



Sveriges lantbruksuniversitet
Swedish University of Agricultural Sciences

Department of Economics

Why rearrange into a limited company?

- A case study on farms in the Uppsala region

Elena Ahlbin



Master's thesis · 30 hec · Advanced level
Agricultural Programme – Economics and Management
Degree thesis No 1051 · ISSN 1401-4084
Uppsala 2016

Why rearrange into a limited company?

- A case study on farms in the Uppsala region

Elena Ahlbin

Supervisor: Karin Hakelius, Swedish University of Agricultural Sciences,
Department of economics

Examiner: Richard Fergusson, Swedish University of Agricultural Sciences,
Department of Economics

Credits: 30 hec

Level: A2E

Course title: Independent Project in Business Administration – Master's thesis

Course code: EX0782

Program/Education Agricultural Programme – Economics and Management

Faculty: Faculty of Natural Resources and Agricultural Sciences

Place of publication: Uppsala

Year of publication: 2016

Cover picture: Microsoft Office Word ClipArt, modified by Elena Ahlbin

Name of Series: Degree project/SLU, Department of Economics

No: 1051

ISSN 1401-4084

Online publication: <http://stud.epsilon.slu.se>

Keywords: business owner structure, family farm, limited company, limited liability, small business structure



Sveriges lantbruksuniversitet
Swedish University of Agricultural Sciences

Department of Economics

Acknowledgements

This thesis would not have become a reality if it was not for the help and support of others.

First of all I want to praise the informants who answered “yes” when I called them up and asked for their participation. It has been a true honor to get the opportunity to meet with all of them and be presented to their daily life as farmers and business owners. Their, in every case, professional reception and willingness to contribute to my work will forever be remembered and appreciated.

I also want to thank my supervisor Karin Hakelius at the Swedish University of Agricultural Sciences Department of Economics for walking the extra mile in her mission to help me get through with this study.

Thanks to my friend Amelie who took her spring break to go through all the text and give me comments of improvement.

I would like to say Thank You to friends and family who have been there for me during my work with this study. You have all pushed me to keep on when my motivation was lacking and put up with my unsocial behavior when it came back and I could focus on nothing else.

Thank you all

Elena Ahlbin
June, 2016

Abstract

The most common legal business form among farmers is the sole proprietorship. However, during the last decades the number of farms managed as limited companies has increased in Sweden whilst the total number of farms has decreased. The differences between owning a limited company and having a sole proprietorship are substantial. The requirements of formality are more extensive, there is differences tax wise and in how business ownership and private equity can be structured and organized, as well as the personal liability for payments and financial risk.

The aim of this study is to better understand the reasoning behind why some farmers choose to rearrange into a limited company. To fulfill the aim, interviews were conducted with six farmers within the county of Uppsala who run their businesses as limited companies. The interviews were of semi-structured character and set on farm or by telephone. They were then analyzed based on the conceptual framework; Cost- and Benefit, Personal financial risk and Organization and business structure.

The results showed that the conceptual framework captured the reality quite well. Two informants mentioned taxes and the net profit as the main reason for them to rearrange into a limited company. Two, more recently established rearrangements, specified owner structure and organization as their main motive to rearrange into a limited company. One mentioned both taxes and profit and owner structure as the main motive for rearranging. One answered that the only reason for rearranging into a limited company was the decrease of personal financial risk and limited personal liability for payments.

Those who mentioned taxes as their main motive for rearranging all had their limited companies registered at least 15 years ago whilst those who mentioned ownership structure was more recently registered. This could be a sign of structural changes within the Swedish agricultural sector where the farms grow bigger, involving more people and the business structure and organizations changes with it

The conclusion however was that the motives for rearranging into a limited company are likely to vary from case to case.

Sammanfattning

Idag är den vanligaste företagsformen bland svenska lantbrukare den enskilda firman. Dock har lantbruk som drivs som aktiebolag ökat stadigt de senaste decennierna. Skillnaden mellan bolagsformerna är flera och berör bland annat beskattning, finansiell risk för den enskilde, och olika sätt att organisera ägarstrukturer.

Syftet med uppsatsen är att bättre förstå hur lantbrukare resonerar när de väljer att ombilda till sitt företag till ett aktiebolag. Sex intervjuer har genomförts med lantbrukare i Uppsala län som alla driver sina lantbruksföretag som aktiebolag. Utifrån tre teoretiska perspektiv, kostnad och intäktsanalys, personlig finansiell risk och organisation av ägarskap, har dessa intervjuer sedan analyserats.

Resultaten visar att informanterna från tre av de äldre aktiebolagen angav lägre skatter som en orsak till ombildningen. De informanter som representerade de två aktiebolag som var senast registrerade refererade istället till organisation och tydligare struktur kring ägandeskapet som den huvudsakliga orsaken till att de valde att ombilda till aktiebolag. En angav den lägre finansiella risken i form av begränsat personligt betalningsansvar som huvudledning. Slutsatsen blir därför att motiven till att ombilda sitt företag till ett aktiebolag troligen beror på situationen och varierar från fall till fall.

Abbreviations and translations

| | | |
|------------|---|---|
| P&L-report | - | Profit and Loss statement |
| SCB | - | Statistics Sweden, Statistiska Centralbyrån |
| SEK | - | Swedish Krona, Svenska kronor. The currency of Sweden |
| Sp | - | Sub paragraph |

This thesis comprehends referements to legal phrases and laws in the Swedish jurisdiction. Translations of legal phrases into foreign language may cause misunderstandings. In this thesis all references to laws, regulations and legal phrases have been interpreted with the Swedish perspective in mind, and are to be viewed with such. A short list of key terms used in this thesis is provided with their Swedish translation.

| | | |
|---|---|---|
| Agricultural property | - | Lantbruksfastighet, lantbruksenhet |
| Business form | - | Företagsform |
| Current assets | - | Omsättningstillgångar |
| Farming property | - | Jordbruksfastighet |
| Income from capital | - | Inkomst från kapital, inkomstslaget kapital |
| Income from employment | - | Inkomst från tjänst, inkomstslaget tjänst |
| Legal business form | - | Juridisk företagsform |
| Legal entity | - | Juridisk person |
| Limited company | - | Aktiebolag |
| Limited personal liability for payments | - | Begränsat personligt betalningsansvar |
| Personal liability for payments | - | Personligt betalningsansvar |
| Physical person | - | Fysisk person |
| Sole proprietorship | - | Enskild firma, enskild näringsidkare |
| Private limited company | - | Privat aktiebolag |
| Public limited company | - | Publikt aktiebolag |
| Rearranging | - | Ombilda |
| Self employment contribution | - | Egenavgifter |
| Simple partnership | - | Enkelt bolag |
| Small sole proprietorship | - | Enskild firma som ej är stor. |
| Trading partnership | - | Handelsbolag |

Here follows a short list of Swedish words and phrases with an English translation [] and explanation.

| | | |
|--------------------|---|--|
| Aktiebolagslagen | - | [Swedish Companies Act] |
| Baggbölerilagen | - | [The law of Baggböleri] The vernacular name for Bolagsförbudslagen. |
| Bokföringslagen | - | [Law of financial accounting] |
| Bolagsförbudslagen | - | [Company Prohibition Act] An old law that forbade legal entities to purchase agricultural properties from private persons. |
| Bolagsverket | - | [Swedish Companies Registration Office] |
| Försäkringskassan | - | [Swedish Social Insurance Agency] |
| Jordförvärvslagen | - | [Land Acquisition Act] The law that regulates the possibility for legal entities to purchase agricultural properties from private persons. |
| Skatteverket | - | [Swedish Tax Agency] |

Table of Contents

| | |
|---|-----------|
| 1 INTRODUCTION | 1 |
| 1.1 PROBLEM BACKGROUND | 1 |
| 1.2 PROBLEM | 4 |
| 1.3 AIM AND DELIMITATIONS..... | 4 |
| 1.4 OUTLINE | 5 |
| 2. METHOD | 6 |
| 2.1 LITERATURE REVIEW | 6 |
| 2.2 CHOICE OF METHOD | 6 |
| 2.2.1 <i>Qualitative approach and method</i> | 6 |
| 2.2.2 <i>Deciding on the conceptual framework</i> | 7 |
| 2.2.3 <i>Choice of method for collecting and analyzing empirical data</i> | 9 |
| 2.3 ETHICS | 10 |
| 2.4 QUALITY AND METHOD CRITIQUE..... | 11 |
| 3 CONCEPTUAL FRAMEWORK | 13 |
| 3.1 COST AND BENEFIT | 13 |
| 3.1.1 <i>Identifying costs and benefits – an example</i> | 14 |
| 3.1.2 <i>Net present value (NPV)</i> | 17 |
| 3.1.3 <i>Rearranging based on Cost and Benefit Analysis</i> | 18 |
| 3.2 PERSONAL FINANCIAL RISK | 19 |
| 3.3 ORGANIZATION AND BUSINESS STRUCTURE | 21 |
| 3.4 THEORETICAL SUMMARY | 23 |
| 4 THE EMPIRICAL STUDY – INTERVIEWS WITH FARMERS | 24 |
| 4.1 INTERVIEW EXECUTION OVERVIEW | 24 |
| 4.2 FARM NO. 1 | 24 |
| 4.3 FARM NO. 2 | 26 |
| 4.4 FARM NO. 3 | 27 |
| 4.5 FARM NO. 4 | 29 |
| 4.6 FARM NO. 5 | 30 |
| 4.7 FARM NO. 6 | 32 |
| 4.8 SUMMARY OF FARMER INTERVIEW | 35 |
| 5. ANALYSIS | 37 |
| 5.1 A QUESTION OF PROFIT | 37 |
| 5.2 RISK MANAGEMENT AS A MOTIVE | 39 |
| 5.3 ORGANIZATIONAL MOTIVES | 40 |
| 6. CONCLUSIONS | 42 |
| 7. FURTHER RESEARCH | 44 |
| BIBLIOGRAPHY | 45 |
| APPENDIX 1: TAXATION LEVELS IN THE YEAR OF 2014 | 51 |
| APPENDIX 2: INTERVIEW GUIDE | 52 |

List of figures and tables

Figure 1. Illustrations describing the thesis outline..... 5
Figure 2. An illustration of the process of Cost Benefit Analysis..... 13

Table 1. The number of farms i Sweden, categorized by legal business form..... 3
Table 2. Two fictional P&L-reports to compare a sole proprietorship to a limited company. 14
Table 3. The economic effect on the private person if the farm was being managed as a limited company..... 16
Table 4. The Net Present Value (NPV) on having a limited company. 18
Table 5. Statistic of capital turnover rate and total assets of farm companies in Sweden 20
Table 6. Overlook of the informants and their position in their limited companies. 24
Table 7. Overlook of the interviews..... 35

1 Introduction

This chapter provides the reader with an introduction and a background to the study subject. The problem background describes differences between agricultural business and other *business forms* from a historical perspective, as well as an overview of today's situations. This leads to the research problem and aim, and the delimitations of this thesis.

1.1 Problem background

Through history the business environment for farmers has, to varying degrees, differed from that of other businesses. Many differences originate from special laws surrounding agricultural properties and farming land. Late during the industrialization era in the 19th century the Swedish government established rules that regulated who could buy a *farming property* and restrictions regarding how a property should be managed were introduced (Myrdal et al., 2001). This was in order to keep farming properties all over the country somewhat self-sufficient in terms of wood for building material and energy, farmland for cultivating and pasture for livestock. In the post-war environment after World War Two the Swedish government adopted a self-sufficient policy on the national level. No longer would the Swedish people be dependent on other countries food export but aiming at being self-sufficient on food (Myrdal et al., 2011). This led to a huge restructuring process in the food chain, starting with the rationalization of food production. It affected Swedish farmers and the management of their farming business for centuries (Flygare et al., 2003).

The self-sufficiency policy influenced the agricultural sector and resulted in a division between farming businesses and other businesses, giving the farmer a special status compared to that of other business owners and entrepreneurs. Whilst the business environment in other sectors to a higher degree depended on agreements between sector bounded stakeholders, the development of the agricultural business environment was more of a governmental matter (Flygare et al., 2003). This special status was mirrored in taxation laws where income from agricultural properties gained special treatment compared to other types of income and other types of businesses. Company taxes have always been dependent on the *legal business form* in question. Limited companies, *trading partnerships*, *simple partnerships* and *sole proprietorships* all have had their own special tax regulations through history. Until the early 1990's any income that was traceable from an *agricultural property* had its own taxation law.

In 1992, the division in the taxation system changed and any income from farming became equivalent to income from a sole proprietorship, unless the business activities were conducted through any other, registered, legal business form (Skatteverket, 2008). The sole proprietorship then became the most common legal form of running a farming business and turned the agricultural branches towards a more market oriented thinking (Flygare et al., 2003, Statistics Sweden, 2016b).

The development allowed farmers to change their perspectives from 'running a farm' to 'running a company'. Traditional management issues then arose and, in order to optimize the business capability and future possibilities, the question of the best legal business form for the business in question became relevant. The knowledge of what influences the choice of legal business form is sparse and mainly theoretical (Cole, 2011), focusing on financial structure, separation of ownership and control, and a eventual decreased business control for the owners. Mahoney (1992), for example, argues that the legal business form can be predicted, using strictly theoretical arguments based on Transaction Cost Theory and a search for

efficiency, as it is a question that relates to typical decision makings and business management.

However, there are boundaries which complicate any rearrangement from one business form to another, particularly a rearrangement into a *limited company*¹. For a Swedish farmer, one restriction is that a *legal entity* cannot purchase an agricultural property without a permit from authorities, which is stated in Jordförvärvslagen (Jordförvärvslagen, 1979:230). It regulates the market of farming land and has old traditions, beginning during the industrialization era when the value of the forests increased. Areas outside rural communities, which earlier had been considered only a source of fuel and wood for those living close to it, suddenly became valuable and interesting for forest companies and investors (Siiskonen, 2013). The political opinion at the time was that forests was supposed to support the farmer who owned it and an agricultural property without forest was considered a weak unit which could not support its owners (Myrdal et al., 2001). During the expansion of the forestry industry in the 19th century many farmers sold off their forests to companies or rented out the cutting-rights for long periods of time (Enander, 2007). This concerned the leading politicians who saw a risk in wood-less farming property units and the a potential lack of sufficient supply of fuel and building materials for the farms in question (Myrdal et al., 2001). There were also rumors that the transactions between farmers and companies were corrupt and unfair and that farmers were losing too much money and influence. It resulted in a new law commonly known as *Baggbölerilagen* in 1906, which stated that only *physical persons* were allowed to buy farm or forestry land from another physical person in the northern part of Sweden. The real name of the law was *Bolagsförbudslagen*.

Today *Bolagsförbudslagen* has another name; *Jordförvärvslagen* (Jordförvärvslagen, 1979:230). It declares in 4 § that a legal entity must have a permit according to this law to purchase an agricultural property. It follows in 6 § that a legal entity can get a permit for purchase in a few cases:

- If it abstain equal productive land elsewhere and the receiver of this land is either a physical person or a governmental institution that can use it for nature conservation and preservation.
- If the property is not meant to be used as an agricultural and/or a forestry property.
- If the property is dominated by forest and the buyer is having a local business nearby that requires the wood from the property.
- If the seller of the property is a legal entity.
- If there are special reasons.²

Jordförvärvslagen stops limited companies, and any legal entities, to purchase agricultural land on the free market. This also means that a farmer cannot sell his agricultural property to his own limited company, or in any way transfer land ownership to a limited company without a permit. Instead, a farmer who wishes to rearrange into a limited company has to run two separate companies: the sole proprietorship which owns the land, and the limited company which runs the business.

¹ The phrase *limited company* (UK English) are equivalent to the term *corporation* (US English).

² The paragraph is freely translated from Swedish, see Jordförvärvslagen 1979:230 6 §. An explanation of how laws are referred to throughout the text might be needed. In this case the name 'Jordförvärvslagen' is the common name of the law in question and 1979:230 is the reference number in the Swedish Code of Statues, where 1979 is the year when the law was adopted and 230 is the number of the law from that year.

On a national level the limited business form is widely more used than within the agricultural sector. Statistics from SCB shows that 35 % of all businesses in Sweden are limited companies (Statistics Sweden, 2016a). The statistics of Swedish farms looks somewhat different.

Table 1. The table shows the number of farms i Sweden, categorized by legal business form, between the year of 2005 and 2015 (Statistics Sweden, 2016b)

| Farms in Sweden. | | Sole Proprietorship | Limited company | Others | Total | % Limited company |
|------------------|-----------------|---------------------|-----------------|--------|--------|-------------------|
| Year | 2013 | 61 901 | 3 701 | 1 544 | 67 146 | 5,51% |
| | 2010 | 65 853 | 3 595 | 1 643 | 71 091 | 5,06% |
| | 2010 early def. | 63 197 | 3 493 | 1 460 | 68 150 | 5,13% |
| | 2007 | 67 677 | 3 441 | 1 491 | 72 609 | 4,74% |
| | 2005 | 70 748 | 3 504 | 1 556 | 75 808 | 4,62% |

Table 1 show that the number of limited companies within the agricultural sector is increasing, but is no way near the average of the whole nation. No doubt the most common legal form is the sole proprietorship and a few things should be said about the sole proprietorship as a legal business form in relation to the limited company.

The person who runs a sole proprietorship is responsible for the firm and its obligations. If any claim is raised against the firm it is actually raised against the person who owns the firm, since the sole proprietorship and the physical person are one (Hemström, 2010). The owner of the sole proprietorship has to keep books over the business but is not obliged to hand in any financial statements to the government unless the turnover exceeds three million SEK (*Bokföringslagen*, 1999:1078). If the turnover exceeds three million SEK it is considered not to be a small business and an annual financial statement must be sent to *Bolagsverket*, the Swedish Companies Registration Office (*Bokföringslagen*, 1999:1078). The financial statement must also be audited by an authorized auditor. That is not necessary for a sole proprietorship that falls within the definition of a *small sole proprietorship* (*Aktiebolagslagen*, 2005:551, *Bolagsverket*, 2015b).

While a sole proprietorship is a physical person, a limited company is a legal construction answering for its own obligations. A limited company answers for its own commitments and responsibilities and is a legal entity of its own. The owners, i.e. shareholders, have no financial responsibility for the company and are normally not held personally responsible for its commitments (Hemström, 2010). There are certain rules for the founding of a limited company and there are special laws considering the decision-making, accounting and financial reports for the limited company. It has a higher degree of formality than the sole proprietorship (Hemström, 2010).

There are differences between a *public limited company* and a *private limited company*. A public limited company is usually listed in a stock market and is therefore comparable larger in relation to most private limited companies. Forming a private limited company, the smaller alternative, requires a sum of at least 50 000 SEK provided by the investors, who are commonly also the company owners, forming the start of the firm's equity capital (*Bolagsverket*, 2015b). A private limited company is regarded an association, which implies more than one party involved, but it is perfectly legal for one person to found and be the only

shareholder. This study focuses on private limited companies which from here on will be referred to as simply 'limited company'.

As can be noted in table 1, the total number of farms in Sweden is decreasing. The number of farms driven as sole proprietorships is also decreasing. However, the number of farms managed as limited companies is increasing. This could imply that the legal business form is of some importance when managing a farming business. Even though it means a relatively complicated arrangement, and a higher standard when it comes to the level of formality compared to that of a sole proprietorship, more and more people seem to choose the limited company as their legal business form.

1.2 Problem

The theoretical gap which this study address, is that the knowledge and theory of what it is that motivates some business owners to change their legal business form is limited. Literature focusing on farms and agricultural businesses is even sparser and this study contributes to the development of knowledge about agricultural business management and to information on farmers' choice of legal business form.

Through the history of Swedish farming business the most common legal business form has been the sole proprietorship. The empirical gap of this study is the fact that the number of farms which are managed as limited companies is increasing even though the numbers of farms in total are decreasing, and despite the restrictions of land ownership and the higher standard of formality that are connected with the limited liability company.

This leads on to the research question of this study:

Why do farmers change their business form into a limited company?

1.3 Aim and delimitations

Most farms traditionally have been sole proprietorships and the vast majority of farms today are still managed as sole proprietorships. However, the trend is that more farmers decide to run their business as a limited company and if this trend goes on it will forever change the financial and economical landscape of the Swedish agricultural sector. *The aim of this study is to increase the understanding of the reasoning behind, and motives for, why some farmers choose to change their business form and rearrange into a limited company.*

This study is focusing on limited companies and the motives to run the farming business as such. In order to provide a more complete picture, the author has throughout this thesis chosen to put the limited company relative to the sole proprietorship, when needed. Due to the fact that the sole proprietorship is the most common way of running a farm, and that every farmer with a limited company also has a sole proprietorship, it gives a better understanding of the farmers' situation and reality. Other legal entities have thereby been deselected.

The study was delimited to farms within the county of Uppsala due to transport costs for the interviewer. Manors and former high noble estates were purposely sorted aside. The historical context and conditions for such properties are much different from the average farmer and are therefore not considered relevant for this thesis. Farms that the author knew to have rich or

periodic communication and contact with the Swedish University of Agricultural Sciences or its students were also left out. The author wanted the informants to be as average as possible and having regular contact with a university during several years does not fit in to that picture. Some consideration was taken to the agricultural orientation of the farms, aiming at a mix of informants from mainly cereal and dairy. Farmers who described their business as oriented towards forestry were left out since the business environment which surrounds forestry farms differs from that of others. For example, the life cycle of a forest is much longer than that of yearly crops. Due to this fact there are several specific ways to treat income from forestry, which also leads to special tax laws for forestry business, on top of those that are specific to the whole agricultural sector (Skatteverket, 2015d).

A consequence of the delimitations is that the research might miss important or interesting cases that would have been relevant for the research in question. Agriculture is a nature-dependent business and having a geographical delimitation consequently creates an exclusion of geographical variations of the results. This study is a qualitative case study (see ch. 2) and hence the intention is not to create a base for general conclusions, but to gain a deeper insight into the specific cases. Geographical variations is therefore of little interest in this research. The delimitations towards noble or former noble estates, farms with rich contact with the Swedish University of Agricultural Sciences, and forestry farms is simply a matter of trying to find ‘the average farm’ and farms where farming is the main business operation. This too risks excluding cases that could have been interesting for this study but is motivated by the same argument as the geographical delimitation above.

1.4 Outline

The outline of this thesis is illustrated by figure 1 below.

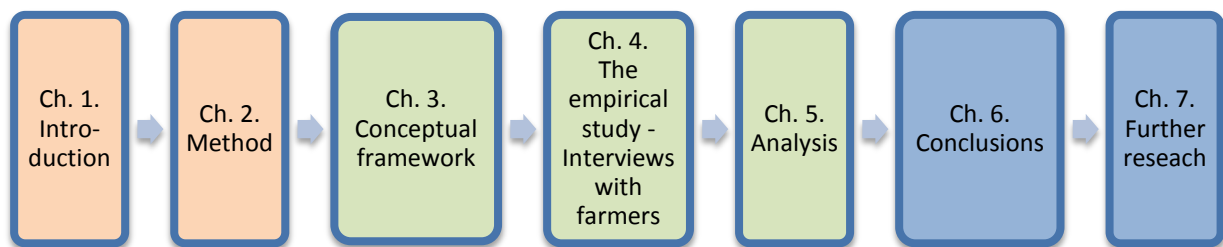


Figure 1. Illustrations describing the thesis outline. Illustration made by the author.

Chapter 1 introduces the reader to the research and provides a topical background together with the research question and aim. Chapter 2 presents the research method. In chapter 3 presents the conceptual framework of the thesis. It includes a theory review, integrated with conceptual analyzes and empirical examples, of the the topic. Chapter 5 analyzes the empirical study presented in ch. 4, relative the conceptual framework in introduced in ch. 3. The summarized results are then presented in chapter 6. Chapter 7 gives suggestions for further research on the subject matter.

2. Method

Chapter two presents how the research has been conducted. It starts with the collecting and sorting of literature and move on to research approach and choice of conceptual framework and collection of the empirical data. The chapter ends with a discussion on ethics and method critique.

2.1 Literature review

This thesis takes on the research question from several angles and the spread of literature which has been used reflects that. Some articles are written in the mid 20th century, for example Modigliani and Miller's article from 1958; The cost of capital, corporation finance and the theory of investment. Some literature used is from the 1980's. However, the vast majority of the literature that has been referred to is written during the 1990's and 2000's. The wide spread of publication year mirrors the fact that the theories, which are presented in chapter 3 in this thesis, are all established within social and economical science. As a consequence, the standard literature on the subject varies in date of publication and the year of publication stretches over centuries. There is an obvious problem with using dated literature and that is that it might be out-dated. However, old literature can still be relevant when presenting a historical base and foundation for the theoretical perspective. Since most of the oldest literature in this thesis is considered standard literature in their field, the author considers them to be in order to use since they are relevant to this study.

The literature presented in this thesis has been accessed in several ways. Google Scholar has been a key player in the first step of literature search in order to obtain a quick overview. From there a more detailed search has been made in primarily two different databases, Primo and the literature search tool from Uppsala University. Primo is a literature database provided by The Swedish University of Agricultural Sciences. The other database is the online literature search tool provided by Uppsala University. Some literature has been collected from the library located at Ultuna Campus where a part of The Swedish University of Agricultural Sciences is located. Books from the Ekonomikum library, Carolina Rediviva library and Blåsenhus library, all connected to Uppsala University, have also been used as references. Information about laws and tax rates has been collected from governmental web pages.

Since the theories presented in chapter 3 differs from each other, the focus when searching for literature has been to gain a small business perspective. This is reflected in the key words and phrases which have been used when searching for literature. *Small business organization*, *small business ownership*, *family business capital structure*, and *small business financial risk* are the main search phrases. Exceptions have been made for subjects that can be considered general for most form of business activity, such as *Cost and Benefit*. From these key words and phrases, a more detailed and specialized search were conducted in order to dig deeper into the topic in question.

2.2 Choice of method

This part of chapter 2 describes which approach the study has had, how and why the conceptual framework where chosen, and how the empirical data was collected and analyzed.

2.2.1 Qualitative approach and method

The two traditional schools within the philosophy of research methods are 'the qualitative research' and 'the quantitative research' methods (Bryman, 2012, Hammersley and Campbell, 2012). A qualitative methodology is commonly identified by the absence of quantification

(Bryman, 2012, Hammersley and Campbell, 2012). There are less focus on numbers and statistical conclusions. A careless but common definition is that qualitative methodology has a focus on words and quantitative research methods focus on numbers. Since quantitative research and methodology also contains words and language during a research process, a more accurate description is hence 'the absence of quantification' (Hammersley and Campbell, 2012). Further, Hammersley and Campbell (2012) describes qualitative research methods as something that is not counted for as quantitative research methods, presenting six general commitments which exemplifies quantitative research. In opposition to these quantitative characteristics, they then define qualitative research as follows:

A form of social inquiry that tends to adopt a flexible and data-driven research design, to use relatively unstructured data, to emphasize the essential role of subjectivity in the research process, to study a small number of naturally occurring cases in detail, and to use verbal rather than statistical forms of analysis.

Hammersley and Campbell (2012, p12)

This is similar to the descriptions of qualitative methodology provided by Alan Bryman (2012) in the book *Social Research Methods*, and by William L. Neuman (2011) in *Social Research Methods: Qualitative and Quantitative Approaches*. They all mention observations, field interviews, case studies and focus groups as examples of what can be called typical qualitative practice when collecting data for a qualitative research.

The author of this thesis has chosen a qualitative method for the empirical data collection and inductive approach when analyzing the data and draw conclusions. The study is a case study and the data is collected by interviews with a small number of informants.

There are several difficulties connected to the qualitative approach. One issue with qualitative data is the disability to draw any general conclusion from the results which origin in the lack of quantification and often small samples. A qualitative study thereby does not seek to tell the story of a population based on a representative sample, but rather to say something about the sample itself (Bryman, 2012, Hammersley and Campbell, 2012, Neuman, 2011). Another issue is the large amount of data and information that is obtained. The problem becomes real when it is time to analyze qualitative data. The data risks to overwhelm the analyst in question and the lack of an easy manageable structure can aggravate the problem. To avoid all this it is important to have a clear idea of how the data is to be managed during the whole research process (Merriam, 2014).

In order to delimit the amount of data in this study the author set the time for each interview to a maximum of 30 minutes. This helped the author to focus on the subject matter and follow the interview guide, which can be seen in appendix 2, and ensured that the author would not be overwhelmed by information that could be irrelevant to the study. To in some extent lower the risk of missing out relevant information due to the time set, the time limit was not strictly used.

2.2.2 Deciding on the conceptual framework

This thesis analyzes the empirical data from three different conceptual frameworks. Older practice when conducting a qualitative study has been to leave the conceptual framework out of the picture, leaving the reader with bad tools for a critical response to the text (Seale et al., 2004). Here, the conceptual framework is presented and motivated in order to prepare the audience for further readings. Conceptual analyzes in the form of empirical examples are used to illustrate and further explain the theory and the empirical settings for which the informants

of this study are subject to, and are meant to give the reader an insight of the empirical settings.

The Cost and Benefit Theory is widely used within management literature and within corporations as a decision making tool. Its aim is to investigate options from an economic perspective and thereby point out the best alternative (Mishan and Quah, 2007, Layard and Glaister, 1994). When working with Cost and Benefit Theory there must be at least two possible alternatives to compare and one is always to remain *status quo*, which would be doing nothing (Layard and Glaister, 1994, Modigliani and Miller, 1958). Given (legal) differences between legal business forms within the Swedish corporate law, tax wise and other, the author finds the Cost and Benefit Theory a relevant tool when comparing the limited liability form of business with the simplest legal form of business i.e. the sole proprietorship. The sole proprietorship could in this thesis be seen as the *status quo*-alternative as it is the most common legal form in general and for farmers in particular. It is important to point out that there is no Cost and Benefit analysis performed on any of the limited companies' financial reports in this study. The Cost and Benefit calculation example presented in section 3.1.1 in this study is merely an example which indicates that it could be financial beneficial to run a limited company instead of a sole proprietorship. However, it is the farmers' experience of, and thoughts on, financial benefits from *rearranging* which are important for this study.

There are some perspectives that are not taken into account by the Cost and Benefit Theory. One example is the concept of risk and more specifically the financial risk. Risk management has become an important tool within decision making over the last decades (Knight, 2012). Though risk is a measurable probability and can be integrated into a Cost and Benefit calculation, the complex financial risks that can come with an agricultural business deserves to be closer looked into. In this thesis there is no relevance in defining the actual or true risk factor for each farming business. It is the farmers' experience of risk and whether it has been a motivation or not when deciding on the legal business form for the farm that is important to capture. This is an argument for a risk-perspective analysis. The theory presented about risk focuses solely on small and medium sized enterprises since very few Swedish farms would pass for a large company.

Not all reasons for change need to be strictly financially motivated. The farming business has gone through huge structural changes since World War Two (Djurfeldt, 2002). Alongside with the breaking of traditional gender roles and new legal possibilities for the farmer to organize the business, the frequency of farms being operated as limited companies has increased. Converting into a limited company before going through a inter-generation change is also something that is proposed by several agricultural advising agencies and talked about in the agricultural press (Jordbruksaktuellt, 2012). The structural changes have driven farms to expand in size and assets, involving more people into the business operation. When more people are involved the formality of a limited company may be one way to organize the business and business ownership. Altogether this makes it relevant to look at the limited business form from an organizational perspective.

These theories and perspectives are chosen because they are general and distinct. They are all well established within business and social science. Applying these theories onto the Swedish conditions, that is the reality for the farmers who is interviewed, can provide an understanding to why they choose to rearrange into limited companies.

2.2.3 Choice of method for collecting and analyzing empirical data

A qualitative research and data collection can be executed in several different ways. One of the most common ones is The Field Interview; to interview people who are connected with the research issue (Bryman, 2012). Corbin and Strauss (2015) write that there are mainly three types of interviews used within qualitative research. Those are structured interviews, semi-structured interviews, and unstructured interviews. While Bryman (2012) rather categorize the structured interview as a quantitative method, he too writes that semi-structured interview and unstructured interviews are commonly used within the qualitative research.

A structured interview follows an interview guide where each informant is given the same question, in the same order, with no possibility to talk about subjects that are not taken into consideration by the interview guide (Corbin and Strauss, 2015). Surveys can be considered as an example of a structured interview. Such methods are commonly used within quantitative research which is why Bryman (2012) sees it as a quantitative method. An unstructured interview on the other hand, has no guidelines and lets the informant respond freely to a given topic. This way of collecting data is not easy and requires skills from the interviewer. Since a part of the point with an unstructured interview is that the informant is not guided by the interviewer, the interviewer himself needs to be aware of body language and be patient to the behavior of the informant (Corbin and Strauss, 2015). It is not uncommon that the informant talks about a other issues than what was first presented as the topic for the interview (Corbin and Strauss, 2015).

The semi-structured interview is a midway between the structured and unstructured methods. Some topics are chosen before the interview, preferable based on literature and/or practice, and the topics are the same in every interview. The order and way they are presented could however differ between interviews, and the participants can add things that they consider to be important. The interviewer can also ask additional questions for clarifying reasons (Bryman, 2012, Corbin and Strauss, 2015). While the unstructured interview gives a large amount of data and is most likely to capture what the informant consider to be important, it can be time consuming to collect, and afterwards to manage, the data. It is also risky when the interviewer has little experience of the method and risks to unconsciously affect the respondents in different ways (Bryman, 2012). The structured interview, on the other hand, is likely to save time but there is a high probability that important aspects are missed or left out. This can be a problem in semi-structured interviews as well but there is more room for the participants to fill in and supplement their questions and answers (Bryman, 2012, Corbin and Strauss, 2015, Myers, 2013).

The collection of data for this thesis is executed by the author being the interviewer in all the interviews. Following practical guidelines by Myers (2013) and Corbin and Strauss (2015), the settings have been as follows: Interviews have been semi-structured and the maximum time for each interview has been 30 minutes. This method was identified as the best for this thesis based on the lack of experience by the interviewer and the time frame reserved for this project. Without the time limit the author feared that there would be large amount of irrelevant data and that it would put the ability to keep up with the time frame at risk. The maximum time was a way of keeping the interviews on track but also a good sell-in when contacting farmers, asking them to spare time for an interview. Five interviews were set on-farm, were the informant chose the time and place, and one interview were done over telephone. All interviews were conducted in Swedish and recorded, none of them were filmed.

The recorded interviews were then manually transcribed and a thematic analysis has been applied. The thematization was performed manually by developing a framework, a schedule, with different themes and subthemes. Quotes from the informants were then implemented into a fitting theme. This gives a great and more manageable overview. The themes were identified by looking for repetitions and reoccurring topics in each interview, similarities and differences between the interviews and connections to the chosen conceptual framework for this thesis. This way of identifying themes is based on Bryman's (2012) writings and what he urges researchers to look for when performing a thematic analysis. Myers (2013) writes that out of six tasks when analyzing qualitative data by coding, one of them is to identify themes. Bryman (2012) writes something similar when presenting the thematic analysis, saying that some authors refer to thematization as just another way of coding. The themes have then been summarized and represent the empirical data in this thesis.

2.3 Ethics

Bryman (2012) writes about four main areas of ethical principles within social research. The researcher must deeply look into whether there is *harm to the participants*, *lack of informant consent*, *invasion of privacy* or whether *deception* is in any way involved.

The first one handles the question whether a participant in a research could in any way be harmed by participating in a research or by the publication of the research. An extreme case would be if the informant were put in danger by participation, this would be highly unethical and the researcher would have to consider other solutions. The importance of informant consent, or the lack of informant consent, is highly debated according to Bryman (2012). The principle states that the informant has the right to give his or hers consent to the researcher to use data provided from the informant in question. They are to be given as much information they need about the research in order to do so, the information extensions is therefore decided by the informant. The academic debate tends to focus on the inability to do covert research, or look into criminal or illegitimate behavior. In such cases the informants may not even know that they are part of a research, or they are not willing to participate if they cannot give their consent before publication (Bryman, 2012, Myers, 2013). The invasion of privacy does in some aspects relate to the informant consent-principle. If a research is covert it is possible that private matters are being exposed in a way that the informant would not have approved of, if knowing what was going on. In an open situation, not covert, even though the informant has agreed to participate in the research, he or she may not be answering any questions based on a feeling that they are intruding their privacy. One way of avoiding such situation may be to promise anonymity and make sure that there is nothing in the publication which can reveal the identity of the informant (Bryman, 2012). The deception-principle says that the research should not be presented as anything else than what it is. It should not trick its participants, making them believe they are participating in a research about A, when in reality the researcher is looking into B. This is debated for the same reason as the principle of informant consent and privacy invasion (Bryman, 2012).

In this thesis the informants were told already at the first contact that the interviews were going to be recorded but that there would be an anonymization in the written text. An interesting detail here is that everyone directly responded that the anonymization did not matter. They were also asked to leave e-mail addresses or other contact information for further contact. Copies from the end result of the interviews were sent out for them to read, together with contact details to the author and with a message explaining that if no comments or complaint were made before March 15, 2016, giving them three weeks to respond, it was interpreted as an approval to use the text. It should be mentioned that the copies sent to each farmer were Swedish translations of the English texts presented in ch. 4.

The agricultural community within the county of Uppsala is small and people tend to know most of those linked to the branch. Therefore the author chose to perform an anonymization of the empirical data in this thesis.

2.4 Quality and method critique

When evaluating a qualitative study, Bryman (2012) talks about four strategies when safeguarding quality in a research; *external* and *internal reliability*, and *internal* and *external validity*. External reliability is to which extent a study can be replicated. This is something widely developed within quantitative methodology which can be facilitated by a laboratory setting. The problem for qualitative studies however, is that a social setting is hard or impossible to replicate. Internal reliability is when a research has been led by more than one person and the team agrees that the study is presenting a true reflection of the research. External validity refers to the degree of generalization across the social setting in question. This is something that can be troublesome when having qualitative studies since samples tend to be small and the lack of quantification makes it hard to reach an acceptable level of statistical significance. Internal validity is described as the level of coherence between the researcher observations and the theories developed by the same (Bryman, 2012). Corbin and Strauss (2015) reject these four strategies with the motivation that they are too influenced by quantitative methodology and therefore not very suitable for evaluation of qualitative research. Instead, they suggest a focus on *credibility*, to what degree a research gives credit to reality and to what extent its credit can be trusted (Corbin and Strauss, 2015). Bryman (2012) talks about credibility as one of four criteria sorting under the alternative evaluation strategy of trustworthiness. The other three are *transferability*, *dependability* and *confirmability*.

Since a qualitative research context is hard to copy, the transferability criterion is about the researcher and author describing the context details as much as possible in order to provide the reader with an understanding of the settings. Dependability means that the researcher saves the collected data, makes notes about every event in the research, and keeps it accessible for others; similarities could be drawn to accounting. These saved collections of data then become the basis for a critical review. The last criteria, confirmability is about the researcher ensuring that he or she has tried the best not to influence the research by personal values or biases. Complete objectivity is not possible within social research but the researcher need to show a good faith (Bryman, 2012).

The author believes the transferability of the results in this study is to be fairly good. Much of the results point out general economic and organizational reasons for having a limited company. The fact that the research is conducted in an agricultural setting does not necessarily mean that similar results cannot be found elsewhere, as long as the focus is on small or medium sized companies. The size of business operation is likely to be the most important variable. On the other hand, the agricultural sector is known for being conservative in its structures, it may be that people from other sectors reason differently than the informants of this study.

The dependability in this study may be regarded as weak. The author has chosen to keep all the informants anonymous and therefore the records from the interviews, along with notes, will only be available for a limited number of people, for a limited period of time. The author motivates the anonymization by stating that the agricultural community in Uppsala County is small. Letting the informants know in advance that they will be anonymized might facilitate

the collection of relevant data. Records and notes are available for the informants themselves, the author, and the author's supervisor during the time the research takes place. This complicates any external review of the thesis, its empirical material and the use of the collected data since the data it serves cannot be audited. The author is fully aware that this lowers the credibility of the study but has chosen to prioritize the anonymization of the informants in respect of their right to privacy in the future.

To find subjects suitable for an interview, an initial screening of the author's networks and connections were made. Being brought up in an agricultural context the plan was to find respondents within the reach of the personal network. Though this would have created a non-neutral setting, the participants already being known to each other, it could also be viewed upon as an advantage. The respondents may be more open and willing to contribute with good information when the interviewer is someone they know. On the other hand, it could be the complete opposite, the informants being adverse to tell the whole story about their business to someone they know. It puts the author in a position of pre-expectations and perhaps even prejudices and biases, though those problems could occur when the participants are unknown to each other as well. However, this approach with screening the personal network did not turn out to be fruitful since it did not generate enough suitable informants for the study. The author's personal network of farmers proved to contain mostly farmers who managed their farms as sole proprietorships. Instead the author used a Companies Register to search for limited companies in the agricultural sector. The register was provided by UC Allabolag AB through the website www.allabolag.se (UC Allabolag AB, 2016) where the search was narrowed down to limited companies registered within the farming sector in the region of Uppsala County. As it turned out, even though the author at first did not identify any of the informants by screening the personal network and did not know any of the informants in person, all of the informants could relate to the author's family and origin. This might have had an effect on the informants and their answers during the interviews, which complicates the replicability of the research, though this was never the author's intention.

3 Conceptual framework

Chapter three provides the conceptual framework for this research and includes a theoretical review integrated with empirical examples and conceptual analyzes. The chapter starts with cost-benefit theory, heads on with financial risk management, and ends with owner-structure and business organization.

3.1 Cost and Benefit

The legal business form affects how assets, capital and equity are structured. Different tax laws between the legal forms can also affect cash flow, liquidity and the net profit for the owner, the employees and the business itself. It is therefore interesting to know if there are any financial reasons to go through a rearrangement of the legal business form into a limited company. Calculating the economical outcome of a project is essential for any kind of business decision. Cost and Benefit Analysis is a tool for decision making widely used within management. It helps the management to evaluate whether an investment, a change in policy or a project is worth the effort to conduct (Layard and Glaister, 1994, Mishan and Quah, 2007). A point of reference often used is the *status quo*, to do nothing (Layard and Glaister, 1994) and status quo then gets compared to the new alternative. Drèze and Stern explain this very simple and pedagogical:

In order to evaluate a project from the point of view of its consequences, it is crucial to have a model which predicts the total effect on the state of the economy of undertaking a particular project. This total effect involves a comparison of the economy "with" the project and the economy "without" it.

Drèze and Stern (1985 p. 911)

The cost-benefit expression is $\sum V_i > 0$ where V is the value of every event V_a, V_b, V_c and V_n occurring during the project. A positive V_i indicates an aggregated net benefit and a negative V_i an aggregated net cost. It should be said that not every potential cost end benefit can be quantified into a V_n value (Mishan and Quah, 2007). The process of performing a Cost and Benefit Analysis can preferably be described and illustrated by a flow diagram. Kingston (2001) describes the process as follows:

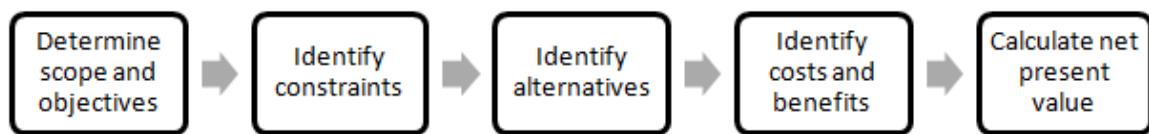


Figure 2. An illustration of how Kingston presents the process of Cost Benefit Analysis (Kingston, 2001. p. 478)

Figure 2 illustrates how a Cost Benefit Analysis is performed according to Kingston (2001). It starts with determining the objectives and the scope that is to be analyzed and goes on to finding the constraints and identifying alternatives in order to value them and identify them as costs and benefits in the following calculations. When all costs and benefits are identified a calculation of the Net Present Value (NVP) is conducted.

In this study, the objective is whether it is economically justified to rearrange into a limited company. Two major constraints is then the inability to transfer the ownership of farming land into the limited company, since limited companies in general are not allowed to purchase farm land from private persons, and 50 000 SEK in private equity which is the lowest amount needed when setting up a limited company (Aktiebolagslagen, 2005:551). These two

constraints, the land and the capital, need to be considered when calculating net present value on costs and benefits with a limited company.

In identifying costs and benefits a few question marks arise. Considering that the new, limited company will be doing exactly the same thing as the previous firm there is by all logic little or no differences in the costs or benefits in the operational sector, with one exception. If the farmer decides to be an employee of the limited company there will be labor costs to burden the operational revenue. Other differences are located in the startup fees for the limited company, the rent of land that the limited company will have to pay, the locking of the registered capital and the taxes.

3.1.1 Identifying costs and benefits – an example

The most common legal business form for farmers in Sweden has been, and still is, the sole proprietorship which can be viewed in table 1. The calculation comparison in this section is thereby between a fictional sole proprietorship and a fictional limited company. Following a switch of the legal form for the business, is a potential change in cash flow. Therefore, in order to identify costs and benefits when comparing a limited company to a sole proprietorship, a differential analysis can be conducted on a *P&L-report* (Kurian, 2013, Law and Smullen, 2008)

Table 2. Two fictional P&L-reports to compare a sole proprietorship to a limited company, adjusted for the differential analysis.

| | Sole proprietorship | Limited company |
|------------------------------|---------------------|-----------------|
| Gross revenue | 1 000 000 | 1 000 000 |
| Operational costs (ex labor) | -600 000 | -600 000 |
| Labor costs | 0 | -284 120 |
| Employment cost | 0 | -89 271 |
| Administrative labor cost | 0 | 0 |
| Audit cost | 0 | 0 |
| Startup fees | 0 | -2 400 |
| Rent of land cost | 0 | -1 |
| SUM | 400 000 | 24 208 |
| Self Employment Contribution | -115 880 | 0 |
| Tax | -94 356 | -5 326 |
| SUM | 189 764 | 18 883 |

Looking at table 2, one can see that as a sole proprietorship the farmer would have 189 764 SEK as a net income. The calculation is not adjusted for any tax credit or tax deduction, but is performed in the simplest way possible.

The gross revenue would be the same between the two options and so would the operational costs if labor costs are kept excluded. The labor cost depends very much on whether the farmer himself is employed by the limited company. A motive to why an employment of the farmer is necessary in case of a limited company is that of social security. Salary is counted as *income from employment* and makes the employee qualified for future pension, governmental health care and parental insurance (*Försäkringskassan*, 2015).

The same goes for the net income in a sole proprietorship though with different tax rates which can be seen in table 3. Dividends from a limited company are considered *income from capital* and does not qualify for governmental welfare programs (Försäkringskassan, 2015). In order to take part in the governmental social security program whilst having a limited company, an employment is necessary. The labor costs in table 2 are comparable with the average salary within the Swedish agricultural sector during 2014. Employment cost is the fees and taxes that the employer must pay the government for every employee and the amount is based on the monthly payroll. This is stated in the law that defines the social fees (Socialavgiftslag, 2000:980). The labor costs can be determined in several ways. Whether the farmer is to receive payment per working hour or a fixed salary every month is crucial to the calculations. An hourly salary would likely be more expensive than a fixed monthly salary. In the calculation example presented in table 2 the farmer is hired by the limited company with a fixed salary and it is calculated so that the farmers' net income from employment would be equal to the net income from the sole proprietorship. One could argue that valuing every worked hour would better estimate the true cost of labor, but comparing with the sole proprietorship such estimation would be irrelevant. In a sole proprietorship the business owners' earnings is simply the net income from the business. If the decision was to evaluate whether to continue the business or quit, valuing every worked hour would be relevant to see if the effort put into the business could be better spent elsewhere. This is not the case in this example. The amount of worked hours in the operational sector is assumed to be the same in both cases and therefore not relevant to estimate in this comparison.

Administrative labor cost is put into the table to point out a potential increase in the administrative burden due to the fact that the farmer has to manage the administration of two companies. In this case it is assumed that there are no increased administrative labor costs.

Audit costs may increase in case of a limited company. In the Swedish Company Act 9 ch. 1 § it is said that

“A limited company must have at least one accountant, if nothing else is said in this paragraph.

Sp2 In the Articles of the Association for a private limited company it is allowed to state that the company will not have an accountant.

Sp3 The second subparagraph is not valid if more than one of the followings is fulfilled:

1. The average number of employees during each of the last two fiscal years has exceeded 3 persons.
2. The reported balance sheet total, during the last two fiscal years, has exceeded 1,5 million SEK.
3. The reported revenue during the last two fiscal years has exceeded 3 million SEK.³

(Aktiebolagslagen, 2005:551)

For sole proprietorships the numbers are instead 50 employees, 40 million SEK in total balance sheet and 80 million SEK in revenue. In this case we assume that the audit costs do not change if the limited company was to be, based on the assumption that the limited company will not fulfill more than one of the above mentioned criterions.

Startup fees are simply the fees that must be paid in order to get the limited company going. The registration fee for a limited company is at this day, the year of 2015, 1900 SEK

³ Freely translated from Swedish.

(Bolagsverket, 2015a). To start up a new bank account is another annual cost and is in this example set to be 500 SEK.

The limited company would have to rent land from the farmer and hence a rent cost will appear. Important to remember is that the farmer can decide what the rental costs would be. By raising the rental cost the farmer can change the financial result for the limited company as he wishes. Also the payment goes to the sole proprietorship and is classified as income for the sole proprietorship. All this will have an impact on the taxes paid in the end of the calculations. In this model the rent is a symbolic sum of 1 SEK to mark the transaction but not give it too much impact on the end result.

There are several transactions that are not brought up in table 2. One is that of farming machineries. The limited company can buy them from the sole proprietorship, or rent them. The farmer can also invest them into the limited company as private equity. Since the farmer would be the owner in both cases, it could simply be viewed as a transfer of assets. Therefore the transaction is not shown in table 2. The tax-calculations are based on the income year of 2014 and further details about taxes and taxation levels can be viewed in appendix 1.

Table 3 shows the net income for the farmer himself if the limited company was to be, and all profit from the limited company, 18 883 SEK, is subject to dividends. An assumption that the farmer is the only owner of the limited company has been made.

Table 3. The economic effect on the private person if the farm was being managed as a limited company [SEK].

| | Income for private person if limited company | Tax and fees adjusted (Net income) |
|-------------------------|---|---|
| Income from employment | 284 120 | 189 763,75 |
| Income from business | 1 | 0,48 |
| SUM | 284 121 | 189 764 |
| Dividends 1st level tax | 18 883 | 15 106,10 |
| Dividends 2nd level tax | 0 | 0 |
| Dividends 3rd level tax | 0 | 0 |
| SUM | | 204 870 |
| Loss of interest | -1 000 | -1 000 |
| TOTAL SUM | | 203 870 |

Income from employment would be 284 120 SEK since it is the salary from the limited company, i.e. the labor cost. Adjusted with the average income tax (in 2014; 33,08% (Skatteverket, 2015b)) the net value would be 189764SEK. The income from business is equal to the land rent from the limited company, in this case 1 SEK. The possibility to gain dividends from a limited company results in a special way of calculating tax. Since this would be a limited company with only one shareholder, according to taxation laws it is classified as a private limited company. This means that dividends up to a certain level are taxed as income from capital (20% tax rate) and above that level it is calculated as income from employment (there are two different ways of calculating the second level taxes and the tax subject can chose the most preferable) (Inkomstskattelag, 1999:1229, Skatteverket, 2015c). In this case the whole profit from the limited company was given as dividends but it did not become

relevant for the 2nd level of taxation. The 3rd tax level is even higher and will be relevant only if the dividends from the limited company exceed 5,12 million SEK.

The farmer will have to put in a registered capital of at least 50 000 SEK into the limited company. The registered capital sum is to be considered an unsafe investment from the shareholders and in this case the farmer will be the only shareholder. If he put the money on a bank account instead, which must be considered a safe investment; he would gain interest instead of risk. Missing these interest opportunities is a cost for the farmer, i.e. the sole proprietorship. The missed out interest on a bank account is in this example 2% of 50 000 SEK which is 1 000 SEK which is to be considered the opportunity cost of the investment (Pindyck and Rubinfeld, 2009).

Looking at what the farmer would earn, it shows a small favor to the limited company. The sole proprietorship gives the farmer 93.08% in net income (189 764 SEK as seen in table 2) of what the limited company could give him, all else being equal. In this example it is 14 107 SEK.

3.1.2 Net present value (NPV)

The Net Present Value-formula is a common way of calculating the present value of future costs and benefits (Pindyck and Rubinfeld, 2009). The mathematical formula is:

$$\text{NPV}(i, N) = \sum_{t=0}^N \frac{R_t}{(1+i)^t}$$

Where R is the value that is to be evaluated, also called net cash flow, t is the year the value appeared and i is the discount rate. In table 4, on the following page 19, the NPV is calculated over a 10-year period of time. A farmer that is to go through this complex change in business is likely to have a long time horizon, a few years would surely be too short to make the effort, but the model becomes all too theoretic and unable to actually predict the future when calculating too long time ahead. Therefore, a 10-year time period was chosen. The result is shown with two discount rates, 2% and 5%. It is common to calculate with a 5% discount rate but in the above table 3 the opportunity-cost is calculated on a 2% interest. Since the discount rate is based on the same idea as opportunity cost, i.e. what could be the return if the capital is placed in another investment (Pindyck and Rubinfeld, 2009), and that investment could be the same bank account as in the opportunity cost, it is relevant to also show the 2% discount rate calculation.

Table 4. The Net Present Value (NPV) on having a limited company.

| Net Present Value (SEK) | | Based on Table 1 and 2. | |
|-------------------------|--|--------------------------------------|--------------------------------------|
| t | $\frac{R_t}{(1+i)^t}$ | Present Value (discount rate 5 %) | Present value (discount rate 2 %) |
| 0 | $14107/(1+0,05)^0$ | 14 107,00 | 14 107,00 |
| 1 | $15292/(1+0,05)^1$ | 14 563,81 | 14 992,16 |
| 2 | $15292/(1+0,05)^2$ | 13 870,29 | 14 698,19 |
| 3 | $15292/(1+0,05)^3$ | 13 209,80 | 14 409,99 |
| 4 | $15292/(1+0,05)^4$ | 12 580,77 | 14 127,44 |
| 5 | $15292/(1+0,05)^5$ | 11 981,68 | 13 850,44 |
| 6 | $15292/(1+0,05)^6$ | 11 411,13 | 13 578,86 |
| 7 | $15292/(1+0,05)^7$ | 10 867,74 | 13 312,61 |
| 8 | $15292/(1+0,05)^8$ | 10 350,23 | 13 051,57 |
| 9 | $15292/(1+0,05)^9$ | 9 857,36 | 12 795,66 |
| 10 | $15292/(1+0,05)^{10}$ | 9 387,96 | 12 544,77 |
| NPV | $NPV(i, N) = \sum_{t=0}^N \frac{R_t}{(1+i)^t}$ | 132 187,80 | 151 468,70 |

The NPV is a measure that shows what the future values would be worth today. Changing into a limited company, from a sole proprietorship, according to the assumptions in tables 1, 2 and 3, would result in a profit equal to the NPV value in table 4. This is comparable with receiving the NPV-value in cash today. Notice the difference in the R -value in the year zero (0) and the rest of the years which can be explained by the startup costs.

3.1.3 Rearranging based on Cost and Benefit Analysis

The calculations that are conducted in table 2, 3 and 4 show a clear but small advantage with having a limited company rather than a sole proprietorship. This result indicates that there is an economic advantage to run the farm as a limited company, yet most farms are managed as sole proprietorships as seen in table 1. Kahneman et al. (1991) describes something they call an economic anomaly; the *status quo* bias. They show that people tend to stick with what they already have, rather than change, even if it is irrational from an economic point of view (Kahneman et al., 1991). Kahneman's et al. writings are a confirmation of what was presented by Samuelson and Zeckerhausen (1988) in their article *Status quo bias in decision making*. This could be a reason to why the number of limited companies is still relatively low.

Most of the economic advantage origins in lower tax rate on dividends compared to wages. The phrase *ceteris paribus*, meaning *all else being equal*, is important for the calculated advantage of the limited business form. If the costs increase due to the limited business form, the advantage quickly decreases. The opportunity cost could also be valued differently without further argument. To quantify events that may affect a Cost and Benefit Analysis requires large amounts of data and information in order to be accurate. Since the Cost-Benefit Analysis tool builds on estimated quantities of future events, not on real data, the reliability of a cost-benefit analysis can always be questioned. There is also a not so insignificant risk that some aspect is forgotten and left out. This makes the Cost- Benefit Analysis a highly

theoretical and, though useful in many cases, not a perfect analytical tool (Argyrous, 2009). To take an example, in the above case, the administrative labor cost is almost certain to increase since there is more administration to be made with a second company. The advantage of the limited company may thereby be so small that the change becomes unnecessary.

3.2 Personal financial risk

The financial distinction between the business and the business owner are in many cases low when it comes to small firms (Ang et al., 1995). Private assets that are possible to pledge are often a requirement when seeking loans and necessary fundings for the business (Ang, 1991) and most small businesses are funded with private equity and/or debts (Berger and Udell, 1998). Together, this creates a high personal risk for the business owner. If the business suffer a financial loss it is most likely to affect the private wealth of the business owner as well (Ang et al., 1995).

The financial structure in small firms differs from that of bigger firms. Lots of early theories regarding business funding and financial structure were claiming general acknowledgement even though the empirical data from which the theories developed were mainly based on big companies (Chittenden et al., 1996). One of these theories was the macroeconomic *Modigliani and Miller theorem*, also called the *M & M Proposition* or *capital structure irrelevance principle*. Modigliani and Miller, claimed that the imperfect financial market of the modern world made it preferable to finance a corporation and business operation with a high ratio of debt rather than with equity, due to rules and regulations regarding tax. Tax reduction due to high debt made it a cheaper source of capital than private equity (Modigliani and Miller, 1958). Chittenden et al. (1996) show in their study, based on register data from the United Kingdom, that within smaller companies and the small business environment the ratio of equity funding is high and that the Modigliani and Miller Theorem did not seem to align with the reality of small businesses. The reason for this could be many but Chittenden et al. (ibid) mention a financial gap somewhere in the society which closes the door to small business owners when they search for external capital and funds. The smallness itself makes the business a bit illegitimate for external funders and the transaction costs for enlisting to the public stock market are in many cases too high. A stock market entrance must also be weighed against the potential loss of control over the company, a loss that may appear frightening and not wanted by the original owners (Ang, 1991, Berger and Udell, 1998, Chittenden et al., 1996). Finding external funds are shown to be hard for a small business owner.

Berger and Udell (1998) highlight the importance of banks and formal institutions which can provide small companies with capital. Their research on small companies within the U.S. shows that most small companies are funded firstly by private equity from the principal owner and/or loans from a bank or formal institution (Berger and Udell, 2002). Though the authors in this research clearly states that the statistics does not cover farming companies or real estate businesses it is worth to consider. Business owners preferring to fund their activities and operations trough firstly internal capital and secondly external capital aligns with the writings of Myers; when seeking external funds companies tend to start with the safest security, that is debts, and from there take on more complicated and unsecure ways of funding the business if it is needed (Myers, 1984). This pecking order framework works well even when applied to small companies and businesses, as proven by Chittenden et al (1996). Barry et al. (2000) proves that the pecking order framework is highly relevant even for farm companies, and they found an interesting pattern between cash-flow and debt ratio. Barry et al. (2000) also show in their article a relationship between high cash-flow and lower debt ratio

where companies with a higher cash-flow appeared to have a lower debt ratio. Their research also shows that farms which suffer from financial constraints are more likely to be funded by debts. A weak cash-flow, or even deficit, may lead to increased borrowing (Barry et al., 2000). In a general *hostile business environment*, defined by Covin and Slevin as precarious industry settings, intense competition, harsh, overwhelming business climates, and the relative lack of exploitable opportunities, business success can be hard to accomplish (Covin and Slevin, 1989). Based on the relationship shown by Barry et al. (2000) it is likely that companies which operates within a hostile business environment tends to be funded by loans in a higher degree.

Loans to small companies and businesses are provided by people close to the business owner. Friends and relatives as well as local banks and institutions are important players (Ang, 1991). For a capital intense business, such as farming, the funding needs to be extensive and out of the available lenders maybe only the bank can lend enough capital. Bank loans to small business owners are more often connected to some sort of collateral provided by the owner himself (Ang, 1991). The small business owner then has the option of funding the business through equity or through bank loans. In both cases the personal assets are put at stake, leaving the business owner with a high personal risk. According to data by Ang et al. (1995) the most common personal asset listed as collateral for bank loans are real estate, i.e. land and buildings. A good explanation that may push real estate to be the top collateral object is the lenders preference for security. It is hard to move and therefore easy to monitor for the lender compared to other assets like jewelry or machines. The lack of distinction between business risk and personal risk becomes obvious. If the business goes bankrupt the negative impact for the business owner can be huge. For a small business with little or no inventories and low investment costs the impact may not be as bad as for a capital intense business. Modern farming is a capital intense business and statistics from the European Commission (2015) in table 5 shows this, with a capital turnover rate of approximately 20% for farm companies in Sweden.

Table 5. Statistic shows the low capital turnover rate of farm companies in Sweden, as well as the average total assets for farm companies [EURO]. (European Commission, 2015)

| Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Country (SVE) | Total output (SE131) | Total output (SE131) | Total output (SE131) | Total output (SE131) | Total output (SE131) | Total output (SE131) | Total output (SE131) | Total output (SE131) | Total output (SE131) |
| Sweden | 111997 | 116852 | 118388 | 143217 | 147963 | 115883 | 146274 | 172760 | 202669 |
| Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Country (SVE) | Total assets (SE436) | Total assets (SE436) | Total assets (SE436) | Total assets (SE436) | Total assets (SE436) | Total assets (SE436) | Total assets (SE436) | Total assets (SE436) | Total assets (SE436) |
| Sweden | 442933 | 527922 | 579746 | 586485 | 612195 | 587814 | 714744 | 837730 | 934995 |
| Capital turnover rate | 0,25 | 0,22 | 0,20 | 0,24 | 0,24 | 0,20 | 0,20 | 0,21 | 0,22 |

Table 5 shows that in 2004 the average total output for Swedish farms was 111 997 EURO and the average total assets for Swedish farms was 442 933 EURO. That results in a capital turnover rate around 25 %. The total output increases between 2004 and 2012, with a temporarily fall in 2009. The total assets seem to have an increasing trend and have more than doubled between the year of 2004 and 2012. The capital turnover rates, however, remain low and show a small decreasing trend. Watching the numbers, especially the total assets, makes one realize how much capital a farmer needs to maintain and how extensive the consequences could be in case of a business failure.

Considering the capital intense environment, a lack of separation between business financial risk and personal financial risk can become a real problem. One way of lowering the personal financial risk would be by forming a limited liability company, leaving the risk to the company and, consequently, letting the company take the hit in case of a business failure (Easterbrook and Fischel, 1985). In a limited liability company the investors' liability is limited to its investment and the investor will not be required to give up any more than the investment in question (Easterbrook and Fischel, 1985). This could be a way of leaving personal belongings out of reach for creditors if it would ever go that far. In case of smaller investments it is also a way of not risking all assets because of a small investment, but to limit the risk. Though Ang (1991) argues that the limited liability is in practice inefficient or not available for small businesses since creditors tend to want collateral that can only be procured through using personal assets. It would by his logic be impossible to leave the business owner totally without any personal risk, due to the collateral requirements. According to Swedish laws the principle of limited liability, i.e. that an investor cannot lose more than what has been invested, is not applicable to the same extent when it come to members of the board and CEO's. The limited liability is set aside if a representative from the company has acted in a criminal way or with serious negligence (Tillväxtverket, 2015, Bolagsverket, 2015a). In a small business the chairman and members of the board, as well as the CEO, are very likely to be the business owner himself and therefore it must be taken into consideration that the limited liability principle does not cover all situations for the business owner, even by law.

3.3 Organization and business structure

The rules and laws surrounding the small limited company are detailed and rigorous. This results in both negative and positive consequences. On the negative side, as mentioned earlier in ch. 3, section 1, is the lack of flexibility and potential increase of administration (Aktiebolagslagen, 2005:551). On the positive side the actions of the business towards its stakeholders become more predictable since it is regulated by law how the leading institutions of a limited company can act (Aktiebolagslagen, 2005:551). This could be rewarding if the company in one way or another is to involve more than one person, and there could be several reasons for doing so. One is that business growth has made it necessary to involve others. As the number of active farms in Sweden decreases, the size of the remaining ones increases both in terms of area and total economic assets (Statistic Sweden, 2016b). The trend has been going on since the World War Two and is also described in Djurfeldt's article about the Swedish farm business after entering the European Union (Djurfeldt, 2002). It can also be seen in table 5 that the average total assets of farms in Sweden more than doubled between the year of 2004 and 2012. When the business grows and become bigger the likelihood of involving more people in the company rises (Williamson, 1981). If this involvement is thought to take a long term perspective it could be more favorable to share the ownership, making the newcomer a part of the company. The other option would be a more external relation, like employment or some sort of partnership. Williamson (1981) describes in his article how internalization and shared ownership in an organizational process or transaction decreases the incentives for sub optimizing and that resource dependency makes an internalization process more motivated. Businesses that are dependent on two or more individuals, but still counted as a (very) small company, need those individuals to be highly devoted and loyal. Ownership gives the power of authority which lead to control over assets and resources (Zucker, 1987) and shared ownership becomes a relevant solution. Looking at the owner structure of a farm company from a transaction cost view, the internalization of the newcomer into the business, rather than letting the newcomer remain outside, becomes legit. When looking at farming businesses and farm companies from the perspective of family-farm-theories, the motives of internalization and shared ownership become more substantial.

Ikävalko et al. (2010) discuss how a founder who sees the business as a family business is much more likely to share ownership with those who are considered family members. Birley (2001) earlier shows this in a cross country study focusing on family business attitudes. The study shows a weak but clear tendency that those who are positive to the family business concept prefers to recruit only family members to the business and share business ownership.

The newcomer, described above, could be a relative to the business founder. There are no available statistics which overview the numbers of farms driven by more than one member of the same family. Nor are there such statistics for small companies in general. But the legal business form of a sole proprietorship leaves no room for shared ownership. Two sole proprietorships can form a partnership together, in Swedish law best described as a simple firm, but a sole proprietorship can only have one business owner (Skatteverket, 2015a). Two individuals owning the same farm property and running the farming business together are taxed as if they were two sole proprietorships having a simple firm. There are special tax rules regarding the distribution of income from a farm property if the owners are related to each other. These special rules describe how couples, married couples and close relatives to the business owner(s) should divide the income. The basic idea is still that property owners are considered sole proprietorships and pays taxes, separately, as such. It matters a lot if the working tasks in the business have been equally shared, or if the parties have divided the responsibilities. The individuals must report their income related to the farming property on their own and it falls on the individual to calculate and divide the income correctly. Parental benefits, governmental and social health insurances and pension are based on the income reports. Those who report no or low income through their working life will receive the minimum level of above mentioned benefits. In Sweden this has resulted in a discussion about spouses in the traditional farming company and the importance of not letting anyone remain unpaid if their work effort is counted as beneficial for the business. During the twentieth century the farming business has typically been represented by the husband in a family, leaving the woman more or less outside the system and often without any declared income or financial control (Djurfeldt, 2002, KSLA, 2012, Pettersson & Arora-Jonsson, 2009). Having one person to report the income and the whole family to live on the business is no longer considered a fair or sustainable solution, but the calculation of the yearly aggregated work effort and how to value and relate it to the business result must be considered almost impossible. These tax calculations will be even more extensive with every other individual who are to be involved.

Another situation that might result in shared ownership is that of a potential inter-generation change. With increased value in the farming business, the issue of how the next generation is supposed to take over the business arises. The aggregated value of the farm property, machinery and inventories can easily go beyond millions of SEK and Euros, and loans and credits for the same can be extensive. In a situation of inheritance the descendents becomes co-owner of all assets left by the first generation (Ärvdabalken, 1958:637). Small business research shows a general altruistic tendency for family members when joining the family firm. It is not only motivated by economic rationality but also by loyalty to the firm and a sense of stewardship (Schulze et al., 2003, Miller et al., 2008, Astrachan, 2010). In such cases it might very well be important for all the heirs that the business can live on. In order to avoid the previously described issues with sorting out the workload and income when several individuals are running a business as sole proprietorships, one heir could bail out the other heirs. This is an expensive solution with high financial risk for the successor and the business, and it may not even be a possibility due to the amount of capital needed. If there is a conflict among the heirs' questions can arise about asset values and earlier labor input to the business

in question. Also, the management and decision making of the business can get paralyzed if there is a conflict since the co-owning of the inheritance demands that every decision that effect the economic situation of the inheritance must be made in total agreement of every heir⁴. The best way to minimize or avoid succession conflicts and ensure the wealth and survival of a business is to plan ahead (Motwani et al., 2006, Sharma et al., 2003, Bruce and Picard, 2006). One way of planning ahead and avoiding such situations and conflict would be to establish a limited company with the possibility for family members to have shares. The process of fully internalization of newcomers is simpler than it would be with a sole proprietorship since shares are easy to provide compared to co-ownership of physical business assets. The administration around incomes from the business to the owners would be more predictive following the formal rules and legislations. It also makes it possible to smooth a succession process and make it easier for several people to keep running the firm.

3.4 Theoretical summary

Three different theoretical perspectives on why farmers choose to rearrange into limited companies are presented in this chapter. In section 3.1 the Cost and Benefit Theory is illustrated with a fictional example that imply that there might be financially rational to rearrange from a sole proprietorship to a limited company, due to lower taxes on dividends. It is also explained why, if this is the rational thing to do, not every farmer rearrange into limited companies at once. This could have something to do with the status quo bias, as explained by Kahneman et al. (1991), and the unwillingness to change.

Section 3.2 argues that a rearrangement into a limited company might be motivated by the *limited liability for payments* that the limited business form is providing (Easterbrook and Fischel, 1985). Comparing with the sole proprietorship, where the physical person is personally responsible for the acts of the firm, the limited company is held accountable for the company's commitments. This type of risk management could be motivated by the capital intense agricultural business environment where high debt ratios and low turnover rates are common (Barry et al., 2000, European Commission, 2015)

Section 3.3 takes on an organizational perspective on the owner structure of the company and how a limited company could facilitate shared ownership. It explains how small business enterprises and family firms often strives for internalization of family members and certain newcomers and that shared ownership is an effective way of doing so (Ikävalko et al., 2010, Birley, 2001).

This conceptual framework constituted the basis when the questions for the interviews took form. Appendix 2 comprises the interview guide that was used during the interviews. Since the interviews are semi structured, as described in ch. 2, there is room for additional questions and consequently the interview guide do not contain all questions or topics that were discussed during the interviews.

⁴ The everyday work can continue as usual but any purchase, sale, or investment, need to have an agreement from every heir. In the case of a farm property, the law states that the inheritance must be sorted out within four years (Ärvdabalken 1958:637).

4 The empirical study – interviews with farmers

For this research six interviews has been conducted with farmers who run their farming business as limited companies. Each interview was approximately 30 minutes long and this chapter provides the reader with a thematisized overlook of the informants' answers. The themes that have been identified by repetitions and reoccurring topics in each interview, similarities and differences between the interviews and connections to the chosen conceptual framework for this thesis, as described in ch. 2. The themes are illustrated by the six questions which are repeated throughout section 4.2 – 4.6. Chapter 4.7 provides a table with short summaries of the answers.

4.1 Interview execution overview

Table 6 provides a simple overlook of the interview settings, the informants' position in their limited company, the year of the limited companies' registration and average turnover rate, and the number of shareholders in each limited company.

Table 6. Overlook of the informants and their position in their limited companies.

| Farm no. | 1 | 2 | 3 | 4 | 5 | 6 |
|---|-----------------------|---------------------|---------------------|-----------------------|----------------------------|-----------------------|
| Date of interview | 2015-12-02 | 2015-12-07 | 2015-12-08 | 2015-12-10 | 2015-12-10 | 2015-12-10 |
| Interview execution | On farm | On farm | Telephone | On farm | On farm | On farm |
| Informant 1, company position | Chairman of the board | Member of the board | Member of the board | Chairman of the board | Member of the board | Chairman of the board |
| Informant 2, company position | | | | | Chairman of the board, CEO | |
| Year of registration of limited company | 1991 | 2010 | 2012 | 2005 | 1989 | 2000 |
| Average turnover the past three years [SEK] | 10 027 667 | 4 240 000 | 5 106 333 | 10 609 333 | 8 180 000 | 4 470 000 |
| Number of owners of the limited company | 1 | 2 (50/50) | 2 | 1 | 1 | 2 (50/50) |

In the case of farm no. 5, two informants were participating in the interview, and informant no. 1 was the only shareholder.

4.2 Farm no.1

The farm is located west from the town of Uppsala and is focusing mainly on grain farming. During winter there are some contracting for snow clearance. In the past, 10-15 years ago, the contracting service was the main source of income for the company. Today the main income comes from farming. The farming acreage is 840 hectares of which 420 hectares are leased from nearby landowners and 420 hectares are leased on a long term tenancy contract from Uppsala Akademiförvaltning. The average earnings between the years of 2012-2014 were 10 million SEK. The limited company was registered in the year of 1991. In the beginning it only included the contract service operations whilst the agricultural business was operated in a sole proprietorship. In the second half of the 1990's the agricultural operations were included into the limited company and have been so ever since.

How was the rearrangement, from sole proprietorship to limited company, initiated?

It was an advisor that suggested a transformation from a sole proprietorship into a limited company in the first place. The contracting business was going very well. The informant explains that he was not so oriented towards

the administration but more focused on the operations and the practical work. In his view, the liquidity in the business was always low but it turned out in the end of every year that there were relatively high profits, and the business had grown and become quite big as a whole. The accountant then told him to start a limited company and helped with the rearrangement. The farming business was included after a few years in order to gather all business activity in the same company.

How are the assets distributed between the sole proprietorship and the limited company?

All movable property is owned and paid for by the limited company such as machines, stock and supplies. The sole proprietorship is still registered but has little activity; everything is operated through the limited company. The long term tenancy contract is a deal between the sole proprietorship and Uppsala Akademiförvaltning. Formally, the limited company then leases the farm from the sole proprietorship. The informant explains that Uppsala Akademiförvaltning does not offer such contract to legal entities but to physical persons only. The land and the buildings are included in that tenancy contract. The limited company owns the leasing contracts with the nearby landowners.

What are the thoughts on the limited personal liability for payments?

The informant states that when it comes to farming there is no *limited personal liability for payments*, it is just not possible today. It does not matter which legal form the farmer has. A farming property is always privately owned and the bank will not lend out any capital without having the property as collateral. The only way to achieve real limited liability is if one has a large amount of capital before getting into farming, he says. Only then would it be possible.

Are the owners employed by the limited company and if so, are they receiving salary? How do the owners use dividends?

The informant is the only owner and chairman of the board. He is employed by the limited company and has for the last three years had an average salary of approximately 210 000 SEK. He keeps his own salary low since the business is trying to recover from earlier losses. A negative net profit the last years has resulted in no possible dividend.

Were there any differences in net profit motivating the rearrangement? Have any costs increased because of the limited company?

The main reason for starting the limited company in the first place was to avoid high taxes. Their net profit every year was really good in the late 1980's and early 1990's. A sole proprietorship was then taxed on the net profit but a limited company had the ability to save capital within the company and use it for business expansion. This was undoubtedly the major motive when deciding to have a limited company.

How many owners are there in the limited company? Are there other people closely involved in the decision making in the company?

The informant is the only owner and the company supports five employees. No one else has any deeper involvement in the business.

4.3 Farm no. 2

The farm is located north east from the town of Uppsala and is mainly focusing on grains. There is some contracting for snow clearance and off farm operations during winter when there is not much farming activity. The total farming acreages 430 hectares of which 350 hectares are leased from the Uppsala Akademiförvaltning and 80 hectares are leased from nearby private persons. The average earnings between the years of 2013-2015 were 4,2 million SEK. There are two owners of the limited company and they inherited the tenancy of the farm in 2001. The limited company was registered in 2010.

How was the rearrangement, from sole proprietorship to limited company, initiated?

The informant says that they, himself and the other owner, were looking into the possibilities of starting a partnership between the two of them, and that they together came to the conclusion that a limited company was a business form which suited their purpose. They asked for help from a legal advisor who supported them through the whole process.

How are the assets distributed between the sole proprietorship and the limited company?

When the limited company was established the owners put in the machinery as their private equity. Today the limited company owns machines, supplies, stocks and a garage situated on the farm property. The limited company leases the land from the owners' sole proprietorships along with buildings. A few years ago Uppsala Akademiförvaltning built a grain drier facility on the farm. This was after realizing that there was little chance for the owners themselves to get the loan needed for such an investment since they could not vouch for the loan with the property and the limited company did not have sufficient capital then. The drier facility therefore became part of the tenancy lease from Uppsala Akademiförvaltning.

What are the thoughts on the limited personal liability for payments?

The informant thinks the most common solution for farmers to get capital for their investments is by bank loans, having properties as collateral. This puts the limited liability out of order since the farmer risks to lose his private assets if the limited company fails. Within the farming business there is not very much limited liability, says the informant. In this case they do not own the property but has invested savings and private machines. When buying new machineries the machines themselves are used as collateral.

Are the owners employed by the limited company and if so, are they receiving salary? How do the owners use dividends?

Both owners are employed by the limited company and receive a salary every month, according to the informant. When deciding on the salary size they compared with what they had earned when being employed elsewhere.

Whenever any of them is working off farm the billing is made by the limited company and any potential income goes to the limited company. This was the main reason why they looked for a different legal solution. They wanted to gather all activity into one organization. There has been no dividend over the last years but the salaries can vary if they feel the need of a private investment.

Were there any differences in net profit motivating the rearrangement? Have any costs increased because of the limited company?

The advisor told them that there could be positive effects from a taxation perspective but the main reason was to gather all activity into one company to get a good overview for the owners. The biggest advantage with the limited company has been the possibility to save profit in the limited company. It is a better investment of equity, compared to a sole proprietorship. The respondents do not know if any costs have increased since they started the limited company. The business has expanded as a whole and it is hard to know which costs that are solely related to the limited company business form. Any accountant has not been needed yet, but will probably be necessary in a few years if the expansion continues.

How many owners are there in the limited company? Are there other people closely involved in the decision making in the company?

Today there are two owners and it has been so from the start. They share the ownership equally and there is no other person involved in the company board or in the operations. One of the owners is the formal chairman, though the informant did not clearly remember which one of them it was, himself or his co-owner. The shared ownership was one of the reasons for starting a limited company, to better gather all different activities into one company and make it easy for both of the owners to keep an overview of it all.

4.4 Farm no. 3

The farm is located southwest of the town of Uppsala. Earlier there were some livestock on the farm but from the late 1990's the main focus is grains, contracting and consultancy service. It is operating 150 hectares of land and is a mixture of self-possessed and leased land. The average earnings between the years of 2013-2015 were 5.1 million SEK. The farm is an old family farm which the informant inherited together with a relative in the mid 1980's. The relative worked mostly off farm and the informant himself had the vast responsibility for the farm and farming operations. In the end of the 2000's the informant's son showed interest in joining the business. The limited company was registered in 2012. The farm property is still owned by the informant and his relative but the limited company is owned by the informant and his child.

How was the rearrangement, from sole proprietorship to limited company, initiated?

The informant explains that it was he who suggested a limited company. From there the informant and his son contacted a legal advisor who helped with the arrangement and formality.

How are the assets distributed between the sole proprietorship and the limited company?

When the limited company was established, machineries were put into the company as a loan by the informant and his relative. The limited company is paying off this debt year by year so the machineries and some tools are owned by the company. It leases the farmland and the farm buildings and maintenance bills are paid directly from the limited company. Electricity, heat and water and such, are paid by the farm. The limited company then pays the farm.

What are the thoughts on the limited personal liability for payments?

The informant has not thought about the limited liability at all, it was not taken into consideration when forming the limited company. He explains that they want to run their business as good as possible, and that they put their heart and soul into it, and so long it has worked out fine.

Are the owners employed by the limited company and if so, are they receiving salary? How do the owners use dividends?

The two owners of the limited company, the informant and his son, are the only employees. The salary to them both are fixed and paid on a monthly basis. There have been no dividends so far from the limited company.

Were there any differences in net profit motivating the rearrangement? Have any costs increased because of the limited company?

One of the reasons for a limited company was the possibility to let the capital work within the company and not being taxed away to the same extent as in sole proprietorships. Entering farming business is expensive and this was a way of keeping capital within the company, creating the opportunity for the company to pay its own investments. In this way private loans can be avoided and the prospects of a future takeover by the child do not have to be so very expensive.

The informant explains that when the limited company came at place, he left all of the administration to an accounting agency. Before, he did most of the bookkeeping himself and due to the change the company got a huge increase in administration costs. However it is highly outweighed by the fact that he can now work with the business operations instead and create income for the company.

How many owners are there in the limited company? Are there other people closely involved in the decision making in the company?

There are two owners of the limited company, the informant and his son. They are also the only employees in the company. The reason for starting the limited company in the first place was to make it possible for the child to enter the business on fair terms. Now they are equally involved in the company though they do different tasks. The informant works mostly off farm with contracts and consultancy, and the child operates the farming activity.

4.5 Farm no. 4

Farm number 4 can be found southeast of Uppsala. The current owner bought the farm in the mid 1990's. The buildings were at the time in a bad and unusable state and a successive reconstruction and renovation of the residential buildings, as well as of the outbuildings, began. Today the business activities include a golf course, contracting service, helicopter service, rental of premises and grain growing. The activities are divided between a sole proprietorship and a limited company. The limited company holds the staff and some machinery but leases, or borrows all major assets from the sole proprietorship. In the year of 2005 the limited company was registered, before then it was all operated within the sole proprietorship. The farming activity takes place on approximately 200 hectares and is operated solely through the sole proprietorship. The limited company had an average earning of 10.6 million SEK between the years of 2013-2015.

How was the rearrangement, from sole proprietorship to limited company, initiated?

The informant tells how he had a limited company in the past due to a large contractor business. Then, it was a way of keeping capital in the business for future investments, which was not possible to the same extent for a sole proprietorship due to tax legislations. When the time had come for the dissolution of this old limited company the informant and the Tax Agency ended up in a feud about latent taxes within the company that resulted in a major loss of capital for the informant. For this reason, the informant explains, it took several years before he thought of having a limited company again. During the 1990's he had steady contact with a legal advisor and together they saw no reason for a limited company at the time. However, a small dispute with an employee made him reconsider this arrangement. After another discussion with his advisor he decided that the best way to decrease his personal financial risk was to form a limited company.

How are the assets distributed between the sole proprietorship and the limited company?

All major assets are owned by the informant personally in his sole proprietorship. Some smaller machines and inventories are owned by the limited company but the buildings, the golf course and the machineries for the contractor service are owned by the sole proprietorship. All personnel have the limited company as their employer.

What are the thoughts on the limited personal liability for payments?

The possibility of limited personal liability for payments is the whole reason for having a limited company, according to the informant. Since the tax legislations are somewhat similar for sole proprietorships as they are for limited companies nowadays, the only reason for having a limited company is to attain limited liability. The informant explains how the arrangement allows a business failure without forcing himself of the property, away from house and grounds. This is a way of managing the financial risk that comes with having a lot of employees. If an accident occurs to any of the staff, claims from insurance companies and unions will be made on the limited company and not on the informant himself.

Are the owners employed by the limited company and if so, are they receiving salary? How do the owners use dividends?

The informant says that he is not employed by the limited company and therefore not receiving any salary. Instead there are dividends from the company to the owner. There are also transactions from the limited company to the sole proprietorship of the informant for everything that the company borrows from the sole proprietorship. These transactions are not made on any regular basis but rather when called for by either the sole proprietorship or the limited company. In the end of every year an approximation is made concerning how many hours the informant has worked for the limited company and an invoice is sent from the sole proprietorship to the limited company. This relationship can be compared to that of consultancy, the owner rents himself out to the limited company, and the income from this is reported in the sole proprietorship, says the informant.

Were there any differences in net profit motivating the rearrangement? Have any costs increased because of the limited company?

According to the informant, there is no motive based on tax that is valid today. He states that everyone who claims that a limited company is preferable from a tax point of view is badly informed and totally lost. That may have been the case fifteen years ago, but not anymore. He sees no costs that have increased due to the limited business form.

How many owners are there in the limited company? Are there other people closely involved in the decision making in the company?

The informant is the only owner of the limited company and there are no close relatives or family members closely involved with the business operations.

4.6 Farm no. 5

This interview comprises the answers of two persons who both participated in the interview. In this text they are referred to as informant A and informant B. The farm is located east of the town of Uppsala and is an old family farm. The family bought the farm in the beginning of the 20th century and kept it within the family ever since. Today it is the third generation that owns the property and the fourth generation operates business activities. Today the main focus is mixed and includes dairy and meat production, growing grains, contracting service, and forestry. It has a total of 400 cattle of which 130 are dairy cows in production. The company cultivates approximately 520 hectares of arable land of which 130 hectares are self owned and 390 hectares are rented. Another 120 hectares are used as pasture for the cattle. The limited company was registered in 1989 by informant A and has during the years of 2013-2015 had an average earning around 8.1 million SEK. Before the limited company were established the farm were operated as a partnership between informant A and his brother.

How was the rearrangement, from sole proprietorship to limited company, initiated?

Informant A explains how it was a relative to him who managed the administration and book-keeping for the farm and that it was he who initiated the limited company as an alternative to the already existing partnership.

How are the assets distributed between the sole proprietorship and the limited company?

The limited company owns the cattle, the stocks and grains, machineries, the Automatic Milking System and all the movable properties that are required for the ongoing of the farm operations. Most of the leasing contracts are between the limited company and the land owner who rents out the land. The private company owns the outbuildings, the land and the residential houses. The forest is also completely operated by the sole proprietorship though the machines that are supposed to work in the forest are owned by the limited company. Informant B points out that this is not optimal and that he is planning to better separate the forestry from the farming, and that the limited company is meant to only include farming operations.

What are the thoughts on the limited personal liability for payments?

None of the informants has given the limited liability any closer consideration. Informant B explains that as far as he knows the only creditor that would require property as collateral is the bank. The machineries are collateral for its own credit. Therefore the most important creditor is the bank, and it is their bills you pay first, or else one risks to lose the property and not just a few machines. This is the same for all small enterprises he says, not only for farmers.

Are the owners employed by the limited company and if so, are they receiving salary? How do the owners use dividends?

The owner is employed by the limited company, receiving a predefined monthly salary from it. Dividends are usually not distributed unless there is some special private need. First priority is the limited company and to make the business grow. For that reason dividends are not prioritized.

Were there any differences in net profit motivating the rearrangement? Have any costs increased because of the limited company?

In 1989, the taxes for a limited company were much more favorable than those of a sole proprietorship or a partnership, according to informant A. The limited company gave the possibility to accumulate capital within the company to a larger extent than for partnerships and sole proprietorships. This was the major reason to form a limited company altogether, to decrease taxation in order to develop the business. Neither informant A, nor B, thinks that this argument is valid today since the differences in taxation has decreased and are somewhat the same today.

Informant B mentions that he had read a newspapers article which said that tax on dividends is to be raised. In that case the only taxation advantage of the limited business form would disappear. In the past, it was required that limited companies had an auditor but since that was taken away for minor companies none of the informants believes there is something with the limited company that is more expensive compared to a sole proprietorship. The administration with two companies may be more extensive. Informant B explains how this in his perspective is outweighed by the structure and

separation of the business activities which provide a good and clear overview. Running it all through a sole proprietorship would be immeasurable and untransparent he continues. An extern accountant helps out with the yearly financial closings and tax declaration. The daily bookkeeping is managed by employees in the limited company.

How many owners are there in the limited company? Are there other people closely involved in the decision making in the company?

When the limited company was created there were two owners, informant A and his brother. From there several changes and an ongoing inter-generation change have led to the situation today were informant B, who is a child of informant A, is the only owner of the limited company. Informant A still owns the farm property though it is about to be handed over to informant B in a near future. Informant A's wife works for the limited company.

Informant A is the registered CEO and chairman of the board in the limited company, his wife is a deputy member of the board and informant B is a regular member of the board. None of the informants has considered the possibility that the limited company has eased the inter-generation change. They both state that the biggest value lies in the land and property and since those are still in the sole proprietorship of informant A, it had probably made no difference if the limited company were not to exist.

4.7 Farm no. 6

Farm number 6 is located north-east from Uppsala. The family bought the farm in the beginning of the 1960's and today's owner is the second generation operating the farm. It is a mixed business and the main focus is dairy and meat production as well as growing crops and grains. Other activities are contracting service, house and storage rentals, and forestry. The total number of cattle is at the moment approximately 300 from which 115 are dairy cows in production. The farm property consists of 300 hectares of forest, 50 hectares of pasture and 300 hectares of arable land. An additional 15 hectares of farm land is leased from a neighbor. The limited company was registered in the year of 2000 and has between the years of 2012-2014 an average income of 4.4 million SEK. Before the limited company the farm was operated as a sole proprietorship by the current owner.

How was the rearrangement, from sole proprietorship to limited company, initiated?

The informant explained that he was thinking of rearrange into a limited company already in the 1980's, but that his advisory agency said it was a bad idea. When he eventually switched to another advisor the thought of a limited company returned. The new advisor saw it as a good idea and helped with the planning and rearrangement into a limited company.

How are the assets distributed between the sole proprietorship and the limited company?

All property, buildings and fixed interiors are rented by the limited company from the sole proprietorship. An actual transaction for that rental is not performed every time but when it is needed. The limited company owns machineries, livestock, stock and supplies, things that can be viewed upon as *current assets*. The forestry and rentals are completely handled by the

sole proprietorship whilst the limited company operates the farming activities and the contracting services. The properties are partly owned by the informant, partly by his spouse.

What are the thoughts on the limited personal liability for payments?

The practical use of limited liability differs from case to case, according to the informant. He believes that if one has a recently started business the limited liability is more of a theory since the most common collateral is property, especially in the farming business. He says that he has seen many cases where new starters take out a high salary from the beginning and how it can have a negative effect on the company, leading to business failure in most cases. Instead they should keep the capital in the company, focusing on paying off debts. The trick of receiving limited liability, he says, is to be free from debt. Further he explains that he himself has no loans where his private assets are set as collateral, not in the sole proprietorship nor in the limited company. New investments are made when there is enough capital in the company to cover the investment costs and he keeps an eye open for good second-hand machines. The repair costs within the company are higher than if all machineries were new but compared with loan costs for new machineries it is preferable. He adds that he is about to resign in a few months anyway and so the risk of needing to use the limited liability function is not very high.

Are the owners employed by the limited company and if so, are they receiving salary? How do the owners use dividends?

There are five employees in the limited company that are being paid by the hour. The owner himself has no salary from the limited company but is only receiving dividends. The income in the sole proprietorship qualifies for social insurances which is why he has chosen to only take dividends from the limited company.

Were there any differences in net profit motivating the rearrangement? Have any costs increased because of the limited company?

The main reason for the transformation into a limited company was the possibility to keep capital within the company for future investments. In the year of 2000 a limited company could place a profit in different funds instead of paying income tax of the whole profit. This made it possible to avoid taxes and save fundings within the company in a way that was not possible for a sole proprietorship. This possibility outweighed the increased costs that came with an auditor and increased administration due to more formality. The informant says that he knows that these differences in tax is not as high today but that he does not know the details of what has been altered.

How many owners are there in the limited company? Are there other people closely involved in the decision makings in the company?

There are two owners in the limited company, the informant and his wife, and they share the ownership equally. All children work in the company to various extents, paid by the hour, with administration and operation. There is no plan of an inter-generation change since none of the children are

interested in taking over the business as it looks today. Instead the informant explains how he plans to split up the property between the children, giving them the opportunity to run their own properties in the future. The highest value lies within the properties and since they are in the sole proprietorship anyway, the limited company makes no difference in that matter. There were no organizational considerations taken when the limited company started in 2000.

4.8 Summary of farmer interview

The empirical presentations in section 4.2-4.7 are summaries of the respondents' answers from the interviews. For an even better overview one can take a look at Table 7.

Table 7. An overlook of the interviews presented in chapter 4.

| | 1 | 2 | 3 | 4 | 5 | 6 |
|--|---|--|---|---|---|--|
| | 1991 | 2010 | 2012 | 2005 | 1989 | 2000 |
| Farm no. | | | | | | |
| Limited company year of registration. | | | | | | |
| How was the rearrangement, from sole proprietorship to limited company, initiated? | By suggestion from an advisor | By the farmers own accord. An advisor helped with the implementation. | Initiative taken by the informant. Help from an advisor with implementation. | In consultation with an advisor. | Initiated and implemented by a relative who administrated the sole proprietorship. | Initiative taken by the informant. Help from an advisor with implementation. |
| How are the assets distributed between the sole proprietorship and the limited company? | Movable properties are owned by the limited company | Movable properties are owned by the limited company | Machineries and some tools are owned by the limited company. | The limited company rents machineries and equipment from the sole proprietorship. | The limited company owns all movable properties and dairy interiors. | Current assets are owned by the limited company. |
| What are the thoughts on the limited personal liability for payments ? | It is practically nonexistent for farmers | Low or nonexistent for farmers. | Has not thought about it. | The main reason for having a limited company. | Has not thought about it. | Depends on depts to equity ratio and business performance. |
| Are the owners employed by the limited company and if so, are they receiving salary? How do the owners use dividends? | Fixed monthly salary, no dividends has been possible | Fixed monthly salary, dividends used when the sole proprietorships needs it. | Fixed monthly salary, no dividends so far. | No employment, no salary. The owner only have dividends from the company. | Fixed monthly salary. Dividends when the sole proprietorship needs it. | No salary from the limited company, only dividends. |
| Were there any differences in net profit motivating the rearrangement? Have any costs increased because of the limited company? | The main motive for a limited company was tax related. | No higher costs | Tax was the one of the main motives. Higher administration cost due to outsourcing of administration. | No. No higher costs. | Tax was the main motive. No higher costs. | Tax was the main motive. No higher costs. |
| How many owners are there in the limited company? Are there other people closely involved in the decision making in the company? | The informant is the only owner. No one else involved in the decision making. | Two owners. No one else involved in the decision making. | Two owners. No one else involved in the decision making. | The informant is the only owner. No one else involved in the decision making. | One owner. Other family members are closely involved in the decision makings of the business. | Two owners. No one else involved in the decision making. |

By viewing table 7 one can conclude that the initiative to go from a sole proprietorship to a limited company, in most cases came from the farmer and owner. All farmers have had help with formality and implementation of the limited company. The limited company often owns the current assets of the business. Farm no. 4 and 5 let the limited company rent machineries and tools. At the other farms the limited company owns most or all movable property. Two farms, no. 3 and no. 5, had not considered the liability issue when forming a limited company. The other farms had thought about it but only farm no. 4 had it as the absolute main reason when deciding upon converting into a limited company. The owners of farm no. 4 and 6 were not employed within their limited companies and had no salary from it. The rest had fixed monthly salaries and irregular dividends if the sole proprietorship and private economy required it. Only farm no. 3 experienced a higher cost due to the limited company legal form. Four farms described taxes as the main reason for having a limited company and not a sole proprietorship. The possibility of to a higher extend accumulate capital within the company, rather than pay tax on the whole net profit, was a major reason for them. The limited company of farm no. 2, 3 and 6 each have two owners. Only in farm no. 5 are others than the owner closely involved in the decision making of the company.

5. Analysis

The analysis of the empirical findings is based on the conceptual framework presented in chapter 2. The conceptual framework covers three perspectives that relates to why a farmer would choose to rearrange into a limited company. These three perspectives are mirrored in the analysis in section 5.1 – 5.3.

5.1 A question of profit

The differences in net profit between having a sole proprietorship and having a limited company for the farmer was, according to the calculations presented in section 3.1 and illustrated by table 1, 2 and 3, very small but clear. The advantage was close to 7% in favor to the limited company alternative and an economic rational choice would be to leave the sole proprietorship and rearrange into a limited company. The status quo bias (Kahneman et al., 1991) suggest that a small profit is likely to not be enough for someone to take a turn in the management of a business.

The limited company 7% advantage presented in this calculation is highly uncertain and in reality it is probably less. Yet four of the informants have indicated net profit as one of the main reason for the rearrangement into a limited company. Farm no. 1 and 5 founded their limited companies in the late 1980's or early 1990's. Farm no. 6 started to think about rearranging into a limited company in the end of the 1980's, because of the high taxes on a sole proprietorship, but the limited company came at place in the year of 2000 when he got a new advisor. They all mentioned that the tax rate on incomes originated from the sole proprietorship was very high and that it was hard to create a business growth. The high taxes lowered the net profits that could be reinvested into the company. A limited company became the mean to accumulate capital in the company and speed up the business growth. With a limited company it was possible to steer the salary to the farmer, which was taxed as income from employment, and the taxable profit for the limited company. By using allocation reserves, pension provisions for its employees, among other financial tools, the farmer could better control the financial end result in a limited company than in a sole proprietorship. To make the decision to rearrange into a limited company based on financial calculation is to take Costs and Benefits into consideration and aligns with the writings of Mishan and Quah (2007) and Dréze and Stern (1985).

Farm no. 1 said that the earnings during the time were extraordinarily high due to good market prices and that this was a major contribution to the decision of starting a limited company, or large amounts of capital would have been lost in taxes. Instead, with the limited company, he could to a larger extent keep on investing in his business. Since then an effort from the Swedish government to neutralize the tax differences between the legal business forms has taken place. A reformation in the tax legislation during 1991 and several changes since then have had this aim.

This could be the reason to why farms with more recently registered limited companies have not had a strictly economic perspective when rearranging from their earlier business forms. Farm no. 2 gave organizational motives and farm no. 4 said it was due to decreased personal financial risk. Farm no. 3 also mentioned a better ability to accumulate capital within the company as the motive for rearranging into a limited company, due to a lower tax pressure. His goal with this was to make it possible for his co-owner to buy the farm property in the future, without having to be put in dept. Their limited company was registered in 2012 and has probably received the lowest economic advantage of them all, due to the changes in tax

legislations, but their motives were also organizational. Here the tax ratio itself is not likely to have made any larger impact on the decision of rearranging into a limited company.

Those companies with more than one owner or family members closely involved in the company have all indicated that they have a fixed salary and small or no dividends, though informants from farm no. 4 and 6 only took out dividends from the limited company, and no salary. They were both within ten years of the general age for retirement (which is 65 or 67). It could be that they do not feel the need to report any income that would qualify for the governmental insurances because of their age. Having worked their whole life they may had incomes from earlier parts in life which qualified them for pensions and health care. They have had the time to build up private reserves and deposits and they have assets and properties which could be capitalized if needed. The others were in a position where they had to consider family, children, and the feeling of fairness if there were more than one owner of the limited company. This is likely to be strong incitements to have fixed and pre decided salaries rather than only dividends.

No informant, but from farm no. 3, mentioned any extra costs which could be related explicitly to the limited company legal form. Farm no. 3 mentioned that audit costs had increased, but that this was known and taken into account, in order to make it possible for both the owners to execute on-farm work instead of having one of them doing administration. All of the farms had contact with advisors and auditors before their rearrangements and have continued with those contacts. Farm no. 2 explained that the business has grown during recent years, and so have the administrative burden, but that it was hard to say if any of those higher costs could be related solely to the limited company. Nor were there any considerations to costs connected with the rent of land from the sole proprietorship, or the potential rent of machineries from the sole proprietorship. There was a transaction but it was not necessarily fixed or pre-decided. It was simply conducted if the sole proprietorship needed it. This mirrors the calculations in section 3.1, Table 2 and 3, where the audit cost and administration labor cost are set to zero (0) SEK and the land rent cost are set to 1 SEK.

The lack of transactions for land rent among the farms and their limited companies could be a sign of low distinction between the sole proprietorship and the limited company as described by Ang et al. (1995). It can also be a sign of differential thinking among the farmers. Even though the transactions should be there in theory, in reality it makes no difference for the farmer and is therefore not performed. The same goes for machineries and inventories. All of the farms have left the limited company to own machinery and equipment to various extents, and there seem to be no economical reasoning behind it. Farm no. 4 is the only one that has all major machineries in the sole proprietorship. Since the informant from farm no. 4 is the only one to state personal financial risk as the motive for having a limited company, it could simply be a way of not having too much assets in the limited company. Farm no. 3 has the most structured transaction, going from the limited company to the sole proprietorship, covering heat, water and electricity costs for the sole proprietorship. This is likely sprung from the fact that the informant co-owns the farm property with someone that is not involved in the farming operations or business at all. The mentioned costs affect that person as well as the informant and the transaction is meant to compensate. All farms had the limited company to pay for maintenance of machineries, outbuildings and inventories, which is logical since it is the company's business operation that uses it and creates value by it.

5.2 Risk management as a motive

There are several major differences between the various legal forms of a business organization. What discerns the limited liability company from other alternatives is that of limited personal liability for payments (Easterbrook and Fischel, 1985). An investor is not responsible for a higher value than the invested assets. If a business failure or a claim for compensation would empty the company assets, the investor do not risk losing more than what is put into the company originally (ibid). Private assets are left untouched and this could be one reason to why the legal form of a limited liability company is framed as the wise choice of business form. However, if the private equity in a limited company is financed by private loans by the owner the possibility of remaining unaffected by a business failure vanishes. The company can lose its private equity and it would affect the investor or the owner in the same way as if the business was organized in any other legal form. This is also pointed out by Ang (1991) when he argues that the limited liability is in practice not available for small businesses.

Among the informants in this study only one of them, farm no. 4, mentioned the limited liability as the major reason for having a limited company rather than the more common sole proprietorship. He specifically mentioned employees as a financial risk. If an accident should occur, any financial claim would be charged the limited company. If the limited company was unable to pay, it would be put into bankruptcy and the remaining claims fall to the ground without affecting the private assets of the owner. In this case the business operations are much differentiated. The informant claims that at least four different unions are presented among the employees. They too could make financial claims, on behalf of the employed, and as it is now those claims would be directed towards the limited company and not the farmer himself. Two other informants, on farm no. 1 and no. 2, argued that the limited liability was somewhat nonexistent for small enterprises in general and for farmers in particular. They both based this reasoning on the fact that most farmers have private mortgages in order to raise capital to the business operation. The choice between a sole proprietorship and a limited company therefore made no difference. The personal financial risk can be said to depend on to what extent the farmer has let private equity finance the company (Easterbrook and Fischel, 1985) and the differences among the farmers can be a sign of that. Three farmers had not thought of it any closer at all but the informant from farm no. 6 said that the need of a limited liability depends on the dept ratio, where a high dept makes a limited liability more desirable.

Farm no. 1 and 2 are tenant farms, and are therefore unable to pledge the properties, but both has financed their businesses with private equity by investing savings, tenant contracts, and taking private bank loans. In the case of farm no. 2, family members have also invested parts of their savings in the company. The financial picture of these two farms is therefore a bit more creative than for the others. This goes along with the presented theory I section 3.2. The limited companies are funded mainly by equity from the owner or owners (Berger and Udell, 1998), but the equity is partly raised by the owners taking private loans, leaving private assets as security (Ang, 1991). The credits were conducted mainly from the bank (Berger and Udell, 2002) and the collateral is the private property (Ang et al., 1995). This put the limited liability mechanism, which is built in the limited business form and meant to provide safety, somewhat out of order. When buying new machineries most of the farms leave the machine itself as security for the loan. If the loan does not get paid as it should, the supplier simply takes back the machines. As the informant from farm no. 5 puts it; if one should ignore any bills, do not start with the bank, they own your house. From this perspective it is no surprise that the limited liability mechanism had little impact on the choice of rearranging to a limited company, it simply does not make such a huge different in the end.

5.3 Organizational motives

Informants from two of the farms, no. 2 and no. 3, directly addressed the involvement of more than one person as one of the main reason for rearranging into limited companies.

Farm no. 2 is owned by two brothers and the informant explained how it affected their choice of rearranging into a limited company. Facilitating the ability for them both to overlook every part of the company is ensuring for them both and makes it possible for them to guard their own interests in the business. This would not have been possible to the same extent if they were to run the business as sole proprietorships in a simple partnership. The risks for any of them to sub optimize the activities and resources of the business decreases, due to both dependency on the other owner and the possibility for them to monitor each other, in line with the writings of Williamson (1981). The owners of this company had even signed a contract, regulating how the company should be managed in case of a feud. This way, the loyalty to the company is ensured and the transparency encourages them both to behave fair and honest to each other. There were no one else closely involved in the decision making of the company but the two owners, and since they share the company on a 50/50 basis they are dependent on each other in every strategic aspect. According to Williamson (1981) these conditions, with dependency and more than one person involved in the decision making of the business operations, motivates a shared ownership solution. The limited company has such a rigorous formality to it, resulting in a high transparency for all owners, making it possible for each and every one to feel in control and therefore trust one another. This also eases the division of assets between the two of them since owning half of the shares in the company mean entitlement to 50% of the company assets, much unlike the situation that would have been with two sole proprietorships.

The other case, which indicated an organizational motive, was the informant of farm no. 3. The informant explained how the limited company was set up when his son returned to the farm and entered the business. In order to include him in a fair way, and making it possible for the son to join and even take over the business in a future inter-generation change, without being forced into deep dept, the limited company was considered the only solution. Making it easy for the son to join the business, share the responsibilities over the operations and activities in a structured way, was the main reason for the limited company according to the informant. The clear structure a limited company offers in terms of ownership, incomes, dividends and assets could be a key factor in this case. All work performed by the two owners are charged through the limited company and both of the owners are employed by the limited company, receiving a fixed monthly salary. This type of arrangement would be next to impossible with any other type of legal business form. This goes for farm no. 2 as well. In a long perspective the plan for farm no. 3 is to increase the value of the limited company trough business growth and accumulated profits. Hopefully this will make it possible for the son to take over the company in the future, even the agricultural property. This way of planning ahead can be crucial for a successful succession and aligns with what is said by Motwani et al.(2006), Sharma et al.(2003), and Bruce and Picard (2006).

Both of these farms, no. 2 and no. 3, have relatively recently started their limited companies. Farm no. 2 registered the limited company in the year of 2010 and farm no. 3 in 2012. Both are hoping to expand their business in the future according to the informants. This could be two cases which shows the structural changes among Swedish farms were the total number of farms decreases but the size of the remaining ones increases. Since the difference in net profit due to taxes are not as big today as it was for those who started their limited companies during the late 1980's or the early 1990's, and the limited liability has little impact in reality, the

organizational advantages may be the main reason for rearrange into a limited company today. Since a larger farm is more likely to involve more people and the predictability, structure and transparency that comes with the formality of a limited company becomes a practical tool for managing the different interests that can come with several owners.

6. Conclusions

This thesis started out with explaining the historical context regarding business structure of farms in Sweden. Running a farm as a limited company is something that was uncommon a few decades ago but the number of farms which do so are increasing for every year whilst the total number of farms decreases. By interviewing informants from six farms located in the Uppsala county area the author wanted to find out why these six farms decided to rearrange their business into limited companies. The theoretical perspectives were that the motives would be connected with financial benefits, personal financial risk management or organizational business structure.

These three theoretical perspectives seemed to capture the situation quite well. Three of the respondents answered that the main reason was to reduce tax. Considering financial costs and benefits when deciding on the legal business form goes in line with the writings of Layard and Glaister (1994) and Mishan and Quah (2007). These three limited companies, farm no. 1, no. 5 and no. 6, were registered in the year of 1989, 1991 and 2000 when the differences in tax rate between a sole proprietorship and a limited company were bigger than today. Since then several legal changes have been introduced to reduce or eliminate the tax differences between different business forms. This is maybe the reason to why the farmers who has started their limited companies more recently has not taken taxes into much consideration, but rather focus on organization and structure, and in one case the personal financial risk.

If there is a trend amongst business owners to avoid taxes it could be interpreted as a sign of tax rates being too high. However, if the same business owners' consider taxes to be a non welcome cost, it will not matter how high or low the rates are, they will always be considered too high. In this case, three informants mentioned high taxes to be the reason for rearranging into limited companies. This could be viewed upon as a type of tax avoidance. On the other hand these three business owners simply did what they were allowed to in order to improve their company's financial well being. Tax rates are political decisions and the taxwise advantages with having a limited company have increased, with the aim to neutralize them, in order to lower the incentives to change business form due to tax rates.

One informant said that a lower personal financial risk was the main reason for rearranging into a limited company. This might seem surprising at first, that only one farmer specified this motive, especially since the other said that they had not considered it at all when they decided to rearrange. In a business that is so capital intense and where the operational assets quickly exceeds a valuation of millions SEK, one might expect a higher degree precaution. However it soon become clear that the personal limited liability, that a limited company is suppose to provide, is not a possibility for some of the farmers. Since the properties is often used as collateral for loans, and loans are the major source of capital, combined with that fact that the agricultural properties are owned by the physical person, eliminate the function of a limited liability in practice. This could be considered problematic in several ways. The limited company business form could be considered a political tool to increase the willingness to invest and create new companies. By creating a legal construction where investors do not have to worry about going fully bankrupt for a business idea the believe in, in theory the willingness to invest could be maintained. When the limited liability mechanism becomes irrelevant in practice, the willingness to make further investments risks to decrease. On a macrolevel it could seriously affect the agriculture sector if farmers feel that the financial risks are too high and the investments stagnates.

However, having many employees who can make financial claims on the company, claims that might exceed the total company value, brings back the relevance of a limited liability. Indeed the one informant who specified the personal financial risk as the main reason to rearrange into a limited company had the most employees. Though all farms in this study had employees at least sometime during the year, it is interesting that only one of them considered the fact that if anything happens to the staff, the financial claims from governments and insurance companies will be directed towards the employer. In a limited company the employer is the company, in a sole proprietorship the employer is the private person. When it comes to the health of employees, the monetary values can be high and the limited company effectively sets the bar for how much a financial claim can expect to receive in the case of, for example, a lawsuit; no more than the total assets within the company. The financial claims towards a private person can be higher than the assets available, leaving the person in question in a possible lifelong dept. Letting the limited company be the employer of staff is an effective way of removing financial risk from the owner to the company. But if dividends are extensive and level of equity are held low within the company, the chance of employees to receive financial compensation when it is legitimate, are small. Consequently the financial risk are somewhat transferred to the employees as well as the company. However, from a business owner point of view, it is preferable. Based on this, and the fact that farming is a relatively dangerous working place; every farm with employees should seriously consider the limited liability company as an alternative.

One informant mentioned it was mainly a question of business organization since, in that particular case, there were two owners equally involved in the business. One informant argued that it was both a way of reducing tax and accumulating profits for reinvestment into the company, and a way of including his son into the business on fair terms as they shared the ownership. The two farms that gave organizational business structure as their main motive or one of the motives, had rearranged into a limited company in the last five years and could be considered relatively new. This could be a sign of the structural changes within the Swedish agricultural sector, where farms grows bigger and involves more people, which requires new solutions regarding the farms business structure and organization. If one look at the case farms' average turnover rate the past three years, it stretches from approximately 4 million SEK to 10 million SEK. It could be that the farm size, mirrored in the turnover rate, matters when discussing whether to rearrange into limited business form but there seem to be no such connections among the cases of this study.

If farmers feel that they have to have limited companies instead of sole proprietorships, in order to include more and new people into their business in a good way, the law surrounding agriculture property ownership comes into a new light. It becomes a limitation that the property is bound to the physical person when everything else is related to the limited company. The old incitements for shutting put commercial ownership of agricultural land, that every unit should be selfsufficient, can be considered irrelevant today. Very few farmers of nowadays lives only on what the property could provide in terms of food, energy and material. Further, if the agriculture sector experience that the ownership regulation limitate the business development too much, it is possible that it will change in the future.

Since the sample size of this study is small, a general conclusion on the matter is unfeasible. What can be said is that the motive for rearranging into a limited company varies from case to case.

7. Further research

As discussed in the analysis in chapter 5, the farms that had their limited companies registered in the late 1980's and early 1990's all mentioned tax reduction as their main reason. The farms that had registered their limited companies after 2010's both have organizational motives. An extended and more quantified study could give more information on whether the motives changes over time. It would also be supplementary if an examination was to be conducted outside the delimitations of this research, and cases with a wider geographical and operational spread was taken into consideration.

Research with an *e contrario* perspective could also bring clarity to the big picture on decisions of legal business form at Swedish farms. There are certainly several farmers who have chosen *not* to rearrange their legal business form. Though those farmers could be hard to identify, it would make an interesting supplement for this study.

Bibliography

Literature and publications

AKTIEBOLAGSLAGEN 2005:551.

ANG, J. S. 1991. Small business uniqueness and the theory of financial management. *The Journal of Entrepreneurial Finance*, 1, 11-13.

ANG, J. S., LIN, J. W. & TYLER, F. 1995. Evidence on the lack of separation between business and personal risks among small businesses. *The Journal of Entrepreneurial Finance*, 4, 197-210.

ARGYROUS, G. 2009. *Evidence for policy and decision-making: a practical guide*, Sydney, University of New South Wales Press.

ASTRACHAN, J. H. 2010. Strategy in family business: Toward a multidimensional research agenda. *Journal of Family Business Strategy*, 1, 6-14.

BARRY, P. J., BIERLEN, R. W. & SOTOMAYOR, N. L. 2000. Financial Structure of Farm Businesses Under Imperfect Capital Markets. *American Journal of Agricultural Economics*, 82, 920-933.

BERGER, A. N. & UDELL, G. F. 1998. The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle. *Journal of Banking & Finance*, 22, 613-673.

BERGER, A. N. & UDELL, G. F. 2002. Small Business Credit Availability and Relationship Lending: The Importance of Bank Organisational Structure. *The Economic Journal*, 112, F32-F53.

BIRLEY, S. 2001. Owner-manager attitudes to family and business issues: A 16 country study. *Entrepreneurship: Theory and Practice*, 26, 63.

BOKFÖRINGSLAGEN 1999:1078.

BRUCE, D. & PICARD, D. 2006. Making Succession a Success: Perspectives from Canadian Small and Medium-Sized Enterprises. *Journal of Small Business Management*, 44, 306-309.

BRYMAN, A. 2012. *Social research methods*, Oxford, Oxford University Press.

CHITTENDEN, F., HALL, G. & HUTCHINSON, P. 1996. Small Firm Growth, Access to Capital Markets and Financial Structure: Review of Issues and an Empirical Investigation. *Small Business Economics*, 8, 59-67.

- COLE, R. A. 2011. How do firms choose legal form of organization? *Available at SSRN 1682263*.
- CORBIN, J. M. & STRAUSS, A. L. 2015. *Basics of qualitative research: techniques and procedures for developing grounded theory*, Los Angeles, SAGE.
- COVIN, J. G. & SLEVIN, D. P. 1989. Strategic Management of Small Firms in Hostile and Benign Environments. *Strategic Management Journal*, 10, 75-87.
- DJURFELDT, G. 2002. Farm Crisis, Mobility and Structural Change in Swedish Agriculture, 1992-2000. *Acta Sociologica*, 45, 75-88.
- DRÈZE, J. & STERN, N. 1985. *The theory of cost-benefit analysis*, Department of Economics, University of Warwick.
- EASTERBROOK, F. H. & FISCHER, D. R. 1985. Limited Liability and the Corporation. *The University of Chicago law review*, 52, 89.
- ENANDER, K.-G. 2007. *Skogsbruk på samhällets villkor*. Swedish University of Agricultural Sciences Department of Forest Ecology and Management, Report 1.
- FLYGARE, I., ISACSON, M., NORDISKA, M. & STIFTELSEN, L. 2003. *Det svenska jordbrukets historia: [Bd 5], Jordbruket i välfärdssamhället : 1945-2000*, Stockholm, Natur och kultur/LT i samarbete med Nordiska museet och Stift. Lagersberg.
- HAMMERSLEY, M. & CAMPBELL, J. L. 2012. *What is Qualitative Research?*, S.I., Bloomsbury Academic.
- HEMSTRÖM, C. 2010. *Bolag-föreningar-stiftelser: en introduktion*, Norstedts juridik.
- IKÄVALKO, M., PIHKALA, T. & KRAUS, S. 2010. The Role of Owner-Managers' Psychological Ownership in SME Strategic Behaviour. *Journal of Small Business and Entrepreneurship*, 23, 461.
- INKOMSTSKATTELÄG 1999:1229.
- JORDFÖRVÄRVLÄG 1979:230.
- KAHNEMAN, D., KNETSCH, J. L. & THALER, R. H. 1991. Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias. *The Journal of Economic Perspectives*, 5, 193-206.
- KINGSTON, G. 2001. Cost benefit analysis in theory and practice. *Australian Economic Review*, 34, 478-487.
- KNIGHT, F. H. 2012. *Risk, uncertainty and profit*, Courier Corporation.

- KSLA 2012. Kvinnorna i Jordbruket. Kungliga Skogs- och Lantbruksakademin.
- KURIAN, G. T. 2013. *The AMA dictionary of business and management*, AMACOM Div American Mgmt Assn.
- LAW, J. & SMULLEN, J. 2008. *A dictionary of finance and banking*, Oxford University Press.
- LAYARD, R. & GLAISTER, S. 1994. *Cost-benefit analysis*, Cambridge University Press.
- LRF 2009. Den osynliga entreprenören - Genus och företagande i de gröna näringarna www.lrf.se.
- MAHONEY, J. T. 1992. The Choice of Organizational Form: Vertical Financial Ownership Versus Other Methods of Vertical Integration. *Strategic Management Journal*, 13, 559-584.
- MERRIAM, S. B. 2014. *Qualitative research: A guide to design and implementation*, John Wiley & Sons.
- MILLER, D., LE BRETON-MILLER, I. & SCHOLNICK, B. 2008. Stewardship vs. Stagnation: An Empirical Comparison of Small Family and Non-Family Businesses. *Journal of Management Studies*, 45, 51-78.
- MISHAN, E. J. & QUAH, E. 2007. *Cost-benefit analysis*, Routledge.
- MODIGLIANI, F. & MILLER, M. H. 1958. The cost of capital, corporation finance and the theory of investment. *The American economic review*, 261-297.
- MOTWANI, J., LEVENBURG, N. M., SCHWARZ, T. V. & BLANKSON, C. 2006. Succession Planning in SMEs: An Empirical Analysis. *International Small Business Journal*, 24, 471-495.
- MYERS, M. D. 2013. *Qualitative research in business & management*, London, SAGE.
- MYERS, S. C. 1984. The capital structure puzzle. *The journal of finance*, 39, 574-592.
- MYRDAL, J., MORELL, M., NORDISKA, M. & STIFTELSEN, L. 2001. *Det svenska jordbrukets historia: Bd 4, Jordbruket i industrisamhället : 1870-1945*, Stockholm, Natur och kultur/LT i samarbete med Nordiska museet och Stift. Lagersberg.
- MYRDAL, J., MORELL, M., STOCKHOLMS, U., EKONOMISK-HISTORISKA, I. & SAMHÄLLSVETENSKAPLIGA, F. 2011. *The Agrarian History of Sweden : From 4000 BC to AD 2000*, Chicago, Nordic Academic Press.
- NEUMAN, W. L. 2011. *Social research methods: qualitative and quantitative approaches*, Boston, Mass, Allyn and Bacon.

- PETTERSSON, K & ARORA-JONSSON, SEEMA. 2009. *Den osynliga entreprenören - Genus och företagande i de gröna näringarna*. Stockholm: LRF Jämställdhetsakademi.
- PINDYCK, R. S. & RUBINFELD, D. L. 2009. *Microeconomics*, Upper Saddle River, N.J, Pearson Education International.
- SAMUELSON, W. & ZECKHAUSER, R. 1988. Status quo bias in decision making. *Journal of risk and uncertainty*, 1, 7-59.
- SCHULZE, W. S., LUBATKIN, M. H. & DINO, R. N. 2003. Toward a theory of agency and altruism in family firms. *Journal of Business Venturing*, 18, 473-490.
- SEALE, C., GOBO, G., GUBRIUM, J. F. & SILVERMAN, D. 2004. *Qualitative research practice*, Sage.
- SHARMA, P., CHRISMAN, J. J. & CHUA, J. H. 2003. Succession planning as planned behavior: Some empirical results. *Family Business Review*, 16, 1-15.
- SIISKONEN, H. 2013. From economic to environmental sustainability: the forest management debate in 20th century Finland and Sweden. *Environment, development and sustainability*, 15, 1323-1336.
- SKATTEVERKET 2008. Handledning för beskattning av inkomst vid 2008 års taxering, del 2. www.skatteverket.se.
- SOCIALAVGIFTSLAG 2000:980.
- WILLIAMSON, O. E. 1981. The Economics of Organization: The Transaction Cost Approach. *American Journal of Sociology*, 87, 548-577.
- ZUCKER, L. G. 1987. Institutional Theories of Organization. *Annual Review of Sociology*, 13, 443-464.
- ÄRVDABALKEN 1958:637.

Internet

- BOLAGSVERKET. 2015a. *Avgifter aktiebolag* [Online]. www.bolagsverket.se: Bolagsverket. Available: <http://www.bolagsverket.se/pb/priser/ab> [Accessed 2015-12-02].
- BOLAGSVERKET. 2015b. *Vad är ett aktiebolag* [Online]. www.bolagsverket.se. Available: <http://bolagsverket.se/ff/foretagsformer/aktiebolag/vad-1.3068> [Accessed 2016-03-22].

- EUROPEAN COMMISSION, A. A. R. D. 2015. *Farm Accounting Data Network* [Online]. <http://ec.europa.eu/agriculture/> European Commission. Available: http://ec.europa.eu/agriculture/rica/database_en.cfm [Accessed 2015-11-17].
- FÖRSÄKRINGSKASSAN. 2015. *Aktiebolag* [Online]. www.forsakringskassan.se. Available: <http://www.forsakringskassan.se/privatpers/foretagare/> [Accessed 2015-12-02].
- JORDBRUKSAKTUELLT. 2012. *Två bolag parallellt kan vara lönsamt för jordbrukare* [Online]. www.ja.se. Jordbruksaktuellt. Available: <http://www.ja.se/artikel/41034/delad.html> [Accessed 2016-01-10].
- SKATTEVERKET. 2015a. *Enkla Bolag* [Online]. www.skatteverket.se. Available: http://www.skatteverket.se/foretagorganisationer/foretagare/foretagsformer/enklabolag_4.6d02084411db6e252fe8000928.html [Accessed 2015-11-26].
- SKATTEVERKET. 2015b. *Kommunala skattesatser 2014* [Online]. www.skatteverket.se. Available: <https://www.skatteverket.se/privat/skatter/arbeteinkomst/skattetabeller/kommunalaskattsatsermmunder2014/omskattsatser.4.8dcbbe4142d38302d7106d.html> [Accessed 2015-12-02].
- SKATTEVERKET. 2015c. *Regler för fåmansföretag - inkomståret 2014* [Online]. www.skatteverket.se. Available: <https://www.skatteverket.se/foretagorganisationer/foretagare/foretagsformer/aktiebola/famansforetag/reglerforfamansforetag/inkomstare2014.4.15532c7b1442f256baeb430.html> [Accessed 2015-12-02].
- SKATTEVERKET. 2015d. *Rättslig Vägledning - Skogsbruk* [Online]. <http://www4.skatteverket.se/rattsligvagledning>. Available: <http://www4.skatteverket.se/rattsligvagledning/edition/2016.2/331286.html> [Accessed 2016-03-22].
- STATISTICS SWEDEN. 2016a. *Företagsregistret* [Online]. www.scb.se. Available: <http://www.scb.se/foretagsregistret/> [Accessed 2016-01-27].
- STATISTICS SWEDEN. 2016b. *Statistikdatabasen - Jordbruksföretag efter län/riket och företagsform. År 1981-2000, 2003- 2007* [Online]. www.statistikdatabasen.scb.se. Available: http://www.statistikdatabasen.scb.se/pxweb/sv/ssd/START_JO_JO0106/ForetagFormL/?rxid=7163a74e-8356-4562-9553-b585907eb4d6 [Accessed 2015-10-28].
- TILLVÄXTVERKET. 2015. *Konkurs aktiebolag - verksamt.se* [Online]. www.verksamt.se. Available: <https://www.verksamt.se/avveckla/aktiebolag/konkurs> [Accessed 2015-11-18].
- UC Allabolag AB. 2016. www.allabolag.se. Available: <http://www.allabolag.se/start> [Accessed 2016-03-22].

Personal messages

2015-12-02 Farm no. 1. *RE: On farm interview with farmer.*

2015-12-07 Farm no. 2. *RE: On farm interview with farmer.*

2015-12-08 Farm no. 3. *RE: Telephone interview with farmer.*

2015-12-10 Farm no. 4. *RE: On farm interview with farmer.*

2015-12-10 Farm no. 5. *RE: On farm interview with farmer and farming property owner.*

2015-12-10 Farm no. 6. *RE: On farm interview with farmer.*

Appendix 1: Taxation levels in the year of 2014



Belopp och procentsatser för inkomstår 2014

| | |
|----------------------------|-------------|
| Arbetsgivaravgifter | 2014 |
| Födda 1949 - 1987 | 31,42% |
| Födda 1988 - | 15,49% |
| Födda 1938 - 1948 | 10,21% |

| | |
|-------------------|-------------|
| Egenavgift | 2014 |
| Födda 1949 - 1987 | 28,97% |
| Födda 1988 - | 14,89% |
| Födda 1938 - 1948 | 10,21% |

| | |
|--|-------------|
| Särskild löneskatt på förvärvsinkomster | 2014 |
| Födda 1937 och tidigare | 0,00% |
| Alla som har passiv näringsverksamhet | 24,26% |

| | |
|----------------------|-------------|
| Prisbasbelopp | 2014 |
| | 44.400 kr |

| | |
|------------------------------|-------------|
| Förhöjt prisbasbelopp | 2014 |
| | 45.300 kr |

| | |
|-------------------------|-------------|
| Inkomstbasbelopp | 2014 |
| | 56.900 kr |

| | |
|----------------------------|-----------------------|
| Representation 2014 | |
| Extern | Exklusive moms |
| Lunch, middag, supé | 90 kr |
| Frukost | 60 kr |
| Golf, teater etc. | 180 kr |

| | |
|---|--------|
| Intern | |
| Lunch, middag, supé | 90 kr |
| Frukost | 60 kr |
| Hyra, underhållning etc. vid personalfester | 180 kr |
| Teater etc. | 180 kr |

| | |
|--|---------------------|
| Skattefria julgåvor till anställda 2014 | |
| Julgåva | 450 kr inkl moms |
| Jubileumsgåva | 1.350 kr inkl moms |
| Minnesgåva | 15.000 kr inkl moms |
| (t.ex. 25 års anställning, 50- eller 60-års dag) | |

| | |
|----------------------------------|--------------|
| Resa bostad - arbetsplats | 2014 |
| Egen bil | 18,50 kr/mil |
| Förmånsbil | |
| - bensin, etanol m.m. | 9,50 kr/mil |
| - diesel | 6,50 kr/mil |
| Motorcykel | 9,00 kr/mil |
| Mopedbil | 9,00 kr/mil |
| Moped | 4,50 kr/mil |
| Cykel | 250 kr |

| | |
|--------------------------------------|-----------|
| Avdrag för kostnader som överstiger: | 10.000 kr |
|--------------------------------------|-----------|

| | |
|-----------------------|-------------|
| Statslåneränta | 2013 |
| Genomsnittlig: | 2,01% |

| | |
|--|-------------------|
| | 2013-11-30 |
| | 2,09% |

| | |
|---|--|
| Mervärdesskatt (moms) | |
| 25% (20% av priset), den generella skattesatsen för moms | |
| 12% (10,71% av priset) t.ex livsmedel och restaurangtjänster | |
| 6% (5,66% av priset) t.ex böcker, tidskrifter och persontransporter | |

| | |
|--|--------|
| Skattefria traktamenten 2014 | |
| Inrikes tjänsteresa (övernattningskrävs) | |
| Hel dag | 220 kr |
| Halv dag | 110 kr |
| Efter tre månader | 154 kr |
| Efter två år | 110 kr |
| Nattractamente | 110 kr |
| (om arbetsgivaren ej betalt övernattnings) | |

| | | | | |
|---|--------|--------|--------|-------|
| Reduceringsbelopp inrikes tjänsteresa 2014 | | | | |
| Traktamente | 220 kr | 154 kr | 110 kr | 66 kr |
| Reducering för: | | | | |
| Mat hela dagen | 198 kr | 139 kr | 99 kr | 59 kr |
| Lunch & middag | 154 kr | 108 kr | 77 kr | 46 kr |
| Lunch eller middag | 77 kr | 54 kr | 39 kr | 23 kr |
| Frukost | 44 kr | 31 kr | 22 kr | 13 kr |

| | |
|--|-----|
| Reducering av normalbeloppen vid utrikes tjänsteresa 2014 | |
| Helt fri kost | 85% |
| Lunch och middag | 70% |
| Lunch eller middag | 35% |
| Frukost | 15% |

| | |
|-------------------|-------------|
| Kostförmån | 2014 |
| Frukost | 42 kr |
| Lunch/middag | 84 kr |
| Helt fri kost | 210 kr |

| | |
|--|--|
| Drivmedelsförmån i samband med bilförmån | |
| Inkomstår 2014 | |
| Vid beräkning av underlag för arbetsgivaravgifter: Marknadsvärdet inkl. moms | |
| Vid skatteavdrag och redovisning på kontrolluppgift: Marknadsvärdet inkl. moms x 1,2 | |

| | |
|---|------------|
| Brytpunkt för statlig inkomstskatt för löntagare | |
| Inkomstår 2014 | |
| Brytpunkt 1 (20%) | 433.900 kr |
| Brytpunkt 2 (25%) | 615.700 kr |

| | |
|--|------------|
| Skiktgräns för statlig inkomstskatt | |
| Inkomstår 2014 | |
| Skiktgräns 1 (20%) | 420.800 kr |
| Skiktgräns 2 (25%) | 602.600 kr |

| | |
|---|------------|
| Brytpunkt för statlig inkomstskatt för den som fyllt 65 år vid inkomstårets ingång | |
| Inkomstår 2014 | |
| Brytpunkt 1 (20%) | 460.800 kr |
| Brytpunkt 2 (25%) | 634.400 kr |

| | |
|---|------------|
| Gränsbelopp (enligt förenklingsregeln vid utdelning på kvalificerade aktier/andelar) | |
| Inkomstår 2014 | |
| | 155.650 kr |

| | |
|--|--|
| Fastighetsavgift för småhus 2014 | |
| Den kommunala avgiften för småhus är 7.112 kr eller högst 0,75 % av tax.värdet om det ger en lägre avgift. | |

Hus som är nybyggda 2011 eller tidigare får hel befrielse från fastighetsavgift de 5 första åren och halv avgift de följande 5 åren.
Hus som är nybyggda 2012 eller senare får hel befrielse från fastighetsavgift i 15 år.

Appendix 2: Interview Guide

This is the interview guide that was used by the author when conducting the interviews. Questions that were put to the informants are styled in *italic/cursive*.

1. General

- a. *History of the farm.*
- b. *Farming orientation*
- c. *Farm size (acreage, no. animals, revenue)*
- d. *No of owners in the limited company*
- e. *Year of registration*
- f. *Earlier type of legal business form*

2. Why have you chosen to run the farm as a limited company?

i. Cost Benefit related

- a. *Was/is there any tax advantages? How?*
- b. *Do you think that any costs have increased? Which?*
- c. *Did you have an accountant before? Do you have one now?*
- d. *Do you think there is more administration now?*
- e. *How is the rent of land- transaction handled?*

ii. Limited personal liability for payments related

- a. *Your thought on personal limited liability?*
- b. *Are any personal assets used as collateral for loans?*
- c. *Do you think a limited company has higher credibility with the bank or other stakeholders?*
- d. *If positive response to limited liability: Why do you think the limited personal liability for payments is necessary?*

iii. Organization and structure related

- a. *Why was it necessary to rearrange? Why chose the limited company?*
- b. *Is it working well? Do you think it would have worked well without the limited company?*
- c. *How many owners does the limited company have? Is there anyone else involved besides them?*
- d. *If context allows it: Have you thought of the limited company in relation to an inter-generation change?*

iv. Other and additional questions

- a. *Did you yourselves come up with the idea of a limited company?*
- b. *Did you have help with the rearrangement?*
- c. *How many owners are there of the agricultural property?*
- d. *How are the assets and properties distributed between the sole proprietorship and the limited company?*
- e. *Are you/the owners receiving salary from the limited company?*