

Payroll Taxes & Farm Businesses

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THE FARM LABOR DASHBOARD

This document provides information to help farm businesses understand and manage payroll taxes. It is for educational and informational purposes only and is not legal counseling. No attorney-client relationship is created, nor is there any offer to provide legal services by the distribution of the resource. Some information is specifically geared to users of the Farm Labor Dashboard's "Employee Cost Estimator" online tool at <https://www.uvm.edu/aglabor/dashboard/>.

Do I have to pay into FUTA (Federal Unemployment Tax Act)?

Farms that assign non-agricultural labor (such as agritourism and value-added tasks) generally need to pay Federal and State Unemployment Tax at the time of hiring their first employee.

Farms that assign exclusively agricultural labor to employees are often allowed to follow agricultural rules for FUTA. FUTA requires that farms begin paying this tax when they have payroll costs of at least \$20,000 in a calendar quarter or they have 10 or more employees 10 or more individuals in agricultural labor during at least some part of a day (whether or not at the same time) during any 20 or more different weeks. Businesses approaching the threshold need to monitor their payroll and employee count carefully, as the tax kicks in as soon as the threshold is met.

Once the threshold is crossed and the farm owes FUTA, the obligation does not go away immediately after the farm drops below the threshold again. Rather, the farm must keep paying into FUTA for another year after dropping below the threshold.

Do I have to pay into SUTA (State Unemployment Tax Act)?

States also collect unemployment tax. The majority of states use the same exemption for farm businesses as FUTA – the tax kicks in at \$20,000 in payroll for a calendar quarter or 10+ employees. Some states, however, have a lower threshold. For example, Minnesota requires farm businesses to pay into the state program once payroll hits \$10,000 in a calendar quarter or retains 4 or more employees.

The obligation to keep paying into the system for one year after dropping back below the threshold also applies to most states. A phone call to your state agency in charge of unemployment insurance should lead you to an accurate answer. Be sure to emphasize that you are asking about a farm business. You can also consult an attorney or nonprofit legal education provider. For example, Farm Commons annually updates their information sheet that covers each state's unemployment insurance threshold. Their resource is called the "Selected Essentials in Farm Employment Law" and members can access it online, anytime.

Do I need to pay into both systems (FUTA and SUTA)?

Yes, if the business meets the regulatory threshold for both. However, the federal government does offer a tax credit for SUTA payments, which can lead to a FUTA tax obligation of \$0 even though the business exceeds the size threshold for an exemption. There are some unique policies in some states. New Jersey, for example, splits the cost of unemployment insurance between employer and employee. This is uncommon.

What will FUTA & SUTA cost me?

FUTA is assessed against a “wage base,” which is \$7,000 under federal law. This means that the tax is only assessed against the first \$7,000 of wages paid. Wages paid above that amount are not taxed.

The states tend to have a much higher base wage rate for SUTA. For example, Vermont taxes the first \$14,300 in wages; Minnesota’s taxable wage base is nearly three times higher than Vermont at \$42,000. (These numbers are for 2024 and will change each year.) The net impact of SUTA will vary quite a bit between states because of these differences. Further complicating a neat tax calculation, the federal government offers a credit for Unemployment Insurance tax paid to the states. Farms paying higher state unemployment taxes may not have to pay any federal unemployment tax. But again, the obligation changes depending on economic conditions at the state and federal level.

The Farm Labor Dashboard’s Employee Cost Estimator tool pre-fills a rate of 3% for SUTA. This is a cautious rate that will over calculate the tax for many farms. Many farmers will fall under the threshold and will pay 0%. Businesses that need to pay into SUTA for the first time will use the “new employer” rate established in each state. For example, the new employer rate for Vermont is 1% of payroll for covered employees, which is quite typical. Wisconsin’s new employer rate is 3.05% and is on the higher end of new employer rates. Most states assign a rate of either 1% or 3-4% to new employers. Using search terms such as “new employer unemployment tax rate” with your state’s name often leads to a quick and accurate answer.

Businesses are generally considered a new employer for one year. After that, the farm receives its own tax percentage, which generally ranges from 2-10%. If the farm is in a state that uses a 1% new employer tax rate, a rate jump to 3-4% or more is important to note. The percentage is determined each year according to the size of the state’s unemployment fund, economic conditions in the employer’s industry, and whether any of the business’ employees have filed unemployment claims. Businesses that consistently have employees making claims can be assigned tax rates of 10% of their covered payroll or more, depending on broader economic conditions. This tax rate is assessed every year which leads to annual fluctuation in total payroll costs, even if the gross wages paid to employees do not change year to year.

How do I pay FUTA and SUTA?

Businesses must file tax forms and deposit money into a tax account on an annual, quarterly or monthly basis, depending on business size and state. A payroll processor can be a tremendous resource, as they will calculate tax, file forms, and remit payments as part of their service to clients. Many busy farmers find this service to be well worth the cost, while others have no problem managing the forms and deadlines.

Rachel Armstrong is the founder and executive director of Farm Commons, a nonprofit organization that provides legal workshops, timely resources, and a community for farmers, ranchers, and their service providers.

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I don't think I have to pay into FUTA/SUTA. Should I enter 0 into the Farm Labor Dashboard cost estimator?

If you are confident you do not and will not owe FUTA or SUTA, 0 will produce the best cost estimate for your business. Be sure to monitor your business’ payroll and size so you aren’t caught unawares when you exceed the threshold. Also be aware that the failure to pay into the system when required can lead to substantial fines.

Find the Farm Labor Dashboard’s “Employee Cost Estimator” online tool at <https://www.uvm.edu/aglabor/dashboard/>