wachtels



**DARRELL DUNTEMAN**

had put their operating entity in an LLC, they'd have one payment limit. Utilizing their S corporation, they have five.

### Limit liability

Tom Jennings, an ag attorney in Bloomington, sees a trend toward LLCs, and certainly away from C corporations, which are easy to build but hard to take apart. C corporations are also a virtual nightmare to pull land out of, if you made the mistake of putting it in to begin with. They were popular in the 1970s and '80s when they were used to attempt to freeze land

values, adds Jennings.

"I like to think of an LLC as a partnership with a helmet on it," he says. "It's a good vehicle for land because it's easy to put land in and take it out." Out-of-state landowners can avoid probate problems because they own part of an entity instead of part of a piece of real estate.

If your operation involves multiple businesses, it becomes more important to protect one business from the liability risk of another business.

"As the liability increases, I like to see that item separated," Jennings says. "Anytime things are on the road a great deal — like a trucking company — your liability is much greater. You don't want to tie the trucking company into the entity that has your land in it."

First, evaluate your insurance options, and weigh the cost of a separate entity against what you're bringing in. Hauling in for a neighbor a couple times a year is one thing; driving nine months a year is another.

Custom spraying is another classic example, particularly if you're spraying more custom acres than your own.

"Should we put a bubble of protection around that?" Jennings asks. "If he sprays the wrong field, he might lose the sprayer, but not the land at least." And don't assume that you're covered by insurance either; check it out.

That kind of protection was important to the Wachtels, too, even 20 years ago when they incorporated. On top of the other benefits their corporation provides, Todd adds, "We like that the corporation insulates us."

## Gear up to choose the right entity for you

**A**S obvious as it might have been for the Wachtel family to choose a corporation as their farm entity, there is no blueprint for farm entity selection, says Tom Jennings, an agriculture attorney in Bloomington.

"The biggest mistake people can make is a preconceived notion that one entity is better than another," Jennings maintains. "Just because the neighbor's shoe fits, it doesn't mean it will work for them. You don't know what will work until you put the template for each entity on that one family farm."

Jennings recommends that you first put together the right team of consultants: an accountant, attorney and financial planner. Then, ask yourself a few questions:

- What kind of liability protection are you looking for?
- What tax implications does your operation or situation carry?
- What "fringe benefits," like health insurance, does your operation require?
- How flexible does your operating entity need to be?
- Where does your operation stand on FSA payment limitations?