

# ARE YOU READY TO START A CSA?

## The Choice of Legal Structure for Community-Supported Agriculture (CSA) Operations in Tennessee

Christopher Clark  
Professor, Department of Agricultural and Resource Economics

The choice of legal structure is an important step in the creation and operation of a business. The majority of farms and small businesses in the U.S. are operated as a sole proprietorship where no legal distinction is made between the business and the business owner. While sole proprietorships have their advantages, they are not always the best choice. This fact sheet discusses the factors a business or farm owner should consider in choosing a particular legal structure and provides brief overviews of those structures a CSA or small farm or business might be likely to choose. However, the material presented in this fact sheet cannot substitute for the services that can be provided by a competent professional familiar with the facts and circumstances of a particular operation. The goal of this fact sheet is to provide basic information on legal structures to enable readers to be more sophisticated consumers of these services.

### I. INTRODUCTION

The organizational structure of a CSA or farm business is composed of three components:

- **Management Structure.** The management structure determines how decisions are made and responsibilities are allocated among the individuals involved. A clearly defined management structure lets everyone know not only what their role is and what is expected of them but also how decisions concerning the farm business will be made and who will make them.
- **Legal Structure.** The legal structure defines the legal relationships between the farm business owners (if more than one) and between the owner(s) and third parties, such as lenders, vendors and buyers. These legal relationships are defined by the legal entity under which the owner(s) operates the business.
- **Financial Structure.** The financial structure of the business defines how ongoing business operations are financed and how the income from the business is distributed among those who have contributed, leased or loaned physical, human or financial capital to the business.

These three components are closely linked, and it can be difficult to discern where one ends and another starts. However, the focus of this fact sheet is on the factors a business owner should consider when choosing a legal structure and the different structures or legal entities a farm business might choose.

### II. IMPORTANT CONSIDERATIONS IN CHOOSING A LEGAL ENTITY

A legal entity is an individual (sole proprietorship) or organization (e.g., general or limited partnership, limited liability company, corporation or cooperative) that is legally permitted to enter into agreements or contracts, assume obligations, incur and pay debts, and sue or be sued. Legal entities allow groups of individuals to act as if they were a single person for these purposes.

Each type of legal entity has advantages and disadvantages. Thus, no single entity is superior to all other entities in all circumstances. Choosing a particular legal entity involves making tradeoffs. The choice of a particular entity should depend upon how the entity performs on a number of different factors and the importance of these factors to the business owner(s). These factors include the following:

- **Management and Control.** What are the implications of the choice of entity for how the business is managed and controlled? Some entities allow the business to be run by a single individual, while other entities allow or require that other owners have a say in management and control of the business.
- **Start-up Costs and Burden.** How extensive are the start-up costs? Some entities have little or no start-up costs, while others involve formal filings with the Secretary of State, along with the payment of filing fees and fees for professional services associated with the creation of the entity.
- **Administrative Costs and Burden.** How costly and time-consuming is it to comply with the requirements for operating the entity? For some entities, state law requires business owners to hold annual meetings and pay an annual fee. Failure to comply with these requirements can, among other things, lead to a dissolution of the legal entity.

Business owners can also manage some of their exposure to financial risks associated with the operation of a business by purchasing insurance. Sometimes, insurance coverage for a small business may be included as part of a personal policy or homeowner's policy. More often, adequate coverage may require a separate commercial policy specifically for the business. Insurance companies offer a variety of different types of insurance coverage for businesses. For more information, see: "Insurance Coverage Options for Fresh Produce Growers" at [www4.ncsu.edu/~rmrejesu/Food\\_Safety\\_Risk/ag-710%20final%20printed.pdf](http://www4.ncsu.edu/~rmrejesu/Food_Safety_Risk/ag-710%20final%20printed.pdf)

- **Owner Liability.** Does the legal entity limit the personal liability of business owners for business debts and obligations? Or, are the owners personally liable for all of the debts and obligations of the business?
- **Continuity of the Legal Entity.** What happens to the entity if an owner dies or otherwise withdraws from the business? Does it continue in existence or must a new entity be formed for the business to continue?
- **Transferability of Ownership Interests.** How easy is it for business owners to transfer their interest in the business? The transferability of ownership interests is relevant in the event an owner wishes to leave the business and for estate planning. Transferability of ownership can also affect the ability of the business owners to raise additional financial capital. Entities in which ownership interests are easily transferrable may find it easier to raise capital by allowing investors to purchase a share of the business. On the other hand, easy transferability of ownership may make it more difficult for business owners to control who else becomes an owner and gets a say in the management and operation of the business.
- **Tax Treatment.** How are the legal entity and the owner(s) taxed? Some entities are subject to "double taxation" in that the entity is taxed on its profits, while its owners must also pay taxes on the share of these profits distributed to them. Other entities are "pass-through entities" in that the entity itself does not pay taxes on its profits. Instead the tax obligation for these profits "passes through" to the owners.

The relative importance of each of these factors will vary from one situation to another and from one set of business owners to another. For example, the limitation of owner liability may be an important concern for businesses that sell directly to the public or invite the public onto their property (e.g., operate a corn maze). On the other hand, start-up and administrative costs may be of primary importance for a small operation. The next section provides an overview of the different types of legal entities that are appropriate for a farm business, focusing on the factors discussed above. A more succinct comparison of the entities in terms of these factors is provided in the table on page 6.

### III. LEGAL ENTITIES

#### Sole Proprietorship

A sole proprietorship is a form of business organization that makes no legal distinction between the business and the individual owner; they are, in fact, one and the same. Thus, a sole proprietorship is owned by a single individual (often referred to as the sole proprietor) who has full control of the business and is solely responsible for all of the debts and obligations of the business. Any employees are hired by the owner and any contracts entered into are done so personally by the owner.

As a result, the business owner enjoys no limitation of liability and is just as liable for debts and obligations related to the business as for his or her personal debts or obligations. However, a sole proprietorship can operate under a trade or business name that is different than the sole proprietor's name, which is often described with the phrase "doing business as," as in, "John Smith, doing business as Pleasant Valley Farms."

Before using a trade or business name, the owner should make sure that the name has not been reserved or registered by anyone else by conducting a Business Name Availability search on the Tennessee Secretary of State's website ([sos.tn.gov/products/business-services/search-business-name-availability](http://sos.tn.gov/products/business-services/search-business-name-availability)). More information on the registration or reservation of business names in Tennessee can be found at [sos.tn.gov/products/business-services/online-business-services](http://sos.tn.gov/products/business-services/online-business-services).

Because a sole proprietorship is not a separate legal entity, no agreements or filings are necessary to operate a business as a sole proprietorship (although a business license or permit may be required depending upon the location and nature of the business). In fact, if a business is operated without taking the steps necessary to create another business form, it is a sole proprietorship by default. Similarly, with a sole proprietorship there is no requirement to keep business and personal assets separate or maintain separate accounts. Thus, a sole proprietorship is the simplest and easiest form of business to start, which probably helps to explain why sole proprietorships are the most common form of business organization in the U.S. and why most farms and ranches are operated as sole proprietorships. As noted above, one price for the simplicity and low cost associated with operating as a sole proprietorship is that the business owner is personally liable for all of the debts and obligations related to the operation of the business (i.e., there is no limitation of liability).

Any income earned by a sole proprietorship is treated as income earned by the owner, and the owner reports all profits and losses of the business on his or her individual tax return. In addition to being subject to income taxes, the profits from a sole proprietorship are generally also subject to self-employment taxes (i.e., contributions to Social Security and Medicare — equivalent to payroll taxes for employees). The income and expenses of the business are reported on a separate schedule — Schedule F for farms and ranches and Schedule C or C-EZ for most other forms of businesses.

The transfer of a business operated as a sole proprietorship is accomplished by transferring the individual assets (and possibly liabilities) associated with the business. While the business form imposes no limitations on the owner's ability to transfer these assets, liens or other encumbrances may limit such transfers. No formal documentation or procedure is required to terminate a sole proprietorship. Finally, a sole proprietorship ceases to exist upon the death of the sole proprietor.

#### General Partnership

A general partnership is a voluntary association of two or more individuals, partnerships, corporations or other associations for the purpose of carrying on, as co-owners, a business for profit. General partnerships are typically formed by either an oral or written agreement between the partners, but they can also be implied from the conduct of the partners. In Tennessee, there are no filing requirements associated with the formation of a general partnership. Thus, general partnerships are the easiest co-owned business entity to create. However, written partnership agreements are recommended to adequately set forth the terms of the partnership. More generally, the discussion, negotiation and preparation of an explicit partnership agreement are likely to improve

the chances that the partnership will avoid problems and satisfactorily resolve any problems that do arise. The benefits of a written partnership agreement increase as the complexity, extent and length of the relationship between the partners increase.

Although partnerships are easy to create, they should not be entered into lightly for a number of reasons. First, all partners in a general partnership are personally liable for the debts and obligations of the partnership. More specifically, partners in a general partnership are jointly and severally liable for partnership debts and obligations (i.e., each and every partner in a general partnership is liable for all of the debts and obligations of the partnership). Thus, if a partnership were to default on a loan, the lender could conceivably seek and collect the entire amount due from any one of the partners. However, any partner who is made to pay more than his or her share of a partnership obligation can seek compensation from those partners who have not been made to pay their share.

Second, any partner in a general partnership can legally obligate the partnership. Thus, if one partner enters into a contract on behalf of the partnership, all partners may be held liable if the partnership fails to fulfill the terms of the contract, regardless of whether the other partners approved of, or were even aware of, the contract. The extent to which individual partners have the capacity to bind the partnership can be limited by the partnership agreement, but this limitation is not effective if the party with whom the partnership is contracting is not aware of the limitation. Finally, partners owe certain legal duties or obligations to both the partnership and to one another, including, for example, the duty not to deal with the partnership as an adverse party nor enter into competition with the partnership.

Unless specified otherwise in the partnership agreement, partners are presumed to share equally in partnership profits and losses. However, partnerships can share profits and losses in any number of different ways through appropriate provisions in the partnership agreement. A common approach is for profits to be shared in proportion to capital contributions, or the value of the money and/or property contributed by the partners to the partnership.

Absent an agreement to the contrary, each partner has equal rights in the management of the partnership business. So, unless the partnership agreement specifies otherwise, each partner is entitled to one vote regardless of the relative size of the partner's capital contributions or right to partnership profits. However, partners have considerable flexibility to specify different arrangements for the management and control of the partnership in the partnership agreement.

For income tax purposes, a partnership is a pass-through entity that does not itself pay taxes. Instead, profits or losses "pass through" the partnership and are reported on the individual tax returns of the partners in accordance with their share of profits or losses. Partnerships are, however, required to file an informational federal tax return (Form 1065) and provide an accounting of each partner's share of profits or losses (Schedule K-1).

A partner can assign his or her interest in the partnership to a third party, who gets the partner's right and obligation to share in profits and losses but not the right to participate in the management of the partnership. In general, the withdrawal, bankruptcy or death of any partner dissolves the partnership. In some instances, the partnership agreement may provide for a continuation of the partnership after such an event, but, in effect, a new partnership is formed among the remaining partners. A partnership agreement can provide partners with the right to purchase the partnership interest of a deceased or disabled partner's interest.

### **Limited Partnership**

A limited partnership is similar to a general partnership. However, there are a few key distinctions. All partners in a general partnership are

general partners who have a right to participate in the management of the partnership business and who have unlimited personal liability for the partnership's debts and obligations. Limited partnerships, on the other hand, not only have one or more general partners, but they also have one or more limited partners. A limited partner invests capital in the partnership but does not have the right to participate in the management of the partnership business and does not have unlimited personal liability for partnership debts and obligations. Instead, the liability of a limited partner is limited to the amount of his or her capital contributions to the limited partnership. Thus, if the limited partnership's debts exceed its assets, a limited partner cannot be compelled to make up the difference, while a general partner can. However, a limited partner who participates in the management of the partnership business (i.e., acts as if he or she is a general and not a limited partner) can lose his or her limited partnership status and become personally liable for partnership debts and obligations.

Also unlike a general partnership, a limited partnership in Tennessee must file a Certificate of Limited Partnership with the Tennessee Department of State and pay a filing fee that is currently equal to \$100. Changes in the limited partnership (change in partner's capital contribution, admission of new partner, withdrawal of a partner, etc.) require the filing of an Amendment to the Certificate of Limited Partnership. In addition to the Certificate of Limited Partnership, the partners in a limited partnership often draft and execute a Limited Partnership Agreement that more fully specifies how the partnership is to be structured and operated. While a written agreement is not legally required, it is strongly encouraged.

Finally, Tennessee limited partnerships are required to pay franchise and excise taxes, as are corporations, limited liability companies and business trusts, but not sole proprietorships or general partnerships. The excise tax is equal to 6.5 percent of the net earnings from business done in Tennessee for the tax year. The franchise tax is equal to 0.25 percent of the greater of net worth or the book value of real or tangible personal property owned or used, with a minimum tax of \$100 per year. However, those limited partnerships, limited liability companies and limited liability partnerships for which at least 66.67 percent of their activities are devoted to either farming or holding personal residences where one or more of the entity's partners or members reside, are exempt from franchise and excise taxes. To qualify for this exemption, application must be made to the Tennessee Department of Revenue.

Thus, a limited partnership offers one important advantage over a general partnership — the opportunity for some of the business owners to enjoy limited liability. This characteristic is useful for attracting investors who are not to be involved in the operation of the business. The tradeoff for this limited liability is that limited partnerships are required to file organizational documents with, and pay filing fees to, the Tennessee Secretary of State. In most other ways, limited partnerships are similar to general partnerships.

### **Corporation**

A corporation is a legal entity separate and distinct from its owners. As a result, corporations can sue or be sued, enter into and enforce contracts, and hold title to and transfer property. In this way, a corporation is different from a partnership, which is a joint relationship between two or more parties and actions by the partnership are, in effect, joint actions of the partners. The formation, operation and dissolution of a corporation are governed by the laws of the state in which the corporation is incorporated. A corporation incorporated in one state can conduct business in other states, although it has to qualify as a foreign corporation by filing papers with those states to do so.

A Tennessee corporation is incorporated or formed by filing a charter with the Tennessee Department of State and paying the \$100 filing fee. Corporate charters can either be simple documents that provide only basic information about the corporation or more involved documents

describing how the corporation will be organized and operated. Other steps involved in forming a corporation include:

- Choosing a name for the corporation;
- Electing or appointing the initial board of directors;
- Issuing stock to the corporation's owners (also called shareholders); and
- Drafting and approving the corporation's bylaws that will govern the operation of the corporation.

Shareholders elect a board of directors who are responsible for making policy decisions concerning the operation of the corporation and for hiring officers to oversee the corporation's day-to-day activities. Corporate officers typically include, at a minimum, a president or chief executive officer, a secretary and a treasurer. Shareholders can also vote to amend the corporate charter and bylaws and approve major decisions, such as the sale of substantially all of the corporate assets; merger with, or acquisition of, another business; and dissolution of the corporation. Shareholder votes operate on the basis of one vote per share of voting stock. Corporate profits are distributed to shareholders through dividends declared by the board of directors. For many small corporations, the shareholders are directly involved in the management and operation of the corporation, often serving as members of the board of directors and corporate officers.

As a separate entity, corporations are liable for their own debts and obligations, and corporate shareholders enjoy limited liability (i.e., their liability is limited to the extent of their investment in the corporation; they are not personally liable for the corporation's debts and other obligations). However, shareholder limited liability can be set aside by a court if the shareholders fail to observe the legal requirements for properly organizing and operating a corporation. These requirements include adequately capitalizing or funding the corporation; formally issuing stock to the shareholders; filing an annual report and paying annual fees to the state; holding annual shareholder and board of directors meetings; and maintaining adequate records and accounts for the corporation that are separate and distinct from those of the shareholders.

Corporations exist in perpetuity unless voluntarily terminated by their shareholders or involuntarily terminated in a bankruptcy proceeding. In general, shares of stock in a corporation are freely transferrable by the shareholders, and subsequent owners of the shares have all of the rights that prior shareholders had. The ease with which corporate shares can be transferred gives corporations an advantage in raising capital through the sale of stock.

Corporations differ from the other types of business entities in that corporations must pay income taxes on their profits, unless the corporation chooses to be treated as an S or Subchapter S corporation. Corporations that do not elect to be treated as an S corporation are called C corporations. C corporations are subject to "double taxation," in that the corporation is taxed on its profits, and shareholders are taxed when corporate income is distributed to the shareholders as dividends. Many small corporations are largely able to avoid the adverse effects of double taxation by paying salaries to shareholders who serve as officers or employees of the corporation, paying interest to shareholders who lend the corporation money, and/or making rental payments to shareholders who lease land or equipment to the corporation (all of which would typically be an expense or tax deduction for the corporation).

S corporations, on the other hand, are pass-through entities where the corporation does not pay income taxes on profits. Instead, S corporation profits and losses "pass through" to the shareholders as they do in other types of business entities. Also, like partnerships, profits pass through to shareholders regardless of whether any dividends are distributed or not.

However, unlike partnerships and sole proprietorships, the shareholder's share of profits from an S corporation is not subject to self-employment taxes.

There are a number of restrictions on S corporations that are not placed on C corporations, including, S corporation shareholders must be U.S. citizens or residents; S corporations can have no more than 100 shareholders and only one class of stock, although there can be differences in voting rights; and corporations and partnerships cannot own stock in an S corporation.

Corporations are also required to pay franchise and excise taxes to the state of Tennessee. The Tennessee excise tax is currently equal to 6.5 percent of the net earnings from business done in Tennessee for the tax year, while the franchise tax is currently equal to 0.25 percent of the greater of net worth or the book value of real or tangible personal property owned or used by the corporation, with a minimum tax of \$100 per year.

Thus, the primary advantages of the corporate form are limited liability for all owners (so long as the corporate formalities are observed), perpetual existence, and the ease with which corporations can raise additional capital through the sale of stock. On the other hand, corporations are more costly to form and operate than sole proprietorships or general partnerships as they require initial and annual filings and the payment of filing and annual fees as well as franchise and excise taxes. In addition, corporations may face a heavier tax burden than pass-through entities, unless the Subchapter S election is made. While Subchapter S corporations come with some restrictions, these restrictions are unlikely to pose much of a problem for most farm and family businesses. The combination of limited liability and pass-through taxation has made Subchapter S corporations a popular choice for small businesses. However, the popularity of S corporations has recently declined due to a new type of business entity — the limited liability company.

### ***Limited Liability Company***

An increasingly popular choice of legal entity for farms and small businesses is the limited liability company (LLC). LLCs are something of a hybrid, combining some of the most favorable attributes of partnerships and corporations into a single entity. For example, an LLC can elect to be taxed as a partnership, while the LLC's owners can still enjoy limited liability and the right to participate in the management of the business. Further, the Tennessee law authorizing LLCs is designed to allow a great deal of flexibility in how an LLC is organized and operated.

There are actually two different sets of statutes in Tennessee authorizing LLCs. The first was adopted in 1994 and the second in 2005. The first governs all LLCs formed before January 1, 2006, unless the LLC chooses to be governed under the second law. The second law governs all LLCs formed after January 1, 2006, as well as those formed earlier that have elected to be governed by the second law. While there are many similarities between the two sets of statutes, there are also substantial differences. Where there are differences, the following discussion will focus exclusively on the provisions in the second law. If one were to attempt to sum up these differences in a single concept, it would be that the second law provides even greater flexibility in LLC organization and operation. In fact, most of the provisions in the second statute for how LLCs are to be structured and operated can be waived by the LLC; thus, they operate as default provisions for how the LLC operates absent agreement among the members to the contrary. This flexibility, while great for those wanting to custom design an LLC to fit their particular circumstances, makes it difficult to discuss LLCs as an option for farm and family businesses, since there are relatively few hard and fast rules.

In general, LLCs, like corporations, are separate legal entities distinct from their owners. Unlike corporations, LLC owners are typically referred to as members instead of shareholders. Unlike the restrictions imposed

on shareholders in S corporations, LLCs have no limits on the number of members or the type of entity that can be a member. LLCs are formed in Tennessee by filing articles of organization with the Tennessee Department of State. The filing fee for the articles of organization is currently \$50 per member with a minimum of \$300 and a maximum of \$3,000. The articles of organization set out some basic information about the LLC but provide little information on its structure. This information is left to an operating agreement — the functional equivalent of a corporation's bylaws, but which, unlike bylaws, can be either oral or written. LLCs are required to file annual reports and pay annual fees currently equal to \$50 per member with a minimum of \$300 and a maximum of \$3,000. As these fees and all other fees described in this fact sheet may change over time, one should check with the Tennessee Secretary of State's office for any changes and for a more complete record of the filing fees associated with LLCs.

LLCs are also required to pay franchise and excise taxes to the state of Tennessee. The Tennessee excise tax is currently equal to 6.5 percent of the net earnings from business done in Tennessee for the tax year, while the franchise tax is currently equal to 0.25 percent of the greater of net worth or the book value of real or tangible personal property owned or used by the LLC, with a minimum tax of \$100 per year. However, LLCs that devote at least 66.67 percent of their activities to either farming or holding personal residences where one or more of its partners or members reside are exempt from franchise and excise taxes, provided application for the exemption has been made and approved by the Tennessee Department of Revenue.

LLCs are allowed great latitude in defining how they will be managed and what rights members will have. However, the Tennessee statute sets forth three different management structures that serve as models or templates of how LLCs can be structured. In a member-managed LLC, each member has equal rights in the management and conduct of the LLC's business, and any matter relating to the business of the LLC is decided by a majority vote of the members. In a manager-managed LLC, each manager has equal rights in the management and conduct of the LLC's business, and any matter relating to the business of the LLC shall be decided exclusively by the manager, or, if there is more than one manager, by a majority vote of the managers. Managers are appointed or elected by a majority vote of the members and need not be members of the LLC. In a director-managed LLC, all LLC powers are exercised under the authority of, and the business and affairs of the LLC are managed under the direction of, its board of directors. Any matter relating to the business of the LLC is exclusively decided by the director, or, if there is more than one director, by a majority vote of the directors. Directors are appointed or elected by a majority vote of the members and need not be members of the LLC. In addition, a director-managed LLC has a president who is appointed or elected by a majority vote of the directors and is authorized to act as an agent of the LLC. Thus, the member-managed LLC operates much like a general partnership and the manager-managed resembles a limited partnership, with the important difference that in both cases all members enjoy limited liability. Finally, the director-managed LLC operates much like a corporation.

LLCs can elect to be treated as either a pass-through entity, where the tax consequences of profits and losses pass directly through the LLC to the members, or as a corporation where the LLC actually pays taxes on its profits and members pay taxes when they receive a distribution of profits. To conduct business in a state other than the one in which they were formed, LLCs must obtain a certificate of authority from the secretary of state of such other state.

Although LLCs can be somewhat costly to start and operate, the benefits and flexibility they offer have made them a popular choice for small businesses. They can be structured to offer most of the advantages of both the corporate and partnership entities with few of the drawbacks. Thus, for LLCs, often the question is whether these advantages are worth the costs of creating and maintaining an LLC.

## **Cooperative**

A final type of business entity relevant to farm operations is the cooperative. Cooperatives have existed for a long time and have played an important role in the agricultural industry. However, their use was traditionally limited by rules designed to ensure that they operated as a "cooperative venture" between individuals. Recently, a number of states including Tennessee have enacted legislation that allows for a new type of cooperative that is likely to be more attractive for investors and more applicable to modern agricultural production. Thus, there are now two types of cooperatives — "traditional" and "new generation." Traditional cooperatives are businesses owned and controlled by the people who use them. They differ from other businesses in that the intent or goal of the cooperative is to benefit their users rather than earn profits for investors. New generation cooperatives differ from traditional cooperatives in that they recognize the need for investment by people other than the users to finance modern value-added agricultural enterprises and, thus, allow for the participation of outside investors. For more information on new generation cooperatives in Tennessee, see the additional resources list at the end of this fact sheet.

## **IV. CONCLUSION**

This fact sheet provides an overview of the factors to consider when choosing a legal structure for a CSA or farm business and discusses the appropriate legal entities in terms of these factors. Regardless of which organizational structure is chosen, it is important to revisit the structure in the event of significant, unexpected changes in the operation of the business, the circumstances in which the business operates, or the circumstances of the individuals involved. Successful organizational structures often evolve over time as experiences, expectations and conditions change.

The information provided in this fact sheet should not be viewed as a substitute for the services of a competent attorney who is familiar with the unique circumstances of a particular CSA or farm business. The goal of this fact sheet is to provide readers with basic information on legal entities to enable readers to be more informed and sophisticated consumers of legal services.

	<b>SOLE PROPRIETORSHIP</b>	<b>GENERAL PARTNERSHIP</b>	<b>LIMITED PARTNERSHIP</b>	<b>LIMITED LIABILITY COMPANY (LLC)</b>	<b>CORPORATION</b>
<b>OWNERSHIP</b>	Single individual	2 or more general partners	1 or more general partners and 1 or more limited partners	1 or more members	1 or more shareholders
<b>DIRECTION AND CONTROL</b>	Single individual	All partners	1 or more general partners and 1 or more limited partners	1 or more members	1 or more directors
<b>MANAGEMENT</b>	Single individual	Managing partner or all partners	1 or more general partners	1 or more members	1 or more officers
<b>LIABILITY</b>	Owner has unlimited personal liability	Partners have unlimited personal liability	Limited for limited partners, unlimited personal liability for general partner(s)	Limited	Limited
<b>TRANSFERABILITY</b>	Not applicable	May be assigned, but assignee not a partner	May be assigned, but assignee not a partner	May be assigned, but assignee not a member	Corporate stock freely transferable; "S" corporation restrictions must be met
<b>CONTINUITY OF LIFE</b>	Terminates upon owner's death	Dissolves upon death or withdrawal, unless continued by remaining partners	Generally dissolves upon death or withdrawal	Generally dissolves upon death or withdrawal	Perpetual existence
<b>FEDERAL TAXATION</b>	Individual taxed	Pass-through entity — partners taxed	Pass-through entity — partners taxed	Pass-through entity — individuals taxed	If a "C" — corporation and shareholders taxed If an "S" — pass-through entity, shareholders taxed
<b>FRANCHISE AND EXCISE TAXES</b>	No	No	Yes, unless 66.7% of activity is farming	Yes, unless 66.7% of activity is farming	Yes
<b>LEGAL AND ADMINISTRATIVE COSTS</b>	No initial or annual filings or fees or legal costs	No initial or annual filings or fees, but may need legal services to draft partnership agreement	Initial and annual filings and fees, legal fees for drafting limited partnership agreement	Initial and annual filings and fees, legal fees for structuring entity	Initial and annual filings and fees, legal fees for structuring entity, annual meetings

## OTHER RESOURCES

### ***CSA-Specific Business Planning Resources***

CSA Training Manual [foodandfarmingnetwork.org/csa](http://foodandfarmingnetwork.org/csa)

Marketing & Business Management, Fairshare CSA Coalition at [csacoalition.org/our-farms/resources-for-farmers/business-marketing](http://csacoalition.org/our-farms/resources-for-farmers/business-marketing)

### ***Legal Entity Start-up Forms and Fees***

Forms and fee schedules for Tennessee corporations, limited liability companies, limited partnerships and limited liability partnerships, Tennessee Department of State.

[sos.tn.gov/business-services/business-entity-filings](http://sos.tn.gov/business-services/business-entity-filings)

### ***General Resources on the Legal Structure of Farm and Family Businesses***

Goforth, Carol R., 2002. *An Overview of Organizational and Ownership Options Available to Agricultural Enterprises, Part I*. National Agricultural Law Center, University of Arkansas, Fayetteville, AR. Available online at: [nationalaglawcenter.org/wp-content/uploads/assets/articles/goforth\\_ownership1.pdf](http://nationalaglawcenter.org/wp-content/uploads/assets/articles/goforth_ownership1.pdf)

Goforth, Carol R., 2002. *An Overview of Organizational and Ownership Options Available to Agricultural Enterprises, Part II*. National Agricultural Law Center, University of Arkansas, Fayetteville, AR. Available online at: [nationalaglawcenter.org/wp-content/uploads/assets/articles/goforth\\_ownership2.pdf](http://nationalaglawcenter.org/wp-content/uploads/assets/articles/goforth_ownership2.pdf)

Hawbaker, Joe M. *Ownership Structures for Your Farm or Ranch: Some Basic Considerations*. Risk Management Workshop Series. The Center for Rural Affairs. Available online at: [cra.org/files/BusinessStructure.pdf](http://cra.org/files/BusinessStructure.pdf)



[AG.TENNESSEE.EDU](http://AG.TENNESSEE.EDU)