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# FATHER - SON FARM BUSINESS AGREEMENTS

Circular 587

UNIVERSITY OF ILLINOIS . . . COLLEGE OF AGRICULTURE  
EXTENSION SERVICE IN AGRICULTURE AND HOME ECONOMICS

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The forms printed in this circular are suitable for use without recopying. The selected form may be left in the circular or torn out. . . . Since each party to an agreement should have a copy of it, a second copy of this circular can be obtained free from any Illinois county farm adviser or from the College of Agriculture, University of Illinois, Urbana.

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# FATHER-SON FARM BUSINESS AGREEMENTS

By J. B. CUNNINGHAM and H. C. M. CASE

THE DEVELOPMENT of good father-son business relations is one of the great needs of Illinois agriculture. If young men who have the experience, training, temperament, and health to become good farmers are to be retained on the farm, some way must be provided to give them a start.

The sharing of the farm business with a son or other young man is not only a solution of the problem of the young man who is ready to choose farming as his life work, but it also solves the problem facing many experienced farmers who would like to retire from the heavy work of the farm yet do not want to separate themselves entirely from its operation. There is now a large proportion of older men in the farm population—therefore a special need to develop young men for replacements.<sup>1</sup> These young men are available among ex-servicemen, sons in military service, sons who had been helping on the farm during the war, young sons who are just reaching the age where they can carry more business responsibility, and sons of neighbors.

## SHOULD ALL FARM BOYS FARM?

The answer to this question is *No*. In the first place, the number of farm boys in Illinois is about twice as great as the replacements that are needed. During the past half century the excess young men from farms have been absorbed by industry and the professions, and this shift from country to city may be expected to continue.

A farm boy who is physically handicapped for certain kinds of farm work may find it easier to succeed in some other occupation. An allergy to dust and feed, for example, is a serious handicap on a livestock farm but not necessarily in a factory or office. Sometimes, however, managerial ability and other factors offset physical limitations and a young man succeeds as a farmer in spite of them.

Some boys are not interested in farming; others have wives who are not interested in the farm way of life; still others are unable or

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<sup>1</sup>In 1940 about 35 percent of the farm operators in Illinois were over 55, whereas in 1920 only 24 percent were beyond that age. Since 1940 there has undoubtedly been a further increase in the proportion of farmers in the older group.

unwilling to do the things that are necessary to become successful farmers. They may not have the enthusiasm, or the eagerness to acquire essential information. They may not have the mental alertness, the thriftiness, healthiness, and ability to work vigorously. They may not be good managers, or they may be unwilling to give the necessary attention to details.

Young men who are lacking in these qualities should not go into farming, for there will always be enough qualified young men to take over if they are given the right opportunity.

## SON SHOULD SHARE ENTIRE BUSINESS

In normal times many father-son farm business agreements begin gradually, the son's share being small at first, but increasing as his labor and other contributions become more valuable. Some sons start by way of 4-H club work, by owning one or more head of livestock or a small acreage of crops. Some start in F.F.A. projects, and others who begin in 4-H club work continue in F.F.A. projects once they are in high school. As the son develops, he frequently becomes an owner with his father in one of the farm enterprises.



More than one son may be taken into a farm business agreement. This father and his two sons run a 294-acre rented livestock farm, each son receiving one-fourth of the net farm income exclusive of interest charges on the father's investment.

With the son's increasing maturity, however, such arrangements should be replaced by an agreement giving him an interest in the entire business. There are a number of reasons why such an agreement is most satisfactory. Interest in the business as a whole will (1) give the son the opportunity to assume broader responsibilities and to attain more financial experience, both of which he should have before he is out of his teens; (2) greatly simplify the problem of dividing items of income and expense; and (3) give the son a more uniform net income from year to year than a single enterprise will give. Then, too, a young farmer who continues to concentrate on one crop or one class of livestock is not likely to study all phases of the business as closely as he would if he had a financial interest in them. Such agreements also make for continuity of ownership and for operation of the same farm in the same family from one generation to the next, thus contributing to the stability, permanence, and wholesomeness of farm and community life.

For these reasons the Illinois father-son farm business agreements are based on the son's sharing the entire business.

## ESSENTIAL CONDITIONS

**Business of adequate size.** Farming operations must be large enough and must be so organized as to furnish profitable employment for both father and son if both are to work on the farm. Better farming methods, more livestock, and new enterprises, as well as more acres, may be used to increase the farm income. Altho most "two-man" farms in Illinois include 200 acres or more, a few of the most profitable father-son partnerships are based on intensively developed 140- to 160-acre farms.

**Equitable sharing.** Father and son should share in the net earnings in proportion to their contributions to the business. If the son furnishes only labor and the father provides labor, capital, and management, the son's share of the earnings will be much less than the father's. This arrangement develops in the son an appreciation of what goes into the development of a successful farm business.

**Frequent adjustments.** If a father-son farm business agreement is to stay fair continuously to both parties, it will be necessary to review frequently the values given to each other's labor and other contributions. It is especially important that the value placed on the labor and judgment of a loyal and industrious son be increased as often as his development seems to warrant. These re-evaluations can well be made every two or three years. In this process the value assigned to the son's labor and managerial ability may normally be expected in time

to equal, or even to exceed, that of his father. This recognition of a son's increasing ability requires wisdom and openmindedness on the part of the father; but only by such recognition will the two parties to the agreement enjoy the satisfactions that can be derived from it.

**Good management.** To succeed, the farm business must make money. The key to making money is good management, and good management includes the adoption of a cropping system that will provide a maximum of high-profit crops; the use of practices that will maintain soil productivity, bring high crop yields, and give good returns for feed fed; the keeping of suitable kinds and amounts of livestock; and the efficient use of labor, machinery, and improvements.

**Guaranteed income for son.** If the son contributes only his labor to the farm business, he should be guaranteed a monthly wage that will cover his personal expenses. When settlement is made at the end of the year, any payments made to him during the year will of course be deducted from his share of the net farm earnings.

If the son has accumulated considerable capital and owns an interest in the business, a guaranteed wage may not be necessary.

**Well-kept farm records.** Division of expenses and income under a father-son agreement should be based on well-kept farm records, which include inventories, cash receipts, and cash expenses. The ILLINOIS FARM ACCOUNT BOOK<sup>1</sup> fills these needs.

A complete settlement may be made at the end of each year; but it is often more convenient merely to divide the net cash income and not consider changes in inventories until the agreement has run for several years (*Plans 2 and 3*). Under the latter arrangement, however, it may be more difficult to arrive at a settlement, especially if between settlement dates the number of livestock produced or their value has been markedly increased or decreased. But this difficulty can be partially avoided by using similar values at the beginning and at the end of the settlement period for the same grades of breeding animals.

**Satisfactory living arrangements.** If the son is married, it is best to provide separate living quarters for him and his family. Sometimes this can be done by dividing a large house into two apartments; sometimes a nearby house can be rented; sometimes a new home can be built either for the father or for the son.

**Written agreement.** Business arrangements of the size and importance of father-son agreements should be in writing. A written agreement will help to prevent misunderstandings; besides it provides evidence to support income-tax returns.

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<sup>1</sup>Copies of the ILLINOIS FARM ACCOUNT BOOK can be obtained from the College of Agriculture, University of Illinois, Urbana, or from the farm adviser.

## OTHER CONSIDERATIONS

**Time of starting.** The most suitable time of year for starting a partnership is about January 1, when most farm-accounts records are begun. The record can then be used not only as a basis for dividing the farm returns between father and son at the end of the year, but also as a basis for income-tax reports and for studying the farm business.

**Inventory.** To determine net farm earnings when settlement is made or the agreement ends, beginning and ending inventories are necessary. In taking inventory, the father and son should agree on conservative values for home-raised horses and mules, and for home-produced breeding stock such as cows, heifers, bulls, ewes, etc.; and they should also agree to maintain such values from year to year regardless of market fluctuations. Inventory changes in home-produced breeding and work stock will then rest mainly on numbers rather than on fluctuating prices. Such an arrangement is especially important when prices are either high or low at the time the agreement is first entered into or at the time it is brought to a close. If the usefulness of breeding animals has been impaired by sickness, unsoundness, or old age, their values can be adjusted when an inventory is taken.

Purchased livestock may be inventoried on the basis of prices paid. Hogs, feeding cattle, and discarded breeding stock are valued at market prices less the expense of their sale. Buildings, land improvements, and machinery are valued at cost less depreciation, as they are for income-tax purposes.

The ILLINOIS FARM ACCOUNT BOOK provides forms for recording inventories and directions for estimating depreciation.

## TYPES OF AGREEMENT

Three types of father-son agreements are offered in this circular. They are suitable for farms that are owned or rented or part owned and part rented; and they of course can be used also by a mother and son, a father and son-in-law, an established farmer and an unrelated young man, or a father and two or more sons or daughters. These three types of agreement are covered by Forms 1, 2, and 3, which are explained in the following pages and printed in full on pages 13 to 23.

The best kind of agreement will depend on such conditions as the amount of capital invested in the business, amount of capital accumulated by the son, number of sons and daughters in the family, extent of the farm indebtedness, and the temperaments of the two parties.

To make the agreements offered here flexible enough to fit con-



Three generations are actively engaged in running this farm, father and son sharing the net income. The grandson's interest is being developed by work in junior clubs and by farm activities that appeal to boys.

ditions on almost any Illinois farm, optional clauses and blanks for the insertion of special clauses have been provided. It should thus be easy to alter the clauses to fit the circumstances.

When the owner of a farm is ready to retire from it and desires to turn over some of its management to a son, any one of the three plans presented here may be used for the business agreement. Or if the father, on retiring, is able to finance his son or if the son is able to finance himself, the son may take over the livestock, machinery, and feed and grain and operate the farm as a tenant on a crop-share, a livestock-share, or a cash lease.

## PLAN 1

Under this plan the son furnishes only his labor and his share of the management. Annual settlement is made on a cash and inventory basis. This plan is covered by FORM 1, which will be found printed in full and ready to use on pages 13 to 15.

**Where to use Form 1.** This form is designed for situations in which a large amount of farm operating capital is required, where the son has not acquired much capital, or where the father wishes to retain full possession of all personal farm property. The general principle upon which the agreement is based is that each party is to



share in the net farm returns in proportion to his contribution of labor, management, and capital.

**How to compute contributions.** Since the division of farm returns is in proportion to the value of the capital and labor<sup>1</sup> contributed by each party, these items must be valued prior to making the written agreement. The value of the capital is measured by an agreed rate of interest on the amount of capital invested by each. The labor of each is valued at what it would cost to hire such labor. In occasional instances the father may have established a reputation that has considerable value in addition to the value of his labor, as happens with a breeder of purebred livestock or a producer of seed. This additional value should receive consideration.

Other items do not need to be included in calculating the division of returns between the father and the son because they are charged to the farm account.

In arriving at the proper rate of interest, the father and son should consider: (a) prevailing rates for farm real estate and for operating capital; and (b) the rate which might be expected from alternative investments. Likewise, the labor rate should be varied according to the common rate in the community and the proportion of full time that each gives to the business.

*Example.* A method for arriving at an understanding between father and son concerning an equitable division of net farm income<sup>2</sup> is shown in the following example. Such an understanding should be reached at the beginning of the year the agreement is to cover.

	Amount	Rate	Contributions for year		
			Father	Son	Total
<b>Father's contributions</b>					
Land and improvements.....	\$21 000	4%	\$840	....	\$840
Operating capital.....	5 100	5%	255	....	255
Labor.....	12 mo.	\$50	600	....	600
<b>Son's contributions</b>					
Labor.....	12 mo.	\$50	....	\$600	600
<b>Total value of contributions.....</b>	.....	....	<b>\$1 695</b>	<b>\$600</b>	<b>\$2 295</b>
<b>Percent contributed by each party..</b>	.....	....	<b>74</b>	<b>26</b>	<b>100</b>

The father's contributions in the form of land and improvements, operating capital, and labor have an annual value of \$1,695, or 74 per cent of the total contributions of both father and son. The son, on the

<sup>1</sup>Since labor and management are closely associated, the word *labor* is used to describe either or both.

<sup>2</sup>*Net farm income*, as used in this circular, means cash receipts and inventory increases less cash expenses and inventory decreases for the farm business. Thus farm products used in the household, the labor of the operator and his family, and the nonfarm portion of the automobile expenses are excluded.

other hand, contributes only labor valued at \$600, or 26 percent of all contributions. The father should therefore receive 74 percent of the net farm income and the son 26 percent. Farm expenses are paid, of course, before the income is divided, as explained on page 11.

**Wage considerations.** According to the plan, the son will receive a guaranteed wage advance at intervals, probably monthly, thruout the year. In deciding on this allowance, consideration should be given to (a) expected earnings; (b) living expenses; and (c) differences in amount of farm produce used by the father and the son in their respective households.

In years of low farm income, it may be necessary to reduce the labor allowance in accordance with the reduced income, but payment should continue to be made at regular intervals.

If the son lives with his parents and gets a wage allowance greater than that ordinarily paid a single hired man, it is reasonable for him to pay for his share of the cash cost of food, fuel, laundry, and other items.

**Making settlement.** Settlement is made at the end of each year and not at the time of each purchase or sale. The father has the farm bank account and settles with the son. The son, however, may have his own personal bank account.

All farm income and expense items are included in the farm-ac-



On this rented 333-acre north-central Illinois dairy and grain farm a father-son business agreement has been in effect many years. The hired man's house has been modernized and converted into the son's home. Note how mutual interest of father and son is reflected in unity of landscaping.

count record. The father and son agree to share increases and decreases on selected items. When expenses and net decreases are subtracted from receipts and net increases on such items, the father and son at the end of the year share the increase in proportion to their contributions. The following example, based on items appearing on pages 44 and 45 of the ILLINOIS FARM ACCOUNT BOOK (1942 edition), shows how such a settlement is made.

Receipts and net increases			Expenses and net decreases		
Page 44	Item	Value	Page 45	Item	Value
Line			Line		
14	Cattle.....	\$ 488	1	Land improvements...	\$ 76
16	Dairy sales.....	764	2	Buildings.....	112
17	Hogs.....	1 646	3	Horses.....	25
20	Poultry.....	126	6	Livestock.....	147
21	Eggs.....	392	8	Machinery.....	632
23	Feed.....	859	10	Hired labor (less son's labor allowance)....	95
24	AAA.....	243	11	Taxes.....	210
25	Labor off farm.....	156	12	Miscellaneous.....	18
	Total.....	\$4 674		Total.....	\$1 315
	Less expenses and net decreases.....	1 315			
	Net farm income.....	\$3 359	74%	= \$2 486, father's share	
	Net farm income.....	\$3 359	26%	= \$873, son's share	
	Less monthly labor allowance (\$50).....	\$600			
	Cash settlement to son at end of year.....	\$273			

In the above example the division of net farm income—74 percent to the father and 26 percent to the son—is based on the example shown on page 9. Since the son has already received a monthly labor allowance of \$600 for the year, that amount is deducted from his share of the year's earnings, leaving him \$273.

It makes no difference, of course, whether the father and son share expenses in proportion to their share in the business as the expenses occur, or whether all expenses are paid from a farm bank account and the net income is divided at the end of a given period.

To get a true comparison of his income from the farm with what he might receive in other employment, the son should add to his calculations a fair value for his board, room, and other perquisites received on the farm. (If the guaranteed wage is low, however, he should not be expected to pay for his board, room, etc.)

After the annual settlement is made, the father is full owner of all

property on hand which he had at the beginning of the year plus the increases or decreases in the inventory. The son may invest his accumulated cash in Government bonds or other securities until he needs the money to start farming for himself.

## PLAN 2

Plan 2 is similar to Plan 1. The son furnishes only his labor and his share of the management. Annual settlement is made on a cash income and disbursement basis, with changes in inventory considered only in the final settlement. This plan is covered by FORM 2, pages 16 to 19.

The explanation given on pages 8 to 10 for Form 1 (where to use the form, how to compute contributions, and wage considerations) apply to Form 2 also. The chief difference between these two forms is that Form 2 uses inventories in settlement only when the agreement is brought to a close.

## PLAN 3

The son furnishes half the operating capital and his own labor and his share of the management. Each party is paid for his contributions. FORM 3, pages 20 to 23, covers this type of plan.

This plan is designed for situations in which the son has acquired considerable capital and is able to carry a large part of the managerial responsibility. The general principle on which the agreement is based is that each partner is to be paid for what he contributes to the business in the way of labor, interest on capital invested, and expenses. After deducting these items from the total farm receipts, the resulting earnings are divided equally between the father and son.

In some instances, as on large farms, there may be reason to change the share going to each party. The agreement form, for the most part, is self-explanatory.

### *Example of annual settlement:*

Cash receipts for the year.....	\$7 420
Cash expenses for the year.....	4 286
Net cash income ( <i>cash balance</i> ).....	\$3 134
Wage allowance ( <i>optional</i> )	
Father.....	\$ 600
Son.....	600
Father's excess investment	
\$28,000 at 4 percent.....	\$1 120
Deductions.....	\$2 320
Balance to be divided 50-50.....	\$ 814

## FORM 1

## ILLINOIS FATHER-SON BUSINESS AGREEMENT

The son contributes only his labor and his share of the management. Annual settlement is made on the cash and inventory basis.

**Date and names of parties**

This agreement is entered into the ..... day of ....., 19....., between ....., the father, and ....., the son.

**Description of land**

This agreement is entered into for the purpose of operating a farm business on the following described real estate:.....

.....

.....

.....

.....

situated in the County of ....., in the State of .....; and on any other land which the father may purchase or rent for farming purposes.

**Length of term**

The term of this agreement shall be from the ..... day of ....., 19....., and from year to year thereafter unless written notice to terminate is given by either party to the other at least ..... months prior to the beginning of the succeeding farm year.

**Extent of agreement**

The terms of this agreement shall be binding on the heirs, executors, administrators, and assigns of both father and son in like manner as upon the original parties, except as shall be provided by mutual agreement otherwise.

**No partnership created**

This agreement shall not be construed as giving rise to a partnership; and neither party shall be liable for debts or obligations incurred by the other without written consent.

**Division of income and other business considerations**

*Clause A. Division of net farm income.* The net farm income at the end of the contract year shall be divided on the basis of .....% to the son and .....% to the father.

In calculating net farm income, the records of the farm business kept in the **Illinois Farm Account Book** shall be used. From the sum of "*Farm Receipts and Net Increases*" appearing on page 44, column ....., lines 14, 16, 17, 18, 19, 20, 21, 23, 24, 25, and 26, shall be deducted the sum of "*Farm Expenses and Net Decreases*" appearing on page 45, column ....., lines 1, 2, 3, 6, 7, 8, 9, 10, 11, 12, and 13 [*strike out income and expense items which the father and son agree are not to be used*]. The resulting figure shall be considered the net farm income.

[*The page, column, and line numbers given for calculating net farm income are taken from the 1942 edition of the Illinois Farm Account Book. If another account book or a subsequent edition is used, strike out the words and numbers that do not apply and insert the appropriate ones.*]

*Clause B. Wage guarantee.* The son is guaranteed by the father a cash income of \$..... per month, the income for each month being due on or before the ..... day of the following month. Such compensation shall be considered advance payment against the son's share of the net farm income at the end of the year. In case the son's share of the net farm income is not equal to the total amount paid above, he shall nevertheless be entitled to retain the above amount, and shall not be required to make any refund. The amount advanced to the son shall not be considered a part of the cost of hired labor when determining farm expenses.

*Clause C. Receipts and disbursements.* Since the father owns all the operating capital, he shall accept all income and pay all expenses exceeding \$..... Small expense items not exceeding \$..... may be paid by the son out of a cash operating fund amounting to approximately \$....., which shall be made available to him by the father. Commitments for expenditures exceeding \$..... shall be made only upon the consent of the father.

*Clause D. Sales.* Sales of grain, hay, seed, livestock, or farm produce exceeding \$..... in value shall be made by the father or by the son with the father's consent.

*Clause E. Living arrangements.* Living arrangements shall be provided for both father and son and their families as follows:

.....  
 .....  
 .....  
 If either party boards the other, the party receiving board shall pay the one providing the board \$..... a month for his laundry and his share of the cash cost of food and fuel.

*Clause F. Additional agreements:*.....  
 .....  
 .....

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**Arbitration.** The parties to this agreement agree that if a proper settlement cannot be reached between them at the close of the period of agreement, they will submit all matters of disagreement to an arbitration committee and will abide by the decision of that committee. The father and son shall each select one arbitrator; the two arbitrators so selected shall jointly select a third, and the three shall determine the bases of settlement which to them seem equitable.

Signed....., 19.....

-----  
Father

-----  
Son

*It may be desirable to use a fairly fine pen to fill in the blanks in these forms, since ink is inclined to spread on this paper.*

## FORM 2

### ILLINOIS FATHER-SON BUSINESS AGREEMENT

The son contributes only his labor and his share of the management. Annual settlement is on a cash income and disbursement basis. Change in inventory is considered only in final settlement.

#### Date and names of parties

This agreement is entered into the ..... day of ..... 19....., between ....., the father, and ....., the son.

#### Description of land

This agreement is entered into for the purpose of operating a farm business on the following described real estate: .....

.....

.....

.....

.....

situated in the County of ....., in the State of .....; and on any other land which the father may purchase or rent for farming purposes.

#### Length of term

The term of this agreement shall be from the ..... day of ....., 19....., to the ..... day of ....., 19....., and from year to year thereafter unless written notice to terminate is given by either party to the other at least ..... months prior to the beginning of the succeeding farm year.

#### Extent of agreement

The terms of this agreement shall be binding on the heirs, executors, administrators, and assigns of both father and son in like manner as upon the original parties, except as shall be provided by mutual agreement otherwise.

#### No partnership created

This agreement shall not be construed as giving rise to a partnership; and neither party shall be liable for debts or obligations incurred by the other without written consent.

#### Section 1—Contributions

The father and son agree that the contributions to the farm business shall be as specified in *Clauses* ....., ....., of this section, and in accord-



ance with the following further provisions: .....

*Clause A. Labor and management.* Each party shall contribute a part or all of his labor and management to the farm business unless specifically provided otherwise. These contributions shall be valued on an annual basis as follows: father \$....., son \$.....

*Clause B. Property.* The father shall contribute owned land, land improvements, and buildings; also all farm personal property, including livestock, machinery and equipment, feed and grain, and other operating capital, except a limited amount of property needed to meet 4-H club requirements, which may be retained by the son. These contributions shall be valued at .....% of the total capital invested, as follows (and as shown in the **Illinois Farm Account Book**):

1. Normal value of owned land and fixed improvements.....\$.....
2. Inventory value of all farm personal property.....\$.....
- Total capital invested (add 1 and 2).....\$.....
3. Value of year's use of capital.....\$.....

[Multiply value of land and fixed improvements by .....%, representing current mortgage interest rate, and value of farm personal property by .....% representing current interest rate for operating capital. Add these two amounts to get value of year's use of capital.]

## Section 2— Division of income and other business considerations

The father and son agree that they will perform or carry out their respective parts in the stipulations represented in *Clauses* ....., ....., ....., ....., ....., ....., of this section, and in addition thereto jointly agree to the following provisions: .....

*Clause A. Division of income.* The net farm income shall be divided on the basis of .....% to the son and .....% to the father. (Based on value of contributions shown in *Clauses A and B, Section 1, above.*)

Annual settlement shall be made on the basis of cash receipts and disbursements.

Gains or losses in inventory will not be considered until ....., 19..... [or] until the end of the agreement [*strike out the foregoing words that do not apply*], when all property will be appraised jointly by both parties under the same plan as was used in establishing conservative values

when this agreement was started. The difference between the total beginning value and the total ending value of all inventories—including buildings, land improvements, livestock, machinery and equipment, feed and grain, and other fixed and operating capital—shall be considered inventory gain or loss for the entire period of the agreement. In making final settlement the father will pay the son for the son's share of any inventory gain, and receive pay from the son for the son's share of any inventory loss. Otherwise the settlement at the end of the agreement will be similar to the settlement at the end of the year.

*Clause B. Wage guarantee.* The son is guaranteed by the father a minimum cash income of \$..... a month, the income for each month being due and payable on the ..... day of the following month. Such compensation shall be considered advance payment against the son's share of the net farm income. In case the son's share of the net farm income is not equal to the amount paid above, he shall nevertheless be entitled to retain the above amount, and shall not be required to make any refund. The amount advanced to the son shall not be considered a part of the cost of hired labor when determining farm expenses.

*Clause C. Disbursements to the father.* Withdrawals from the farm bank account may be made by the father to pay living expenses and to meet debt obligations to the extent that surplus funds are available. Such withdrawals shall be considered advance payments against the father's share of the net farm income.

*Clause D. Bank account.* There shall be a farm bank account into which all cash farm receipts shall be deposited, and from which all farm expenses shall be paid by check, except small items amounting to less than \$....., which may be paid by either party and charged against the farm bank account. For such expenditures the father or son shall be reimbursed at the end of each month. Since the father owns all the operating capital, including the bank account, he shall accept all income and pay all checks. In addition to the farm bank account, each party may have his own personal bank account.

*Clause E. Farm records.* The son shall keep a strict record of the farm business in the **Illinois Farm Account Book**. The records shall include at the beginning and end of each year careful inventories of land, improvements, livestock, machinery and equipment, and feed and grain; a complete record of farm purchases and sales; and production records for crops and livestock. The record is to be used by the father and son to furnish the basis for studying the farm business, for making an equitable distribution of the proceeds, and for income-tax purposes.

*Clause F. Farm receipts.* Farm receipts shall include all farm income from all sources, including such items as livestock, livestock products, crops, agricultural-adjustment and subsidy receipts, machinery, etc.

*Clause G. Farm expenses.* Farm expenses shall include livestock purchases; livestock expenses; feed purchases; crop expense; wages and cash cost of board for hired labor; taxes; cash rent; capital and maintenance expenses for buildings and land improvements and for machinery

and equipment; farm share of telephone and electricity; and, in short, all farm expense items of whatsoever nature which are commonly listed and recorded in the **Illinois Farm Account Book**.

*Clause H. Inventories.* All property owned by the father which is used in the operation of this farm shall be carefully inventoried pursuant to the needs expressed in *Section 1, Clause B*, and in *Section 2, Clauses A and E*.

*Clause I. Living arrangements.* Living arrangements shall be provided for both father and son and their families as follows:.....

.....

.....

If either party boards the other, the party receiving board shall pay the one providing the board \$..... a month for his laundry and his share of the cash cost of food and fuel.

*Clause J. Management.* General operating plans shall be discussed and agreed upon by the father and son. All farm purchases and sales amounting to more than \$..... shall be made only with the knowledge and consent of both parties.

#### Arbitration

The parties to this agreement agree that if a proper settlement cannot be reached between them at the close of the period of agreement, they will submit all matters of disagreement to an arbitration committee and will abide by the decision of that committee. The father and son shall each select one arbitrator; the two arbitrators so selected shall jointly select a third, and the three shall determine the bases of settlement which to them seem equitable.

Signed....., 19.....

.....  
Father

.....  
Son

### FORM 3

## ILLINOIS FATHER-SON BUSINESS AGREEMENT

The son contributes half the operating capital, his own labor, and his share of the management. Annual settlement is on a cash income and disbursement basis. Change in inventory is considered only in final settlement.

#### Date and names of parties

This agreement is entered into the ..... day of ....., 19....., between ....., the father, and ....., the son.

#### Description of land

This agreement is entered into for the purpose of operating a farm business on the following described real estate:.....

.....

.....

.....

situated in the County of ....., in the State of.....; and on any other land which the father may purchase or rent for farming purposes.

#### Length of term

The term of this agreement shall be from the ..... day of ....., 19....., to the ..... day of ....., 19....., and from year to year thereafter unless written notice to terminate is given by either party to the other at least ..... months prior to the beginning of the succeeding farm year.

#### Extent of agreement

The terms of this agreement shall be binding on the heirs, executors, administrators, and assigns of both father and son in like manner as upon the original parties, except as shall be provided by mutual agreement otherwise.

#### No partnership created

This agreement shall not be construed as giving rise to a partnership; and neither party shall be liable for debts or obligations incurred by the other without written consent.

#### Section 1 — Contributions

The father and son agree that the contributions to the farm business shall be as specified in *Clauses* ....., ....., ....., of this section, and in

accordance with the following further provisions:.....

*Clause A. Labor and management.* Each party shall contribute a part or all of his labor and management to the farm business unless specifically provided otherwise (a son may be in school; father may have other business). If the contributions are not essentially the same, they may be equalized by the father paying the son, or the son paying the father, out of the undivided farm receipts, for labor and management put into the farm business in excess of that contributed by the other party. In making such settlement, labor and management (per month) shall be valued at the following rates per month for the months worked: father \$....., son \$.....

*Clause B. Real estate.* The land, land improvements, and buildings may be either owned or rented by the father. If owned by the father, the father shall receive at the end of the year .....% interest on his investment based on a normal valuation for land, land improvements, and buildings. If the son also owns a part of the real estate, compensation will be made to the party whose contribution is the larger, as follows:

Father: acres.....; value with improvements. \$.....@.....% = \$.....

Son : acres.....; value with improvements. \$.....@.....% = \$.....

Difference due father, son.....\$.....

[Strike out word that does not apply]

*Clause C. Farm personal property.* The son shall acquire a half interest in the livestock, machinery and equipment, feed and grain, and the farm bank account (if any) at the beginning of the agreement. The total conservative value of the farm personal property at the beginning of this agreement is \$..... Of this total amount the father owns \$..... and the son owns \$..... In order to make the son's share equal to one-half of the total, the son agrees to pay or give his note to the father for \$.....

**Section 2 — Division of income**

The father and son agree that division of income shall be as specified in this section except as follows:.....

After each party is paid for what he contributes to the farm business, the net farm income is to be divided equally between the father and the son.

Annual settlement shall be on a cash receipt and disbursement basis.

*Clause A. Farm receipts.* Farm receipts shall include all farm income from all sources, including such items as livestock, livestock products, crops, agricultural-adjustment and subsidy receipts, machinery, etc.

*Clause B. Farm expenses.* Farm expenses shall include livestock purchases; livestock expenses; feed purchases; crop expense; wages and cash cost of board for hired labor; taxes; cash rent; capital and maintenance expenses for buildings and land improvements and for machinery and equipment; farm share of telephone and electricity; and, in short, all farm expense items of whatsoever nature which are commonly listed and recorded in the **Illinois Farm Account Book**.

*Clause C. Inventories.* Gains and losses in inventory shall not be considered until ....., 19....., or until the end of this agreement [*strike out the foregoing words that do not apply*], when all property will be appraised jointly by both parties under the same plan as was used in establishing conservative values when this agreement was started. The difference between the total beginning value and the total ending value of all inventories—including buildings, land improvements, livestock, feed and grain, machinery and equipment, and other fixed and operating capital—shall be considered inventory gain or loss for the entire period of the agreement. In making settlement, the farm personal property or the net proceeds from the sale of the farm personal property shall be divided equally between father and son. The father will also pay the son for the son's share of any inventory gain in buildings and land improvements, and receive pay from the son for the son's share of any inventory loss in these items. Otherwise the settlement at the end of the agreement will be similar to the settlement at the end of the year.

### Section 3 — Banking arrangements

The parties to this contract agree that the banking arrangements shall be as outlined in this section except as follows:.....  
 .....  
 .....

*Joint checking account.* There shall be a joint farm checking account into which all cash farm receipts shall be deposited, and from which all expenses shall be paid by check, except small items amounting to less than \$....., which may be paid by either party and charged against the farm bank account. For such expenditures the father or son shall be reimbursed at the end of each month. If this plan is followed, the annual settlement will be made by balancing the withdrawals by each party for living expenses and debt payments during the year and by paying the following from the joint checking account: (a) .....% interest to the party with the larger investment, for his capital contribution in excess of that of the other party; and (b) by paying the party contributing the most labor and management for the excess above that contributed by the other party. Checks shall be signed by the father, son, both parties [*cross out the words that do not apply*].

**Section 4 — Other farm business consideration**

In addition to the foregoing articles of agreement, the father and son agree that they will perform and carry out the stipulations represented in *Clauses* ....., ....., ....., of this section; and in addition thereto they jointly agree to the following provisions:.....

.....

.....

*Clause A. Farm records.* The son shall keep a strict record of the farm business in the **Illinois Farm Account Book**. The record shall include, at the beginning and end of each year, careful inventories of land, land improvements, and buildings, livestock, machinery and equipment, and feed and grain; a complete record of farm purchases and sales; and production records for crops and livestock. The record is to be used by the father and son to furnish the basis for studying the farm business, for making an equitable distribution of the proceeds, and for income-tax purposes.

*Clause B. Living arrangements.* Living arrangements shall be provided for both father and son and their families as follows:.....

.....

.....

If either party boards the other, the party receiving board shall pay the one providing the board \$..... a month for his laundry and his share of the cash cost of food and fuel.

*Clause C. Management.* General operating plans shall be discussed and agreed upon by father and son. All farm purchases and sales amounting to more than \$..... shall be made only with the knowledge and consent of both parties.

**Arbitration**

The father and son agree that if a proper settlement cannot be reached between them at the close of the period of agreement, they will submit all matters of disagreement to an arbitration committee and will abide by the decision of that committee. The father and son shall each select one arbitrator; the two arbitrators so selected shall jointly select a third, and the three shall determine the bases of settlement which to them seem equitable.

Signed....., 19.....

.....  
Father

.....  
Son

**FATHER-SON FARM BUSINESS AGREEMENTS** are the answer to a big farm problem. They give the able farm boy his start and the father a chance to ease up before he is ready to retire. They make for a stable, wholesome community life by keeping the farm in the same family for many years.

If agreements of this kind are to succeed, the business must provide adequate income for both men. Also the farm earnings should be divided in proportion to the contributions of each one, the division being based on well-kept records. When he starts in business, the son should be assured of a minimum income and provided with satisfactory living arrangements.