

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 basic labor tax information agricultural producers should know.

The \$150 or the \$2,500 Test for Withholding Social Security and Medicare:

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.

Most tax professionals would suggest you always withhold labor tax from all non-exempt employees.

Employment of Family Members:

Wages paid to **your children** under age 18 are exempt from Social Security, Medicare, and income tax withholding. 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 referenced earlier.

Payment of Labor Taxes:

As a general rule, labor taxes need to be deposited monthly or semiweekly. If your total Form 943 labor tax for 2009 (the lookback period for 2011) 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 15th day of the following month. Remember, beginning this year – you must use electronic funds transfer to make all federal tax deposits. Labor tax deposit will no longer be accepted at banks. If you are sure, and I emphasize sure, your 2011 total 943 labor taxes will be less than \$2,500 – you can send your total labor tax payment with your timely filed Form 943 “Employer’s Annual Tax Return for Agricultural Employees” and avoid the monthly filing requirement.

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.

In Summary:

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. A new wrinkle for 2011 is the Social Security withholding on the employee’s share is 4.2% instead of 6.2%. The employer’s Social Security match remains at 6.2%. This change in the employee’s rate is only effective for the 2011 year.

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 issues for your employees.

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

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