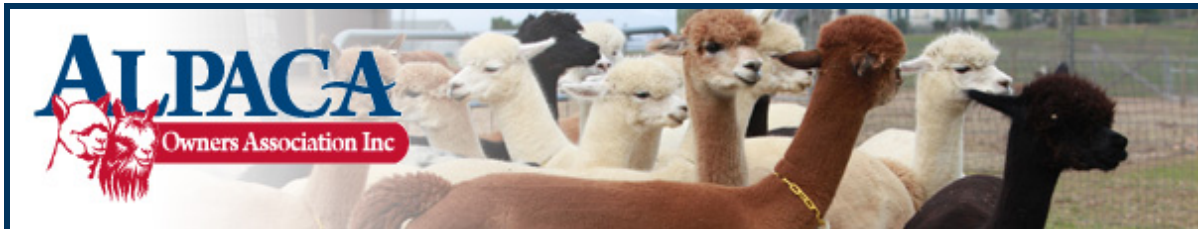


# AlpacaGram 3.76 — Things to Consider When Starting or Operating an Alpaca Related Business: Part 1 of 3

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AlpacaGram 3.76

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## THINGS TO CONSIDER WHEN STARTING OR OPERATING AN ALPACA RELATED BUSINESS

### A THREE-PART SERIES FROM GIRCOM

There are many things to consider and many decisions to make when starting an alpaca related business, whether you will have alpacas on your property or not. Will you be selling alpacas? Will you be selling alpaca products? Will you, like many breeders, be selling both alpacas and alpaca products in a vertically integrated business model?

### PART ONE

1. Do you know what kind of business entity you will have? Sole Proprietorships, LLCs, Limited Partnerships, subchapter S corporations, C-corporations and old-fashioned partnerships all have legal requirements and considerations. Some things to think about:
  - a. Sole proprietorship means simpler taxation, but your personal assets could be at risk, even with a lot of liability insurance. Other risks can include employment discrimination, workers' compensation, cyber security, breach of contract, liability for pollution, etc.
  - b. LLCs have the advantage of simple taxation, especially if you elect to be a single-member LLC, and liability limited to the assets belonging to the LLC. Because it is a separate entity, you will need to make sure you are properly registered in your state and can use the "doing business as" name you wish to use.

- c. Limited Partnerships involve partnership taxation (as can multiple member LLCs), which can be tricky. The general partner has unlimited liability, but in most states the general partner can be a corporation or LLC. The limited partners have limited liability, but their income will be classified as passive and they will not get the same tax benefits as sole proprietors and members of LLCs.
  - d. Corporations have limited liability, first amendment rights (thanks to the Hobby Lobby case), and complex tax returns. Income is passive and subject to taxation at the corporate level and again when distributed as dividends. Subchapter S corporations are pass-through entities and are taxed like partnerships.
2. Does your state require a business license, sales tax license or seller's permit? Do you know whether sales of alpacas are taxable? You may have to examine your state sales tax or use statutes to determine this.
  3. What are the zoning restrictions where you live? Are there per-acre limits on the number of alpacas you can have on your property?
  4. Do you have access to enough water for the number of alpacas you want to have? Many states, especially western states, have restrictions on new wells and/or on number of livestock wells per acre you can have.
  5. Are there covenants where you live? If so, can you raise alpacas? Is there a limit to how many? You may have to dig them out and read them. Some covenants can be changed by majority or super-majority vote. Will you be able to get this accomplished, or do you have grumpy neighbors?
  6. Do you need an agricultural farming or ranching permit from your state? Make sure you know whether there are manure management or other anti-pollution laws involved and if there are, make sure you examine state, county and, possibly, Irrigation District requirements.
  7. Does your state or county have assumption of risk statutes protecting ranchers and farmers from suit by people who get injured by domestic animals? Many states do have these statutes to encourage agritourism.
  8. Do you have ranch or farm insurance? If you have a ranch store, do you need insurance on its inventory? Do you have liability insurance and an umbrella policy on top of that? Will your car insurance protect you if your trailer full of hay gets loose and hurts a busload of children?
  9. Does your state require Workers' Compensation Insurance? Do you know what your tax and FICA obligations are if you hire workers for your ranch or farm? What other obligations will you have to your employees? If you buy wholesale alpaca products

for your ranch store, will you have to pay sales or use tax? What if you buy alpacas for your breeding program or for resale?

10. If you plan to have a ranch store, do you need to review building codes for public-use structures? If you sell goods by weight, e.g. yarn or roving, do your scales need to be certified? Can you get around this problem by using “approximate” weight?
11. If you advertise your products as “organic” are you required by federal or your state law to have your operation inspected or certified as organic? Do you know what the USDA requires in order to advertise your products as “organic products?”
12. Do you plan to transport animals out of state for shows or to deliver to buyers? Most breeders do, but many do not know the health certification requirements for the state of destination.
13. If you plan to invite school groups for ranch tours, are you aware that in most states you may need release forms signed by the parents? Are you also aware that in many states, parents cannot release liability on behalf of their minor children? Do you have any idea how you would deal with this?
14. We’ve left it for last, but the most important thing to consider is: Do you have a business plan? How do you plan to make money? Do you have a plan B if things don’t go as you wanted them to? If you ever get audited, the IRS will want to know this. They can’t require you to actually make a profit (though some accountants think so) but what they can and do require is that you INTEND to make a profit. If you have a good business plan and have thought everything through, they are much more likely to agree that you are in business.

**Part Two** will cover things you need to consider once you have started operating your alpaca business.

**\* This article is not intended to provide legal or tax advice. You should consult your own lawyer or tax adviser for advice specific to your own circumstances**



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