

# An Essential Tax Filing Overview for Common Agricultural Business Structures

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## Overview

Every year, individuals work to compile receipts and documents from the previous year's business activities as the tax filing deadline approaches. Tax filing can be a complicated process for the average individual, and the process becomes more detailed when filing taxes as a business. While sole proprietorships retain simplistic filing practices, corporations require several forms and personal diligence to file correctly. This guide provides a summary of tax forms required for each business structure, descriptions of mentioned forms, and links to view all forms and their instructions as provided by the IRS<sup>1</sup>.

## Sole Proprietorship

Sole Proprietorships offer the easiest tax filing of all business types. Since sole proprietorships are pass-through entities, income and losses for the business pass through to the individual and are reported on personal income tax forms. Producers report farming income and expenses on *Schedule F (Form 1040)*. One benefit of filing taxes under a pass-through entity is that business expenses

are tax-deductible, which reduces the individual's taxable income. Owners of a sole proprietorship will be taxed on all the farm's income, whether they wrote themselves a paycheck or reinvested the money in the business. Refer to the section titled *Schedule F* for more information on reporting profits and losses. Producers will need to pay self-employment taxes if they earn \$400 or more in a year. Refer to the section on *Self-Employment Taxes* for more information on estimating and reporting self-employment taxes.

## Partnership

Partnerships allow for two or more people to operate together, and income and expenses from the business pass through to the owners. The partnership will file one *Form 1065*, which will report all income and expenses for the business. Next, each partner will file a *Schedule K-1* and *Schedule F* to report their individual shares of the income and expenses. Please see the sections titled *Schedule F (Form 1040)*, *Form 1065*, and *Schedule K-1 (Form 1065)* for more information on each of these forms. While *Schedule F* and *Schedule K-1* will report the same information, producers need to complete both forms, as *Schedule K-1* is a partnership document, and *Schedule F* will stay with the

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<sup>1</sup>See section titled *Forms and Instructions* to view a list with links to instructions and pdf formats of each form discussed.

individual's taxes. Partners earning more than \$400 in a year will have to pay self-employment taxes and file a Schedule SE.

## Limited Liability Company (LLC)

Like the previous two business types discussed, LLCs are pass-through entities. Single member LLCs will file taxes as a sole proprietorship by filling out a Schedule F. LLCs that wish to file taxes as a partnership will file a Form 1065, Schedule K-1 (Form 1065), and Schedule F (Form 1040). Sometimes, LLCs will choose to file taxes as a corporation; in this case, the business will file Form 1120-S. LLC members should remember to pay self-employment taxes if they earn \$400 or more. Additional information on types of corporations and the benefits of filing as a corporation is discussed below.

## Corporation

There are two main types of corporations: C corps and S corps. C corps are not pass-through entities. They are entirely separate from the individuals who own them. Filing taxes as a C corp will allow a business to pay a lower tax rate, as they pay corporate taxes instead of income taxes. However, income earned under a C corp is subject to double taxation, once on the corporation's income and again when income is divided among directors and shareholders. If owners wish not to distribute income among owners and plan to reinvest all profits in the business, then filing as a C corp would allow tax savings. C corporations must file a Form 1120, and shareholders will report their share of income or loss distributed on a Schedule F.

S corps are a pass-through entity. The owners are still separate legal entities from the business, but income and expenses of the business pass through directly to the owners, like the businesses discussed above. S corps are not subject to double taxation as they do not pay corporate taxes. Not all businesses are eligible to file as S corps. More specifically, a business must be domestic, only have allowable shareholders, have no more than 100 shareholders, and have only one class of stock to file as an S corporation.

To officially become an S corp, the business must submit Form 2553. So, S corporations will file Form 2553, Form 1120-S, Schedule K-1 (Form 1120-S), and Schedule F.

## Schedule F (Form 1040)

Schedule F (Form 1040) reports profit and loss from farming. Agricultural producers operating under any business structure will use Schedule F to report individual shares of income and losses. Part I of the form breaks down all farm income and where it originated from, such as the sale of commodities, program payments, or crop insurance indemnities. Part II itemizes all farm-related expenses, including vehicles, fertilizer, rent payments, repairs, hired labor, etc. To report information on the Schedule F as accurately as possible, it is essential to keep receipts for farm income and expenses either by physically keeping all receipts or check stubs in a safe place or inputting the values into a spreadsheet as they are incurred. Remember to calculate each member's shares as a partnership or LLC when reporting itemized expenses. Tracking expenses diligently is vital for all multi-owner businesses so all members can access farm operations and file their taxes correctly.

## Form 1065

Form 1065 is the U.S. Return of Partnership Income. This form will be filled out by any type of partnership (General Partnership, Limited Partnership, or Limited Liability Partnership) and LLCs choosing to file as a partnership. The 1065 is comparable to the Form 1040, but this form reports business income as opposed to individual income.

## Form 1120

Form 1120 is the U.S. Corporation Income Tax Return and reports all income and losses from corporate businesses. C corps are the only entity that needs to use this form. Form 1120 requires more detail to complete, which can make filing corporate taxes more complex and time-consuming. Corporate tax laws change frequently, so business owners must be mindful of new filing rules.

## Form 1120-S

Form 1120-S is the U.S. Income Tax Return for an S corporation and records income and losses for S corps or LLCs that file as corporations. Form 1120-S is like Form 1120, but not as much detail is required to complete it (e.g., 1120-S considers gross profit while 1120 requests rent, royalties, and interest income) (Thomas Reuters Tax & Accounting, 2024).

## Schedule K-1 (Form 1065)

Part I of Schedule K-1 (Form 1065) asks partners/members for information on the business, such as name, EIN, and address. Part II requires a partner to report their individual shares of profit and losses. They will include their percent share of profits, losses, liabilities, and capital gains; additionally, they should provide dollar values for capital accounts such as capital contributions and withdrawals. Part III asks for information regarding shares of income, deductions, and other credits. Each owner will file their own Schedule K-1 (Form 1065).

## Form 2553

C corporations, or LLCs wishing the IRS to consider them as an S corp for the coming tax year, must first file Form 2553. The form is due on March 15, the year one wishes to file as an S corp. For example, if a business will be an S corp in 2025, then Form 2553 is due on March 15, 2025. However, if one misses the deadline, businesses can file late and explain their reasoning on the first page of the form. The form asks for information about the entity, percentage ownership of shareholders, and signatures of consent from all shareholders.

## Schedule SE and Form 1040-ES for Self-Employment Taxes

Self-employment (SE) taxes pay for Social Security and Medicare for self-employed individuals. The current federal SE tax rate is 15.3 percent and is divided into two parts: 12.4 percent is allocated to Social Security, and the other 2.9 percent is to Medicare (IRS, 2024). You can estimate the amount you may owe in

self-employment taxes by using Form 1040-ES. A general estimate for self-employment taxes owed can be determined using the previous year's income, expenses, and deductions. Beginning farmers with no prior records will have to estimate what they plan to earn in the coming year if they wish to estimate their taxes. In the case of agriculture, a producer could review historical production on the farmland and generate a ballpark estimate of what they should expect given their production methods. Producers do not need to file Form 1040-ES; it is a tool to help individuals. It also guides individuals in making quarterly payments so people will not have the burden of paying the total tax at once. Producers should report self-employment taxes annually on Schedule SE (Form 1040). This form will require taxpayers to report income from farming operations.

## Forms and Instructions

### Schedule F

- Form: <https://www.irs.gov/pub/irs-pdf/f1040sf.pdf>
- Instructions: <https://www.irs.gov/pub/irs-pdf/i1040sf.pdf>

### Schedule K-1

- Form: <https://www.irs.gov/pub/irs-pdf/f1065sk1.pdf>
- Instructions: <https://www.irs.gov/pub/irs-pdf/i1065sk1.pdf>

### Form 1065

- Form: <https://www.irs.gov/pub/irs-pdf/f1065.pdf>
- Instructions: <https://www.irs.gov/pub/irs-pdf/i1065.pdf>

### Schedule SE

- Form: <https://www.irs.gov/pub/irs-pdf/f1040sse.pdf>
- Instructions: <https://www.irs.gov/pub/irs-pdf/i1040sse.pdf>

### Form 1040-ES

- Form & Instructions: <https://www.irs.gov/pub/irs-pdf/f1040es.pdf>

### Form 1120

- Form: <https://www.irs.gov/pub/irs-pdf/f1120.pdf>
- Instructions: <https://www.irs.gov/pub/irs-pdf/i1120.pdf>

## Form 1120-S

- Form: <https://www.irs.gov/pub/irs-pdf/f1120s.pdf>
- Instructions: <https://www.irs.gov/pub/irs-pdf/i1120s.pdf>

## Form 2553

- Form: <https://www.irs.gov/pub/irs-pdf/f2553.pdf>
- Instructions: <https://www.irs.gov/pub/irs-pdf/i2553.pdf>

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