# FARM BUSINESS AGREEMENTS FOR FATHER AND SON

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BOTH THE RURAL community and the rural family have much to gain from a successful farm business agreement between father and son. This sharing of the farm management, expenses, and income prepares a young man for future responsibilities and opportunities as a farmer and member of the community. Moreover, the successful father-son partnership enlarges the farm enterprise and increases the farm income.

Shown on the cover of this bulletin are the four partners in a successful farm business, O. C. Benrud, Goodhue County farmer, and his three sons. Left to right are Lester, Donald, Charles, and their father.

Mr. Benrud owns 213 acres of farm land, mostly tillable, and rents an additional 80 acres to increase the efficiency of the farm unit. Each of the three boys has bought a one-fourth interest in the farm machinery, livestock, and operating equipment. They share the operating expenses and income with their father, each on a one-fourth basis.

Complete and accurate farm accounts are essential for a successful partnership. Charles Benrud, 1940 national winner in the 4-H farm accounting contest, is especially qualified to keep the farm records in this partnership, but as Donald won state honors in the farm record contest in 1944 as a rural youth member, he, too, will take his turn as record keeper.

Charles has shown special aptitude as herdsman, so he manages the dairy herd of 48 milk cows. Donald takes pride in his poultry enterprise. He has 400 chickens. Lester, the handyman, has a well-equipped farm shop where he helps his father to keep the farm machinery operating efficiently.

Together these boys are proving the value of a farm family partnership.

# Farm Business Agreements for Father and Son

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ONE of our great needs is a better understanding of farm business agreements that will provide opportunity for young men to acquire experience and capital. To be of greatest use these agreements must be helpful to established farmers as well as to young men lacking the capital and experience necessary to insure success in managing a farm business.

Taking in a younger man under an appropriate farm business agreement often enables an older farmer to postpone retirement and to limit himself to less strenuous types of farm work and management. In many instances, an arrangement of this kind will give him a more satisfying life as well as provide an opportunity for a son, or a young man not related, to get started in farming.

## Keeping the Farm in the Family

Most parents earnestly desire to have the home farm owned and operated by succeeding generations of the family. The probability of this continuity of ownership will be increased if suitable farm business agreements are used. The failure of parents to provide a definite incentive for a son to become the operator, and eventually the owner, of the home farm is often responsible for the son's seeking opportunities elsewhere. This may result in the sale of the farm when the parents retire, and if the son decides later he wants to farm he will have to finance and organize an entirely new farm business.

To develop a business as well organized as the one on the home farm is likely to require many years. During this period the son's earnings are likely to be much lower than if he could have continued on the home farm. Furthermore, in many instances, the resources for living and the satisfactions of the parents are reduced with the disposal of the farm.

It should be borne in mind that in Minnesota only about one half of the farm boys are needed to replace farmers who die or retire each year. The other half must find employment in towns and cities. Some farm boys dislike farming and are therefore not likely to be successful. Others do not have the vigor and strength needed for farming. Not infrequently farm boys have talents and temperaments better suited to other kinds of work.

## Starting Costs at Record High Level

The capital needed to operate a family-sized farm even as a tenant has steadily increased. For example, the December 31, 1944, inventories of the feed, livestock, machinery, and other operating equipment on 161 farms in the Southeast Minnesota Farm Management Service averaged $11,500, or about twice that of 10 years earlier. While these farms are larger and better equipped than the average for that area, the increase in investment in personal property represents an over-all trend.

Although some reduction in capital requirements may result from lower prices, particularly for feed and livestock, the total investment in the personal property needed to operate a farm economically is likely to remain higher than before the war. A large proportion of the young men wanting to begin farming will lack capital to start on a sound basis even as tenants. Others will lack both capital and experience. These circumstances emphasize the need for farm business agreements suited to the resources of young men released from military service and from industry, as well as of those who have remained on farms during the war. These beginners will need the help and counsel of their fathers or other experienced farmers.

## How to Get Started

In the future as in the past, some young men will work for wages for their parents or other farmers in the community to accumulate the savings needed to start farming as tenants. In some situations this is the best plan to follow. However, under present high costs for operating equipment, this method may require the young man to work for wages for a long time or to risk losing his savings by making too small a down payment on the livestock and equipment he will need. This uncertainty may cause many young men to seek opportunities in other kinds of work. The farm business agreements discussed in this bulletin should shorten the period needed to get a start and reduce the risk.

## Father and Son Partnership

A father and son partnership is commonly understood to be any kind of an arrangement for allowing the son to share in the responsibility and income from a part or all of the farm business. A 4-H member or a Future Farmer who cares for and exhibits a calf, pig, lamb, or a pen of poultry, or who raises an acre of corn or other farm crop, is frequently referred to as being in partnership with his father.

The primary purpose of arrangements of this kind is to encourage the boy to take responsibility. Frequently these beginners share only a part or none of the expense and get all the receipts. As the boy proves his capacity to assume responsibility, he may enroll in more advanced 4-H or FFA projects. At this stage, it is customary and advisable for the son to pay the major costs of his project, such as the feed consumed by a ton litter or a pen of lambs.

The boy who succeeds with an advanced club project is likely to have increased significantly his contributions in labor and responsibility. His reward should be correspondingly greater.

These developments may be expected to stimulate interest in how the net income should be determined and how it should be divided between the boy and the father or other members of the family who may also have made contributions. When this stage is reached, it is important for father and son to recognize the basic principle that the net income from a partnership, or from any kind of a farm business agreement, should be shared on the basis of the relative contributions of each in real estate, personal farm property, labor, and management. In this bulletin, the term partnership is used in the popular sense rather than as a legal term. Whether any particular agreement is a partnership in a legal sense is a matter to be referred to a local attorney.

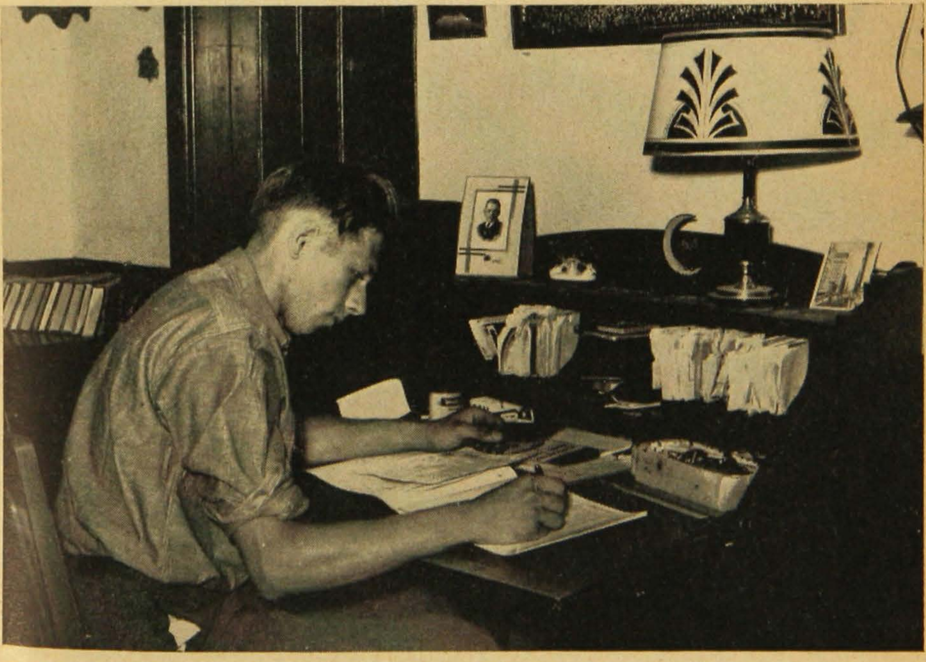
## Sharing the Income from the Entire Farm Business

Some boys are capable, willing, and anxious to assume more responsibility earlier in life than other boys. The desire to accumulate savings and to get established in farming also comes earlier with some boys than others.

Hence the most appropriate time for making an agreement that will allow a young man to share in the income from the entire farm business cannot be based on age alone. Parents who have a farm and family situation favorable to a father and son partnership should, however, encourage the son, or sons, to join in a plan for sharing the income from the entire farm business early in life. In many instances this may be done before the son is ready to devote full time to farming. The failure to start a partnership plan early is likely to make the undertaking more difficult or perhaps impossible later.

Following are some of the important reasons for sharing the income from the entire farm business rather than from one or more enterprises:

1. The son is encouraged to take an active interest in the success of all rather than part of the farm business.
2. It simplifies the problem of an equitable division of expenses and receipts.
3. The son's earnings are likely to be more uniform from year to year.
4. The important question of whether the son and his father can work together agreeably can be decided earlier in the son's life.
5. It may hasten a decision as to whether or not the son should make farming his life's work. An early and reliable decision on this is in the interest of both father and son.



Charles Benrud understands that complete and accurate records are useful not only when making the income tax return but also for improving the farm business

# What Makes a Father-Son Agreement Successful?

## The Business Must Be Large Enough for Two Families

The formation of a father-son partnership will usually mean dividing between two families the income formerly used by one. The son may marry and have a family of his own to support. He will usually want to accumulate capital more rapidly than is possible with hired man's wages. Unless he can increase his income as he increases his contribution of labor and management, he will not be satisfied with a father-son partnership. Similarly his parents and any brothers and sisters will not be satisfied with this arrangement if they must reduce their standard of living or sacrifice future security in order to give the partner-son a larger income. Father-son partnerships will not be likely to succeed unless the farm business is large enough or can be made large enough to support two families satisfactorily.

As the son enters into partnership with his father, he may increase his contributions of labor and management. He will now work for the full year, and since he has a stronger interest in the business, he may work harder. The son will also add his managerial ability to that of his father. With this increase in labor and management it is frequently possible to increase the total income.

Following are some ways in which father and son may increase the income:

1. They may rent extra land, or a second farm near enough to be operated with the same equipment. Such an arrangement may provide living quarters for one of the families.

This well-equipped farm shop enables Lester Benrud and his father to keep the farm machinery in good repair

2. They may increase the acreage of intensive crops such as sugar beets, potatoes, canning crops, and seed crops wherever these can be profitable.
3. They may increase the amount of the livestock by feeding crops that otherwise would be sold or by purchasing extra feed.
4. They may shift to kinds of livestock that will provide an outlet for a considerable amount of labor, such as dairy cows, chickens, or turkeys.
5. They may improve the efficiency of the farming operations, thereby getting higher rates of production and better quality.
6. They may do custom work for others.

The size of farm that is likely to support two families satisfactorily will vary greatly according to the type of farming. In general, however, farms of 160 acres or less are likely to provide a meager living for two families unless some intensive enterprises can be developed. Farms with 200 acres or more of good soil are the most likely to prove satisfactory for father-son partnerships. In areas where small grains are the chief crop it is likely to take upwards of 320 acres.

## Each Family Should Have a Separate Home

A large proportion of the farmers who furnished information on the requirements of successful father and son partnerships in a survey conducted by the writer placed "separate homes" at the top if the son were married.

Unless the house can be arranged to provide separate living quarters, or unless there are two houses already on the farm, the vital question of whether a second house should be built for a married son must be answered. Some farm houses are large enough to be rearranged so that each family has a separate apartment. Building a second house may place too great a burden on the earnings of the farm. In some cases the parents can rent or buy a house in a nearby town and continue their activity on the farm.

## Net Earnings Should Be Shared Equitably

Father and son should share the net farm earnings in proportion to their contributions. If an attempt is made to calculate contributions carefully and conscientiously, the agreement will be much more likely to succeed.

The son's contributions will increase as he develops skill as an operator and assumes larger responsibilities for management. As the partnership continues, the time may come when the son's contributions in labor and management will exceed those of the father. The probability of changes in the contributions of both parties emphasizes the need for a yearly examination of the partnership agreement. Even if no changes are needed a frank discussion of the whole agreement at the beginning of each partnership year tends to promote the good relationships so important in all partnerships.

## Good Farm Accounts Are a "Must"

Unless a complete and accurate record of all the farm business is kept, an accurate settlement is impossible. An account book should show item by item the inventory value and the ownership of the real estate and personal property at the beginning and at the end of the year.

All cash receipts and cash expenses for the year should be entered in the account book. Items that are not to be shared should also be included in the record of the farm business. These entries should show whether these items are the father's or the son's. Quantities or numbers and values should be shown in the inventories as well as for sales and purchases. The Minnesota Farm Account book is particularly well suited to partnership farm accounts.

As herdsman for the partnership Charles Benrud has improved the dairy enterprise. In 1945 there were 48 milk cows

## Good Farm Management Is Essential

A son ambitious to get established in farming is not likely to be satisfied unless he can gradually increase his savings or his equity in the farm property, as well as pay his living expenses. Hence, a partnership will not succeed unless the farm makes money. Good management is the first and primary step to profits in farming.

The first step in achieving a well-managed farm business is to establish a cropping system that will provide the largest acreage of high-return crops consistent with the conservation of the soil. Selecting the varieties of crops and using the soil-building practices needed to get better than average crop yields, feeding and managing livestock to get better than average returns over feed, and using the buildings or other improvements to the best advantage are basic to good farm management.

A carefully prepared plan for the farm business will not only help to conserve the soil and to obtain higher earnings from the land, but also will tend to avoid any misunderstanding as to how the farm is to be operated. The farm plan should show the approximate number of acres for each crop, including pasture; also the approximate number of each kind of livestock plus a comparison of needed feed with the amount likely to be raised.

## Father and Son Must Get Along

The father needs to appreciate that in a relatively short period of time a boy becomes a young man eager to take responsibility and to acquire some property or savings. The son needs to recognize the value of the experience and judgment of his father. Both father and son should be willing to discuss and to try to agree on the numerous problems of management that are certain to develop even when the farm business for the year has been carefully planned. A willingness to try out new ideas and to yield to the other's point of view occasionally is necessary to maintain the good relationships needed to make the partnership a success and to add to the pleasure and satisfaction of both persons.

### Written Agreement Is a Necessity

Misunderstandings are much less likely to develop if the terms of the agreement have been fully discussed, agreed upon, and recorded in legal form. Having a written copy to refer to as needed during the year is highly desirable. All parties to the partnership should have a copy of the agreement.

### Son Should Like to Farm

Unless a young man likes to be a farmer, he will not be happy in the work. Nor is he likely to be successful. Equally important is his wife's attitude toward farming. In no other business is a wife's interest and help more important. Women who understand farming and take an interest in farm affairs as well as the home are likely to be happiest on the farm. Good relationships between the two families help young women unfamiliar with farm life to become adjusted.

### Agreement Must Be Fair to Whole Family

The extent to which a partnership agreement with a son or sons influences the kind and amount of assistance that the father will be able to give other members of the family, or the savings needed for the retirement of himself and his wife, should have careful consideration before the partnership is started.

If other members of the family feel in any way cheated by the agreement, serious dissatisfaction may develop. It is therefore advisable for the father and son to inform other members of the family about the partnership and to secure family approval of the agreement if possible.

Although the examples contained in this bulletin assume that the father is to share the net income with one son, the writer recognizes that there may be several sons eligible in some families.

In a situation of this kind the question of providing equal opportunities or of giving a like amount of help to all of the children should receive careful consideration before a partnership is formed with a particular son or sons.

# Plan A

*The son contributes his share of the labor and management only. The father contributes the real estate, personal property, and his share of the labor and management.*

Plan A is based on the general principle that net income should be shared on the basis of relative contributions.

## Calculating Contributions

Contributions from real estate may be based on either the current cash rental rates for similar farms in the community, or on an agreed rate of interest on the current market value of the land and improvements. Contributions in personal farm property, with the exception of feeder livestock, should be measured at an agreed rate of interest on the current market value of the livestock and feed and the depreciated value of the machinery and movable equipment when the agreement is made.

The current wages for hired farm workers will indicate the level from which the labor and management contributions of father and son may be adjusted. Differences in skill, experience, capacity to assume responsibility, physical strength, and time to be spent at farm work may justify establishing the labor and management contributions of father or son above or below current wages.

Careful consideration should also be given to what either person, and particularly the son, could earn if employed by some other farmer in the community. In some cases, this may lead to the conclusion that the son would be likely to have a larger income if he worked for wages, even though the proposed agreement was as favorable to the son as the father could afford to offer. Unless this situation can be overcome through a larger or more efficient farm business, the agreement would not be in the interest of either father or son.

Landowners who rent are responsible for the taxes on the real estate, insurance, upkeep, depreciation, and improvements on the farm buildings. After the expenses of owning and maintaining the property have been deducted, the interest earned on the investment is likely to be similar to the rate earned on other low-risk investments such as government bonds. The son should not, therefore, be expected to share in the expense of ownership or maintenance, if the father's contributions in real estate are based on cash rent.

The extent to which the son should share in these expenses when contributions are based on interest on the present value of the real estate will depend

**Table 1. Example of Father-Son Contributions for the Year**
(Contributions in real estate expressed in cash rent)

| | Amount | Rate | Father | 1st Son | 2nd Son | Total |
|---|---|---|---|---|---|---|
| Father's contributions | | | | | | |
| Rent for real estate | 160 acres | $6 | $ 960 | ........ | ........ | $ 960 |
| Personal property | $10,700 | 5% | 535 | ........ | ........ | 535 |
| Labor and management | 12 months | $95 | 1,140 | ........ | ........ | 1,140 |
| First son's contributions | | | | | | |
| Labor and management | 12 months | $95 | ........ | $1,140 | ........ | 1,140 |
| Second son's contributions | | | | | | |
| Labor | ........ | ........ | ........ | ........ | ........ | ........ |
| Total value of contributions | ........ | ........ | $2,635 | $1,140 | ........ | $3,775 |
| Per cent contributed by each | ........ | ........ | 70 | 30 | ........ | 100 |

on the interest rate used in the calculations. If the interest rate corresponds closely with that earned on other low-risk investments such as U. S. bonds, the son should share in the expenses for the insurance and upkeep of the buildings and other improvements and in the real estate taxes. He may also be required to share the depreciation on the buildings.

Depreciation on buildings and other land improvements will be reduced if the buildings are kept in good repair. This is an important reason why some fathers do not require their sons who share the upkeep to share also the depreciation. An equitable sharing of the expenses of owning and maintaining the real estate is more difficult if the contributions in real estate are based on interest than if they are based on cash rent.

The example farm used in table 1 is more productive and better equipped and operated than the typical 160-acre farm. Space for calculating the contributions of a second son is included to show the arrangement of the table if two or more sons are in partnership with the father. If the contributions of a second son were estimated to be $375, the percentage contributions would be as follows: father 63 per cent; first son 27 per cent; second son 10 per cent.

### Father and Son Receipts

Father and son receipts include all income from the sale of crops, livestock, livestock products, agricultural adjustment and subsidy payments, custom work, work off the farm, and all other receipts from the operation of the farm as agreed upon.

### Father's Receipts

Since the father owns all of the real estate, work stock, machinery, and movable equipment used to operate the farm, he is entitled to all the receipts from buildings, machinery, or other equipment sold. If there should be any sale of gravel, timber, rights-of-way, and similar income, these returns should go to the father.

### Father and Son Expenses

Father and son expenses include all feeds, seed, and miscellaneous crop expenses; all livestock purchases; miscellaneous livestock expenses; gasoline, tractor fuel, and lubricants, and all ordinary repairs on machinery or other movable equipment, including the farm share of the automobile; taxes and insurance on the personal property; wages and cash costs of board for hired labor; rent for additional land; and all other operating expenses as agreed upon.

### Father's Expenses

Father's expenses include all purchases of machinery or other movable equipment including horses; new buildings; fences or other new land improvements; repairs on buildings, fences, or other land improvements; interest on money owed on the farm or personal property; taxes and insurance on buildings or other land improvements.

### Cash Advances to Son

The son should receive a monthly cash advance for personal expenses. Cash advances to the son should be the minimum amount needed for personal expenses. The total of all cash advances to the son is deducted from his share of the "net farm income" when a division is made at the end of the year.

### Calculating and Dividing the Net Farm Income

Subtract cash expenses from cash receipts. The balance is the "net cash income." Add the increase or subtract the decrease in the inventory of livestock feed and supplies from "net cash income." From this total subtract the depreciation on the father's machinery and equipment. The balance is the "net farm income." Multiply "net farm income" by per cent contributed by father and son to determine their shares.

If the monthly cash advances to the son for personal expenses totaled $720, the amount due the son when settlement was made at the end of the year would be $1,643 (table 2) less $720 or $923.

**Table 2. Example Showing Partnership Receipts and Expenses and Division of Income**
(From an Actual Record, 1944)

| Cash Receipts: Item | Value | Cash Expenses: Item | Value |
|---|---|---|---|
| Cattle | $ 1,075 | Cattle purchased | $ 150 |
| Dairy products | 4,206 | Poultry purchased | 176 |
| Hogs | 2,590 | Miscellaneous livestock expense | 138 |
| Eggs | 1,665 | Miscellaneous crop expense (including crop insurance) | 384 |
| Poultry | 283 | Feed | 1,533 |
| Crops | 193 | Custom work hired | 366 |
| AAA | 68 | Power-repairs, gas, oil, electric current | 657 |
| Work off the farm | 379 | Machinery and equipment expense | 148 |
| | | Hired labor (other than son's cash advance) | 31 |
| | | Taxes—personal property | 43 |
| | | General farm (including insurance) | 89 |
| Total | $10,459 | Total | $3,715 |

**Division of Net Income**
**Complete Earnings Statement—1944**

| | | | |
|---|---|---|---|
| Total cash receipts | | $10,459 | |
| Total cash expenses | | 3,715 | |
| Net cash income* | | $ 6,744 | |
| Net cash income | | $ 6,744† | |
| Increase on inventory of livestock, feed, and supplies | | | |
| | | $ 6,744 | Net cash income plus increase in inventory. |
| *Less* | | | |
| Decrease in inventory of livestock, feeds, and supplies | $1,072 | | |
| Depreciation‡ on machinery and movable equipment | 197 | 1,269 | |
| Net farm income | | $ 5,475 | |
| Son's share of net farm income (30%) | | 1,643 | |
| Father's share of net farm income (70%) | | 3,832 | |

* If the farm is rented for cash, rent is included in cash expenses.

† During the 10-year period 1935 to 1944, net cash income ranged from $2,800 in 1935 to $6,744 in 1944. If the son's contributions were 30 per cent in 1938, his share would have been 30 per cent of $2,800 or $840 less the depreciation on machinery, plus or minus inventory changes in livestock, feeds, and supplies.

‡ A good way to calculate depreciation is as follows: Beginning inventory plus purchases less ending inventory plus sales.

# Plan B

*The son contributes one half of the personal farm property such as livestock, feed, machinery, and movable equipment. The father contributes the real estate and one half of the personal farm property. Both contribute labor and management.*

**Plan "B"** is well suited to a son who has acquired enough capital to purchase an undivided one-half interest in the feed, livestock, machinery, or other movable equipment, and who has had sufficient experience and training to be able to relieve the father of a large share of the responsibility of management.

Assuming no important change in the size or management of the farm business, the son's income is likely to be considerably higher under plan "B" than under plan "A," especially in favorable years. Sons are therefore likely to be eager to accept a 50-50 partnership. The father's share of the farm business will necessarily be less under plan "B" than under plan "A." However, if the father would otherwise have been forced to rent or sell his farm, the increase in his costs for living in a nearby village or town would probably equal or exceed his reduction in income resulting from going into a 50-50 partnership.

The net income from a poor farm may not be large enough to provide a satisfactory living for one family. It is, therefore, advisable with either plan "A" or plan "B" for the father and son to estimate their incomes from the proposed agreement before making a final decision. In some situations the father's share of the net income under a partnership may not be large enough to provide for the needs of the whole family. The son needs to be reasonably sure that his income over a period of years will be as large or larger than if he had worked for wages for some other farmer in the community. Both father and son should, however, keep in mind that successful 50-50 partnerships increase the probability of the son's continuing to operate the farm as a partner or as a tenant when the parents retire. A development of this kind increases the son's chance of becoming the owner of the family farm.

### Contributions

Since father and son each own an undivided one-half interest in the personal farm property, their contributions to this part of the business are equal. Both father and son are allowed wages for their contributions in labor and management. Again, the contributions in real estate may be based on either an agreed rate of interest on its current value or on cash rent.

### Receipts and Expenses

Receipts and expenses are the same as under plan "A" except that the sales and purchases of work stock, machinery, and movable equipment are shared equally under plan "B." Since each party has an undivided one-half interest in all personal farm property, depreciation on the equipment is also shared equally.

### Dividing the Net Income

Calculations for determining the father's and the son's share of the "net income" at the end of the year are to be made as follows:

1. Subtract total cash operating expenses from total cash receipts. The balance is the "net cash income."
2. Deduct wages for father and son from "net cash income."

3. Deduct rent for the father from "net cash income less wages."
4. Divide the balance on a 50-50 basis.

Making the deductions in the above order gives wages a prior claim over rent. In the event the "net cash income" is too low to allow father and son the wages agreed upon, the balance should be divided in proportion to their contributions in labor and management. If, for example, the agreement provided that the father and son should each receive wages of $80.00 per month, the balance available for distribution should be divided on a 50-50 basis. But if the agreement allowed the son $80.00 per month and the father $40.00, the balance available for distribution should be divided—two thirds to the son and one third to the father.

The foregoing method of dividing the income assumes that the father owns the farm. In a situation where the father or the father and son rented the farm for cash from a third party, rent would have priority over wages.

**Table 3. Father and Son Receipts and Expenses and the Division of Income**
(From an Actual Record, 1944)

| Cash Receipts Item | Value | Cash Expenses* Item | Value |
|---|---|---|---|
| Cattle | $1,075 | Cattle purchased | $ 150 |
| Dairy products | 4,206 | Poultry purchased | 176 |
| Hogs | 2,590 | Miscellaneous livestock expense | 138 |
| Poultry | 283 | Miscellaneous crop expense (including crop insurance) | 384 |
| Eggs | 1,665 | Feed | 1,533 |
| Crops | 193 | Custom work hired | 366 |
| Machinery, equipment, and work stock sales | 37 | Power-repairs, gas, oil, electric current | 657 |
| AAA | 68 | New mechanical power and horse purchases | ........ |
| Work off the farm | 379 | Machinery and equipment expense | 148 |
| Miscellaneous | ........ | New machinery and equipment purchased | 315 |
| | | Hired labor (wages for father and son excluded) | 31 |
| | | Taxes—personal property | 43 |
| | | General farm (including insurance on personal property) | 89 |
| TOTAL | $10,496 | TOTAL | $4,030 |

| | | |
|---|---|---|
| Cash receipts | | $10,496 |
| Less cash expenses | | 4,030 |
| Net cash income | | $ 6,466 |
| Less wages | | |
| Father | $1,140 | |
| Son | 1,140 | 2,280 |
| Net cash income less wages | | $ 4,186 |
| Less rent for father† | | 960 |
| Cash balance to be divided‡ | | $ 3,226 |
| Father's half share | | 1,613 |
| Son's half share | | 1,613 |

* Wages for father and son should not be included in cash expenses.

† Methods for adjusting cash rent to changes in prices of farm products are given on pages 19 and 20.

‡ There was a decrease of $1,010 in machinery and equipment, work stock, feed, and livestock. If a complete settlement were being made, $1,010 should be subtracted from the "Cash balance to be divided." This would reduce each party's share by $505.

# Procedures Common to Both Plan "A" and Plan "B"

### Savings and Increases in Inventory

Plan "A" as a farm business arrangement is designed to give a son, or sons, training and experience in managing a farm as well as the opportunity to acquire the savings needed to get started farming. The son may invest his savings in government bonds until he has the funds and the opportunity to purchase a one-half interest in the personal property needed for a 50-50 partnership (plan "B") with his father. Or an older son who had acquired the necessary savings may purchase the equipment needed to operate some other farm if it is desirable to make way for younger sons on the home farm.

Plan "A" assumes that the quantities of feeds produced and the number of livestock raised under this agreement will equal if not exceed the production of feed and livestock before the partnership was started. Since the son will be contributing his labor and his share of the costs of the feed produced and of the livestock raised after the partnership begins, he is entitled to share in the receipts from the feed and livestock on the farm from the time the partnership begins. For example, if a cow were sold a week after the partnership began, the income would be shared.

The father continues to own all of the livestock and feed except for increases as shown by inventory changes at the end of each year. These are shared on the basis of relative contributions of father and son. For example: If the son's contributions were 30 per cent of the total, his share of an increase in livestock and feed of $300 would be 30 per cent of $300 or $90.

If the father and son plan a substantial increase in the number of livestock, sometimes made possible by renting more land, they may agree to divide the increase on the basis of numbers of livestock rather than on a cash basis. If this method of sharing the increase is used, a division may be made when the agreement is terminated rather than at the end of each year. This arrangement will enable the son to acquire some of the livestock needed for a 50-50 partnership or for a livestock rental agreement, without reducing livestock needed by the father to operate in case the agreement is ended. For example: If the inventory at the time of settlement shows an increase of 10 cows, 10 heifers, and 10 calves, a son whose contributions are 30 per cent of the total contributions would be entitled to 3 cows, 3 heifers, and 3 calves. Whether adjustments for inventory changes on livestock are made annually or when the agreement is discontinued, the son shares in the sales from all livestock on the farm. The annual or final settlement makes adjustments for changes of inventory only.

### Purchased Feeders

Feeder livestock purchased after the agreement is made would be treated the same as any other father and son expense. But if purchased feeders, cattle, hogs, or sheep are on the farm when the partnership agreement is made, a separate agreement on this part of the farm business may be needed. Following are two plans:

(a) If the income from the purchased feeder stock is likely to be a minor portion of the total farm income, this stock may be inventoried at current market values, and settlement made as part of the inventory adjustments on all livestock and feeds at the end of the year. This would allow the son to share in the sales or in the increase in the value of the purchased feeder livestock at the end of the year in the same proportion that he shares in all other farm receipts.

(b) If the purchased feeder livestock is to be marketed reasonably soon after the partnership begins, the father might arrange to pay the son for his share of the feed and for his labor with the feeder stock. With this arrangement the father would get all of the receipts.

## Time to Start

A partnership may be started at any time of the year. If an income tax is to be filed on a calendar year basis, starting a partnership January 1 will reduce the farm accounting work. On the other hand, an important advantage of starting in the spring is that inventories of feed and livestock are likely to be lower than at other seasons of the year.

## Beginning and Ending Inventories

Beginning and ending inventories are needed to determine net farm income when settlement is made. Father and son should work together in taking these inventories.

Farm market prices may be used in taking the beginning and ending inventories of feed and market livestock, such as hogs, feeder cattle, and feeder lambs. Instructions for calculating quantities of feed from measurements are given in most farm account books.

Inventory values for raised work and breeding livestock (horses, cows, heifers, ewes, etc.) may be based on a conservative estimate of the current market value of these livestock.

*In so far as possible* it is desirable to have inventories reflect quantities and numbers rather than variations in market prices. The influence of price changes may be reduced if the father and son will agree to use similar values for a like kind and quality of raised work and breeding livestock in taking beginning and ending inventories. This arrangement will make inventory changes on these kinds of livestock largely dependent on number raised.

**The home has been included in this farm family partnership, for Charles and Donald Benrud found time to install these kitchen cupboards for their mother**

Purchased work and breeding livestock may be inventoried on the basis of purchase price.

The father should dispose of nonbreeding, aged, or unthrifty livestock before the partnership is started.

### Handling the Business

A joint bank account should be opened, and the father should receive and deposit in this account all receipts that are to be shared by both parties. All expenses to be shared should be paid from the joint account by the father and all payments made by check.

If it is agreed that minor receipts and expenses may be handled by either father or son, a statement and a settlement of these accounts should be made weekly or monthly.

### Farm Accounts

A complete record of the farm business must be kept in a farm account book approved by both. The father and son should work together in taking complete inventories of all real estate and personal property at the beginning and at the end of the year.

Although the father and son may agree that the son is to keep the account book, the father should assume responsibility for the completeness and accuracy of the farm records. The probability of overlooking items would be reduced if father and son kept separate records and checked books at the end of each week or month to make certain that the accounts agreed.

### Settlements

Settlements should be made at the end of the year covered by the agreement. If the son contributes none of the capital, as in plan "A," it is highly important that all noncash receipts and expenses be included in the annual settlement. These include inventory increases and decreases in livestock and feeds, also depreciation on the father's machinery and movable equipment.

Under plan "B" yearly settlements may be based on "net cash income"—cash receipts less cash disbursements. Inventory changes would be included when final settlement is made.

### Written Agreements

Having a written agreement to refer to will help to avoid misunderstandings during the year as well as when settlement is made.

A practical procedure is for the father and son to prepare a written statement of the terms agreed upon and then to employ an attorney to change the statement into a written legal agreement. A legal agreement may be useful for several purposes:

(1) To furnish evidence of the existence of an agreement to share the farm earnings if required by income tax officials when separate returns are filed.

(2) To make a settlement with other heirs in the event of the death of the father or son.

(3) To give the signers of the agreement a clearer understanding of their rights and responsibilities.

**Whether a farm business agreement is a partnership, a lease, or an employer-employee agreement depends on the terms and on the way the business is carried out, rather than on the name used to describe the agreement. What is called a livestock share lease may, for example, be a partnership in a legal sense.**

If an agreement meets the legal requirements of a partnership, any member can be held responsible for debts contracted by other members in carrying on the farm business. But if the agreement conforms to the legal requirements of a lease, neither party is responsible for the debts contracted by the other.

The father should recognize that if

the son is a minor, the agreement will not be binding on the son. However, discussing the terms and recording them in an agreement will be valuable experience for the son.

An agreement should be signed by all members of the partnership. Each should have a copy. Following are some provisions that should be included:

1. *Date and names of parties.* "This agreement is entered into the______ day of____________________ 19__ between________________, the father, and________________, the son."
2. *Description of the land.* This clause should show the number of acres and the legal description of each tract as shown by the tax receipt. If the farm is made up of pieces of both owned and rented land, separated from each other, the legal description of each piece should be given.
3. *Term of agreement.* Unless both parties are certain they want the agreement to continue for a definite number of years, the following clause is likely to be appropriate: "The term of this agreement shall be from the______day of______________to the ______ day of______________and from year to year thereafter unless written notice of termination is given by either party to the other on or before the______day of________________ before the expiration of any year of this agreement."
4. *Division of net farm income.* "The net farm income at the end of the contract year shall be divided on the basis of_____per cent to the son and_____per cent to the father." (If wages are to be given priority over rent as suggested in plan "B," this must be stated.)
5. *Farm receipts and expenses.* The receipts and expenses that father and son are to share as well as those for the father or for the son individually should be listed separately.
6. *Arbitration clause.* The following is an example: "Any differences between the father and son shall upon the request of either party be submitted to arbitration by one disinterested party agreeable to both, or by three disinterested persons, one of whom shall be selected by the son, one by the father, and a third by the two thus appointed. The decision of the arbitrator(s) shall be binding upon the parties to this contract."
7. *Other special provisions.*
   - (a) If an agreed rate of interest is used instead of rent in calculating the father's contribution in real estate and if the son is to share the cost of the upkeep on the buildings or other land improvements, a definite agreement on the extent of the son's liability may be needed.
   - (b) Charge for board and room for the son should be specified if a charge is to be made.
   - (c) If the son is married, quantities of meat, eggs, milk, cream, fuel, and garden products to be allowed each family should be specified.
   - (d) Fix compensation due the father for use of the auto by the son for personal purposes. The son might be required to keep a record of his personal mileage and to pay his proportionate cost of operating the auto.
   - (e) Fix size of monthly cash allowances for the son for personal expenses (plan "A").
   - (f) Include a clear statement of how inventory values are to be established.
   - (g) Specify farm account book to be used and who is to be responsible for keeping the book.
   - (h) Include a clause restraining the son from giving a third party a chattel mortgage on his undivided interest in the livestock and feed.

# Adjusting Rents to Changing Farm Prices

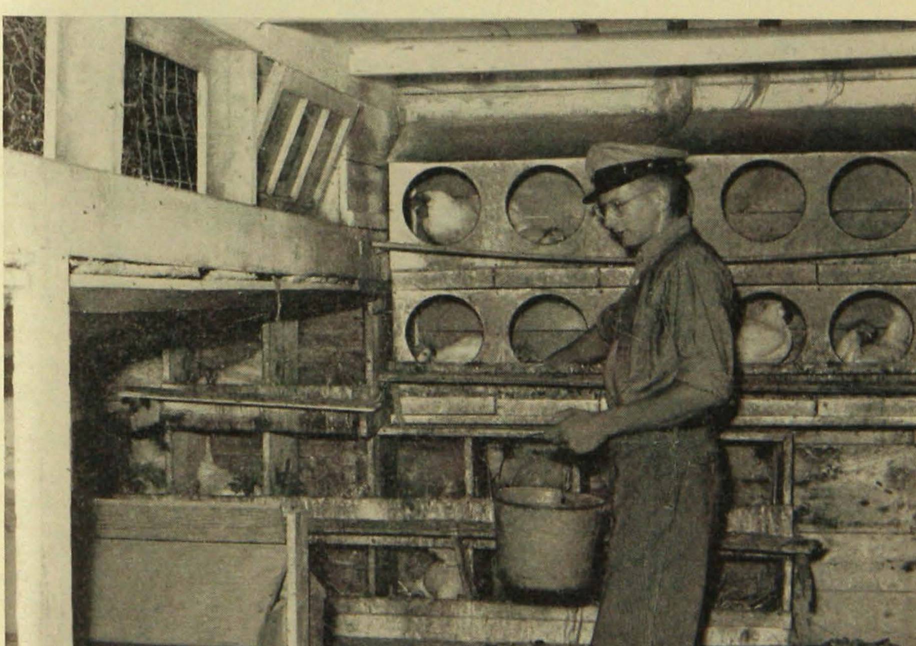
In years of poor crops or low prices the gross income from the farm business may not be large enough to pay the cash operating expenses, rent, and necessary living expenses of the father and son. This is particularly true if there are two families to support.

The effect of price changes on the income available for living expenses can be reduced materially if the cash rent is adjusted to changes in the prices of farm products. Some of the ways in which these adjustments can be made are explained in the following paragraphs.

The first step in making this adjustment is to reach an agreement on what the farm would have rented for in a period of relatively stable prices. Prices of farm products were relatively stable in the five-year period 1935-39. Let us assume, for illustrative purposes, that farm "X" would have rented for $900 in this five-year period.

## Basing Rent on the Minnesota Index of Farm Prices

This index, calculated and published monthly by the Division of Agricultural Economics, University Farm, and supplied to all county agents, expresses the average of the increases and decreases in the prices of farm products each month as compared with the corresponding month in the five-year period 1935-39. In July, 1945, the Minnesota farm price index was 183, or 83 per cent above the farm price index for the month of July during the 1935-39 period. The farm price index to be used in adjusting cash rent to changes



The poultry project of 400 chickens is Donald Benrud's responsibility in farm prices should be an average of the farm price indices for the months included in the agreement.

Since the Minnesota Farm Price Index for a particular month is not published until the 20th of the succeeding month, the farm price index to be used in adjusting cash rent must be an average of the crop indices of the first 11 months covered by the agreement. For example, if the cash rent were due September 1, 1945, the crop index used in adjusting the cash rent would be an average of the crop indices for the 11 months preceding the month of August, i.e., September, 1944, to July, 1945. The average of the crop indices for this 11-month period was 175. The adjusted cash rent for farm "X" for the year ending September 1, 1945, would be as follows:

$$\frac{175}{100} \times \$900 = \$1{,}575$$

The Minnesota Farm Price Index for the calendar year 1932 was 55 as compared with 100 for the five-year period 1935-39. If the cash rent were adjusted to the low prices of farm products in 1932 the rent for farm "X" would have been as follows:

$$\frac{55}{100} \times \$900 = \$495$$

## Basing Rent on Specified Quantities of Farm Products

Estimate the relative proportions of the total farm receipts that were obtained from important farm products when prices were relatively stable. For example, if it be estimated that in the period 1935-39, butterfat, hogs, and corn each contributed approximately one third of the total farm receipts for farm "X," we may assume that about one third ($300) of the rent would have been paid from the sales of each of these products.

During the 1935-39 period, butterfat averaged $0.274 per pound, hogs $8.40 per 100 pounds, and corn $0.61 per bushel. The average quantity of each product required to pay one third of the annual cash rent during this five-year period is obtained by dividing $300 by these average prices. The approximate quantities needed to pay the rent would have been as follows: butterfat 1,100 pounds, hogs 3,600 pounds, corn 500 bushels. If the landlord had received the cash equivalent of these quantities, his rent would have averaged $900 per year. But the amount of rent paid in any one year would have varied with the prices of these three products.

In 1932 a tenant on a southern Minnesota farm agreed to pay his landlord the cash equivalent of 65 pounds of butterfat each month and of 5,000 pounds of hogs per year. Rental payments from the hogs were made on two installments as follows: 2,500 pounds of hogs at the local market price on the first Saturday in April, and 2,500 pounds at the local market price on the first Saturday in October.

During the nine-year period 1932-40, the cash rent varied from a low of $2.70 per acre in 1932 to a high of $6.10 per acre in 1937. The agreement was continued until the death of the landlord.

This plan has the advantage that the adjustments in amount of rent closely parallel the variations in the income of the particular farm.

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