

FATHER-SON FARMING

PLANS AND ARRANGEMENTS



**OHIO AGRICULTURAL EXPERIMENT
STATION**

Wooster, Ohio

THE STUDY IN BRIEF

This study was made on the assumptions that family operated farms are desirable, that continuity of tenure from one generation to the next should be encouraged, and that well thought out farming arrangements between father and son (s) will tend to maintain tenure within families. The reason for making this study is that many families encounter difficulty in developing and maintaining such arrangements.

It was presumed that a study of father-son arrangements in actual operation would help to identify and serve as a guide in solving the problems that are encountered and thereby help other families interested in making a place for one or more sons on the home farm.

Father-son farming arrangements are found in all types of farming areas. Usually the farms are large, but in some cases small acreages are farmed intensively to provide a satisfactory size of business. All types of tenure are found—full-ownership, part ownership, and full-tenancy. A father and one son (or son-in-law) is most usual, but a father and two or more sons is not an unusual combination. Separate housing for a married son is desired as a rule but not always. In most mature arrangements income is divided according to a fixed share of the net income. Most, but not all arrangements, start when a son is young. Pleasant personal relationships, and the ability to plan and work together were outstanding characteristics of some father-son teams.

The problems most frequently encountered in developing and maintaining an annual operating agreement revolved around the need for more income, housing for two or more families, agreement on current and long range farm management policies, and keeping records to properly account for income, expenses and property interests.

A longer range problem arose from the difficulty encountered, particularly in large families, in coming to some agreement that would provide security in the expectation that the son could eventually acquire full title to the farm, that the parents would be protected in their livelihood after retirement, and that the other heirs would be given a fair settlement. Some families had a satisfactory operating arrangement, but no agreement on the eventual transfer of the farm property.

Obviously, each family must appraise its own situation and come to its own decision as to the opportunity for a son to farm at home. The material in this publication, particularly the suggested plans for operating agreements, are contributed to aid those in the process of developing father-son farming arrangements.

CONTENTS

SELECTION AND DESCRIPTION OF FARMS STUDIED.....	4
Acres Operated in 1945.....	4
Sources of Income.....	5
Tenure Pattern.....	5
Marital Status and Housing.....	5
TYPES OF ARRANGEMENTS FOUND IN PRACTICE.....	6
Share of Income from One or More Enterprises.....	7
Wages and Bonuses.....	8
Share of Net Return.....	8
Full or Limited Partnership.....	8
Cash or Share Rent Lease by Son.....	8
Observation of Typical Arrangements.....	8
CONDITIONS FOR FAVORABLE FATHER-SON ARRANGEMENTS.....	12
Size of Business.....	12
Pleasant Personal Relationships.....	12
Good Farm Management.....	14
Housing.....	15
Agreement Should Be in Writing.....	16
Contractual Relationships.....	16
Observation of Actual Cases.....	17
PLANNING AN ARRANGEMENT.....	17
How Liberal Should Starting Terms Be?.....	17
When Are Agricultural Leases Adequate?.....	19
Various Plans of Operation.....	19
PLANS FOR SHARING NET INCOME.....	20
Things To Be Provided by Each Person.....	20
Maintenance and Improvement of the Farm Property.....	22
Keeping the Agreement Equitable.....	22
Final Settlement When the Arrangement Is Terminated.....	23
Records Needed.....	23
The Written Contract.....	24
The Inventory.....	24
Records of Cash Receipts and Cash Expenses.....	26
Annual Settlement for Division of the Net Cash Receipts.....	28
Essentials Summarized.....	29
TRANSFER OF PROPERTY FROM ONE GENERATION TO THE NEXT.....	29
APPENDIX A.....	32
APPENDIX B.....	32
APPENDIX C.....	35
APPENDIX D.....	38

FATHER-SON FARMING PLANS AND ARRANGEMENTS

R. C. HEADINGTON and H. R. MOORE

Department of Rural Economics and Rural Sociology

Nearly every community contains cases of a father and one or more sons (or son-in-law) working together in some sort of farming arrangement. The experiences of such cases may help others who contemplate developing some type of farming agreement among family members. With this purpose in view, the authors interviewed the operators of 61 farms in 1946 in order to determine the circumstances associated with various father-son farming arrangements that were in operation on these farms.

This study reports the findings of these interviews; it also develops some suggested solutions of the problems encountered. Farms with customary share leasing arrangements between father and son were not studied because such plans are relatively simple, are rather frequent in use and well understood, and have been the object of previous research.

SELECTION AND DESCRIPTION OF FARMS STUDIED

Fifteen counties in Ohio, chosen to represent different types of farming areas, were visited early in 1946 and various local people were asked to suggest farms in the community suitable for study. In 1945, all 61 farms studied were being operated under a joint farming arrangement. One arrangement was dissolved in 1946.

Acres Operated in 1945

The 61 farms ranged in size from 48 acres—a fruit and vegetable farm—to 1,058 acres—a beef cattle and hog farm. The average unit contained 318 acres, only three-fourths of which was owned by one or more of the operators. As shown in Table 1, relatively few units contained less than 100 acres and units of over 100 acres were evenly distributed by size groups.

TABLE 1.—NUMBER OF UNITS AND NUMBER OF SONS FARMING AT HOME, BY SIZE GROUPS, 61 FATHER-SON FARMS, OHIO, 1945

	Size of unit operated: Acres, 1945				
	0-99	100-199	200-299	300-399	400 and over
Number of farms:	4	15	15	13	14
Sons* farming at home:	5	16	21	20	19

*Includes sons-in-law and adopted sons

It should be observed that in all the size groups listed in Table 1, there was at least one farm with more than one son farming at home. On the 61 farms studied there were 98 living sons; of this total 81, or 83 percent, were engaged in farming on the home unit during all or part of 1945. Three others were farming completely on their own, seven were still in the armed services, and seven others were living at home and working off the farm in 1945. Of the 98 living sons, 13 were returned veterans, 11 of whom had decided on farming the home unit.

Sources of Income

An analysis of the major sources of income on the farms studied revealed that dairy and hog enterprises ranked first, followed in order of importance by special cash crops, beef cattle, sheep, poultry, and cash grain crops. This tabulation was obtained by listing only the two major sources of income from each farm. Included as special cash crops were tomatoes, sugar beets, potatoes, other vegetables, fruits, berries, and commercial seeds (including hybrid corn).

Tenure Pattern

No attempt was made to sample father-son operated farms in proportion to the prevailing tenure pattern for all such farms.¹ Ordinarily, people associate father-son arrangements with owner-operator tenure status. As a matter of fact, full owner-operated farms made up 53 percent of the total, part-owners 36 percent, and tenant operators 11 percent. The tenure status on these father-son farms is compared with the tenure on all farms in the 15 sample counties, Table 2.

TABLE 2.—TENURE STATUS OF SIXTY-ONE FATHER-SON OPERATED FARMS AND OF ALL FARMS IN FIFTEEN COUNTIES, OHIO, 1945

	Percent of farms	
	Farms studied	All farms, Census data
Full owners	53	65
Part owners	36	12
Tenants	11	23
Total	100	100

Marital Status and Housing

That marital status and housing for the son, and his family if any, were not closely related to the type of arrangement used is shown in Table 3.

¹Bureau of Census data for 1945 were not available when the study was started

TABLE 3.—MARITAL STATUS AND HOUSING RELATED TO TYPE OF ARRANGEMENT, SIXTY-ONE FATHER-SON FARMS, OHIO, 1945

Class of arrangement used	Farm units	Sons	Married	Single	Married (dwellings)		
					Same house	Divided house	Separate
Half share (with variations)	24	26	20	6	3	1	16
Third share to son (with variations)	16	23	12	11	3	1	8
Miscellaneous (and mixed)	11	18	9	9	0	0	9
Son furnish labor only—recd share net	6	9	1	8	0	0	1
Separate projects for son	4	5	3	2	0	0	3
Total 61 units, all classes	61	81 ¹	45	36	6	2	37

¹Includes sons-in-law and adopted sons

The importance of separate housing for each family, despite their close relationships, was clearly shown, however, with 39 of 45 married sons being housed separately. Of the six families who were residents of the same undivided dwelling, three who were fifty-fifty partners were very well adjusted to that arrangement and probably would not have changed if given the opportunity. Two of the three families on one-third arrangement who were living with their parents were also very well suited to that arrangement, but the third family found it unsatisfactory and the plan was abandoned for this and other reasons in 1946 after 2 years of trial.

The two satisfactory cases in the group just mentioned involved two sons in each case and in both cases the family of the younger son occupied a separate dwelling located on the farm with the elder son and his family living with the parents. Some additional observations on housing are presented in a later section.

TYPES OF ARRANGEMENTS FOUND IN PRACTICE

Family farming arrangements, usually between father and son, are not standardized. They need to be different to fit the various circumstances of individual families and farms. Because the original arrangement may not fit conditions in later years, a father and son may modify the terms of their arrangement several times. This process of progression tends to follow the sequence suggested by the following types of agreement although it is not to be inferred that more than two or three of these plans would ever be needed in any one case. It may be that in some cases a basic plan should be worked out which will avoid major changes in the terms

of the arrangement, except at rather infrequent intervals. The types of arrangement found in practice on Ohio farms follow:

Share of Income from One or More Enterprises

Arrangements of this type are usually found where a son is still in the apprenticeship period. For instance, a son still in school may be given a share in the returns from the dairy herd or from the poultry flock in return for work done. Or the son may be given the privilege of carrying on some small separate enterprise on his own, perhaps one developed as an outgrowth of a 4-H Club or school project.



Figure 1—For many sons a specialized interest in livestock is the result of a school calf project.

In a few instances, the father may give one or more growing sons a small percentage share of the income from the entire farm business, increasing the share as the sons become older and their labor more valuable.

Under the above described circumstances, the income received by the son can be considered as a payment in lieu of cash wages with the rather important difference that an income share may produce more incentive to work efficiently.

Wages and Bonuses

The son is paid cash wages by the father under this plan. Usually, room, board, and laundry are supplied the son without charge, although such may influence the amount of cash wages. Occasionally a guaranteed cash wage will be paid plus a bonus if cash farm income exceeds a certain minimum. Or, the wage may be supplemented by other income from special sources or enterprises.

The arrangements so far described are both associated with what may be termed the son's apprenticeship period.

Share of Net Return

In general, agricultural share leases provide for a division of returns on a physical basis or gross basis. On the other hand, many father-son agreements provide for division on a net basis, either all or a considerable share of the operating expenses being paid before division.

The most common shares going to a son (or sons) are $\frac{1}{4}$, $\frac{1}{3}$, $\frac{1}{2}$, and $\frac{2}{3}$ of the net income. Occasionally more than one basis of sharing will be used in the same arrangement, the receipts from different enterprises being determined separately. As a son matures he often receives a more substantial share and acquires a corresponding equity in the ownership of property.

Full or Limited Partnership

In some cases all real and personal property will be owned or rented in common and all income and expenses shared equally. In other cases the income and expenses will be shared equally, with the father holding title to the real estate. In the latter case the father may furnish little or no labor. Such partnerships are subject to civil laws concerning them (All assets of the father are subject to his liability as a partner).

Cash or Share Rent Lease by Son

This arrangement relieves the father from the burdens of labor and management, the son paying rent for full use of the land and buildings. All else is furnished by the son who keeps all income in excess of the rent paid. The father may still work at maintaining the farm real estate.

Observation of Typical Arrangements

In Table 4, the different types of arrangement found in practice are summarized in respect to the plan used at the start and the plan in effect in 1946. It may be noted that the half-share-to-the-son was the most frequent and the third-share-to-the-son was next in frequency of all plans encountered. No cases were found where the

TABLE 4.—ARRANGEMENT USED AT START AND IN 1946,
60 SUCCESSFUL FATHER-SON FARMS IN 15 OHIO COUNTIES

Type of arrangement	Number of farms	
	Plan used at start	1946 plan
1. Wages and bonuses to son	9	5
2. Enterprises and income share to son	12	4
3. Quarter-share to son	3	4
4. Third-share to each son	15	16
5. Half-share to son	21	19
6. Equal partnership	0	8
7. Cash rent by son	0	1
8. Mixed arrangement not classified	0	3
Total	60	60

Three involved a father and two sons on third-share to each.

initial arrangement was that of equal partnership or cash rent by the son.

As a general rule, the one-third share plan with a mature son is found on relatively large farms or where the family includes several children. An exception to this rule is illustrated in Wayne County by a farm where the son was an only heir and the farm was a little under 100 acres in size. The one-third arrangement was chosen when the son graduated from high school and was continued for about 3 years during which time a separate house was built for the son and his bride. The father's health declined and he was unable to do much heavy field work so a gradual shift to a fifty-fifty plan was made. This proved satisfactory on a farm of less than 100 acres because the enterprises were made into intensive ones. From 15 to 20 acres of potatoes are grown each year and a flock of 600 to 800 hens is maintained in addition to other livestock.

The authors have observed a tendency for arrangements between fathers and sons who are especially close kindred spirits to gravitate toward the "share and share alike" or fifty-fifty plan. A case illustrating this concerned a father and only child who were originally of very limited means and started farming as tenants on a rented farm. The two were determined to succeed as a team and by 1936, when the son was 24 years old and his father was 50, they were able to purchase a small farm in joint ownership.

Because the farm was too small and needed development, the son worked away from home at times to obtain money to invest in the farm and by 1944 they had developed an intensive dairy enterprise of 30 high producing cows. This provided sufficient income to permit the son to get married and to warrant the expense of

remodeling and dividing the farm house. Thus, in less than 10 years' time, two men who had made plans and stuck to them achieved their goal and in the years ahead can enjoy their hard won security in a sound partnership.

There were no farms among the 61 visited on which a $\frac{2}{3}$ share to any one son, cash rent by the son, or full partnership were used in starting out the arrangement. However, eight farms had finally achieved a full partnership status, and three of the eight involved $\frac{1}{3}$ rather than $\frac{1}{2}$ share to each partner because two sons were involved.

Agreements easiest to arrange on farms with a single heir.— In this study it was observed that a relatively high proportion of the successful father-son arrangements were on farms where the son was the only heir. As a matter of fact, out of 61 cases, 20 were instances where the son was sole heir. In 12 additional cases the young man was an only son (or son-in-law) with one or more sisters. It is obvious that where a son is an only heir the possibilities of inequities arising out of the eventual division of the family estate are few, and it is also relatively easy to agree on an annual working agreement.

When a family is small it is relatively easy to work out an arrangement, or things may even drift for years without any specific arrangement at all. When more interests are involved, as in a large family, it is correspondingly more important that an annual operating agreement be worked out between father and son.

If the arrangement is thought to be permanent, some plan should be developed before many years pass in respect to the eventual transfer of the farm real estate; when this is not done the son may eventually find it impossible to acquire ownership of the land he has farmed all his life. If he is obligated to buy out other heirs the extent and terms of payment should be understood by all, reasonably early. This point was emphasized by the experience of some of the older men interviewed in this study.

It may appear difficult to work out an enduring arrangement keeping one son on the farm under terms acceptable to him and agreeable to the interests of the rest of the family. Many farm families face this problem at some time and not all solve it satisfactorily.

Not all father-son arrangements are on owner-operated farms.— Observations indicate that when other factors are favorable the

assets of the father need not be extensive for a successful arrangement to be developed. In 14 percent of the cases studied the fathers owned no land at the time the father-son arrangement was started. Since then some have inherited or bought land; others probably never will become owner-operators, preferring to keep their farming capital invested in equipment and livestock. In many father-son arrangements, some land is owned and additional land is rented either jointly or by the son (who may operate additional land on his own).

Arrangements should be flexible and well defined.—In nearly 90 percent of the cases observed boys have “grown” into a mature arrangement through successive stages. Teen-age boys have frequently begun with a 4-H or vocational agricultural project which has served to build up both experience and some capital. In some cases, similar opportunities have been provided on the initiative of the parents alone.

On the other hand, some father-son arrangements have been developed after the son has spent several years away from home. If this off-the-farm employment has been profitable financially the son can thereby accumulate funds to purchase an interest in the farm business or to finance needed expansion. A few such cases were observed. It must be recognized, however, that many boys leaving the farm, intending to return later, never get back.

Obviously, when the son has reached a stage of maturity that he knows he wants to farm and is in position to spend fulltime on the job, it would be to his advantage to establish, with as little delay as possible, an arrangement that would offer some permanency and opportunity. In the normal course of events, the son usually arrives at this stage when he has finished school.

Often it happens that a son will develop a small farm enterprise or share in one of the larger farm enterprises, and this informal arrangement will be allowed to drift along for years. When the son is to remain on the home farm it would appear advisable to develop an arrangement to share in the entire farm business in order that the son's interests, experience, and outlook be broadened. Boys who remain at home indefinitely with no well-defined understanding of their future status often have a feeling of frustration. This can be avoided by mutual planning by parents and son in respect to what opportunities can be developed by the joint efforts of the family members.

CONDITIONS FOR FAVORABLE FATHER-SON ARRANGEMENTS

Size of Business

An adequate volume of business which will provide enough income for all the people concerned is an absolute necessity to the success of any arrangement. A few father-son arrangements, starting with rather meager resources, have developed an adequate volume of business because the families possessed a unity of purpose which tided the arrangement over a period of low income. In such cases both good farm management and good money management were exercised. Eventually, income adequate to support two families was achieved.

The following means have been used to expand a one-man into a two-man farm business:

1. Buy or rent additional land.
2. Convert pasture or waste land to crop land or otherwise intensify through land improvement.
3. Shift some acreage from general to special crops.
4. Shift to more intensive livestock enterprises which require more labor.
5. Develop a commercial seed business, retail milk, or other specialized line.

Occasionally a father or son supplements farm income with part-time industrial employment, machine custom work, or some service business such as machinery repairing. When this is done the details involved should become a definite part of the farming agreement.

Accounting records indicate that Ohio farms under father-son management average about one-third more acreage and produce about one-half more income than farms operated by individuals. In other words, father-son combinations achieve size of business partly by farming more land and partly by greater intensity in the use of land.

Of 61 father-son farms visited in 1946, only six operated on less than 100 acres. Four of these six were intensive truck crop and fruit farms.

Pleasant Personal Relationships

Do father and son enjoy working together? Observation of actual cases indicate that a close bond of understanding often exists between father and son. Where it does exist no particular problem

Figure 2 — Special seed crops are grown on some father - son farms to increase the size of farm business and the amount of farm income.



is likely to arise from different opinions in respect to management, planning the farm work, or personal responsibility for the various farm tasks. In case personalities clash seriously, as they sometimes do, it is questionable whether a father and son should attempt to develop an arrangement that involves working together.

Wholesome attitudes are illustrated in the following examples: A father who has helped two sons start farming on their own and is developing an arrangement with another son on the home farm, said, "My boys have always helped me; and I guess they know I will always do all I can for them." Another father said, "My son sent enough money home one time to save the farm. We finally decided we would both be happier and get along better if we worked together all the time." A son said, "Dad is the fairest person to work with you ever saw. We never have any serious differences on how to run the farm." Another man speaking of the arrangement

with his nephew said, "I don't know that we have been able to figure out everything just right; but I do know if either of us is being hurt the other one will make it right." Where these attitudes exist it is easy to develop a successful arrangement because fair dealing and personal loyalty are dominant features of the relationship.

Good Farm Management

The success of any farm business is dependent on good management. Dissatisfaction, disagreement, and dissolution of the arrangement usually follow failure to make the joint venture profitable.

It is particularly obvious that good farm management is one key to the outstanding success attained by some father-son combinations. A satisfactory size of business is often achieved by high crop yields, efficient livestock, success with special crops, and in general, the efficient use of labor, equipment, and land. It might be argued that the father-son combination tends to be efficient because mechanical developments favor the unit larger than the typical one-man farm.



Figure 3—Some farms may absorb family labor and enlarge their volume of business by a more intensive use of land.

Housing

As previously mentioned, in most cases where a father and married son are farming together each prefers separate housing. Most other families also recognize that it is desirable to have separate housing, but until the arrangement is well established it often is more expedient to live together in the same dwelling as a temporary measure.

Some farm houses are large and may be divided easily into separate living quarters. Sometimes two houses are already located on the farm; in other cases a nearby house may be rented and when this is done the rental often is considered part of the farm expense.

Some of the problems associated with the construction of a second house on a farm are:

1. Is it advisable to locate two houses on the same farm in view of its size, location, and probable scale of operation at some future date?
2. Where should the house be located—near the main farmstead for present convenience or at some distance to facilitate division of the property at some future date?
3. Who shall bear the expense—father, son, or the undivided farm business?
4. Should a small tract be sold to the son on which his house is built in order to protect his future interests?

Observations of actual cases indicated that some families had solved the housing problem to their satisfaction and other families faced circumstances, as mentioned above, which made housing a major consideration in the father-son arrangement, which by its nature must be decided on an individual basis.

Farming is a business which ordinarily is not dissociated from the daily routine of home life. Wives are a part of the team as well as men. Because the father, mother, and son have lived and worked together it may be presumed that they are mutually adjusted to the habits and personal traits of each other. But what about the son's wife? Is she expected to fit into the existing pattern or are the other members of the family ready and willing to make adjustments?

The secret to a pleasant and enduring partnership between two families was well expressed, from the woman's viewpoint, by an understanding mother who said: "You likely won't find three people closer to each other than my husband, my son, and I. But now that

he is married, he and his wife have their own lives to live in their own way without interference.”

Agreement Should Be in Writing

Although three-fourths of the arrangements studied were still based entirely on a verbal understanding, it was frequently recognized that sooner or later some need would arise for a written statement of the father-son agreement. For instance, someone may forget a detail of the original terms agreed upon; or, in case of death a written agreement would be desirable, as would a necessary proof of the extent of individual equities in the property. Also, the fact that the father-son arrangement has been put on a business basis is an important step in establishing the position of the son in the business affairs of the community.

It is a good principle to put important agreements in writing. Parents should encourage their children to do this. Too often members of families are hesitant about suggesting that an agreement be put in writing fearing that to do so is a reflection on personal integrity. Such should not be the case for no one can foresee all the changes in circumstances which may arise in the future.

Contractual Relationships

As has been mentioned, many of the mature arrangements have their start when teen-age youngsters were developing an interest in farming through projects or some equivalent opportunity under the encouragement of the parents. This is purely a parent-child relationship at the beginning, which is gradually shifted to that of employer-employee as the youth matures and is paid wages or is granted some source of income in lieu of wages.

At the end of the apprenticeship period when the young man is given a greater stake in the farm business in return for his full-time services, the agreements usually take on the semblance of either a leasing arrangement or partnership, although occasionally the father still maintains his role as employer.

Frequently, the contractual relationship was not determined by the participants. As a result, misunderstandings within the family and with outsiders with whom business was transacted often arose under such circumstances.

Where both father and son are employed full time on the farm, the working relationship often is that of partners; but this is a matter which families must decide to their own satisfaction. The working agreement can be quite similar for an employer-employee, a nonpartnership, or a partnership arrangement. The important

considerations are; (1) the intention of the parties to the agreement, and (2) the impression given to outsiders through the manner in which the farm business is transacted.

Observation of Actual Cases

Some of the things revealed by observing actual father-son farming arrangements follow:

1. Such arrangements are found in all types of farming areas.
2. Father-son farms are usually large in acreage but in a few cases small acreages are farmed intensively.
3. Successful father-son arrangements prevail under all types of tenure.
4. A father and one son (or son-in-law) is most usual but a father and two or more sons is not an unusual combination.
5. Separate housing for a married son is considered highly desirable but there are some exceptions.
6. In most mature arrangements, income is divided according to a fixed share of the net income.
7. Most arrangements start when a son is young.
8. Outstanding factors associated with satisfactory arrangements were adequate housing, sufficient volume of business, good personal relationships, and good management.
9. A definite contractual relationship, reducing to writing, was recognized as desirable by many of those having only a verbal agreement.

PLANNING AN ARRANGEMENT

The most satisfactory time to make changes affecting the occupancy or operation of farms is during the winter or early spring before the start of the new crop season. Also, because a farming arrangement between father and son should contemplate the keeping of records and make provision for an annual settlement, the most satisfactory business year for this purpose would in most cases be either the calendar year or a business year ending not later than March first. The same set of farm records can also serve other purposes, such as providing information needed to improve the efficiency of the business and for preparing income tax reports.

How Liberal Should Starting Terms Be?

Often a father-son arrangement is more liberal to the son than the conventional terms given to an unrealed person. However, more liberal terms to a son by his parents may be based on the following grounds:

1. The son may have worked hard during adolescence so that

- some benefits are due him in recognition of his past services.
2. The son assumes more responsibility and takes more interest in the success of the farm and the welfare of his parents.
 3. It is expected that the son will repay the parents by relieving them of burdens and responsibilities and at the same time maintain their security.
 4. Some parents can afford to give a son a better start in life than they themselves had.

On the other hand, some parents cannot favor a son because other children must be considered, extensive debts must be paid, or the family resources are extremely limited. As discussed elsewhere, some father-son arrangements may start under limited circumstances and still succeed by hard work, frugality, good management, and above all, unity of purpose.

Among the methods used to transfer a share of the farm personal property to a son the following are suggestive: (1) He may be given an outright interest in the livestock or machinery or both. (2) He may be sold an interest giving the father his note for the total sum or unpaid balance. (Such a note sometimes is interest-free and the principal only is paid back out of the son's share of the farm income). (3) In other cases, father and son will decide upon sharing the receipts and expenses and any increase or replacement of livestock. The same plan may be applied to his acquisition of an interest in machinery and equipment.

Usually, income from subsequent sales of foundation livestock or machinery owned by the father at the time the arrangement was started will be kept by the father. The latter plan avoids placing a monetary value on chattels at the start of the agreement but tends to complicate seriously the calculation of income or property interest later on. In the long run it is much better to place a money value on the chattel property and to sell the son his interest on such terms as are agreed to be expedient and equitable.

As indicated above, there are numerous alternatives that have been used in individual cases to establish a father-son arrangement. It is not the purpose of this study to recommend any one plan over another. However, the view is taken that families planning to operate the farm as a joint father-son business may benefit from the study of alternative plans devised to take care of the main issues which must be covered when an agreement is being developed. Four such plans are included as an appendix to this bulletin.

When Are Agricultural Leases Adequate?

In some instances, a share-rent or cash-rent lease may appear to be an adequate and satisfactory basis for a family-farming agreement. Such is the case when the father is in a position to furnish approximately what a landlord furnishes on a rented farm and the son is in position to assume the responsibilities equivalent to those of a tenant. A few special provisions in the lease may take care of the special circumstances that arise because the business is within the family. About one-third of Ohio's rented farms are leased from relatives and part of these are agreements which might be termed family-farming arrangements.

There is a noticeable tendency, however, for families to pattern their farming arrangements on the terms of prevailing agricultural leases, even when the circumstances differ radically from those existing on typical rented farms. In such cases, the "rule of thumb" terms of leases do not supply an adequate yardstick to measure contributions to the business or division of the income. Specifically, in many father-son arrangements all parties to the agreement furnish some labor, some capital and participate in the daily details of management. To further complicate matters, the relative size of these contributions may vary from year to year.

Various Plans of Operation

Any plan should provide an equitable compensation to all concerned for contributions to the farm business. Some plans of operation are simple, others more complicated. In any case, a family should use the simplest plan adapted to the circumstances; but in order to do this it may be necessary to think in terms of both the present and the future.

Wage agreements.—When a son is in position to furnish only his labor, a wage, or wage-plus bonus, may be satisfactory while he is an apprentice or during such time as he is not in a position to assume greater responsibility.

Leasing arrangements.—When a son is ready to assume financial and managerial responsibility, he and his parents may decide upon a leasing arrangement which shares the expenses and income, or upon a cash-rental arrangement, or a combination of both.

The merits of operating under an agricultural lease lie in its relative simplicity:

1. The property interests of each can be kept separate and be accounted for on a physical basis.

2. Because division of the income is on a gross basis the details of bookkeeping are simplified.
3. Because leases are in frequent use, custom has defined fairly well the rights and responsibilities of each party.
4. Complications in accounting can be avoided in case of final settlement.
5. The terms of leases can be liberalized to fit varied circumstances.

Sharing net income.—When father and son choose a plan based upon sharing net income they not only accept a higher degree of mutual cooperation and responsibility but also take the first step toward developing an equal partnership. Until such partnership is achieved the individual equity of the son in the joint farming operation is being developed and this may result in subsequent changes in the contributions of each.

PLANS FOR SHARING NET INCOME

There is evidence that many agreements between father and son are developed in terms similar to a share lease. Probably a majority continue under these terms and as such were excluded from those farms visited during this study because leases have been the subject of other research.

While most families elect to continue under the terms of a lease, some have found advantages in developing a plan to share the net income after farming expenses are paid. As a guide to the development of such plans, certain practical considerations should always be recognized.

Things To Be Provided by Each Person

Before any plan may be developed, a definite agreement should be reached as to who shall furnish the things which will be needed to conduct the proposed farm business. Each person may furnish the things which he already owns, or there may be some transfer and purchasing of items to establish more desirable proportions of ownership, and to provide a sufficient amount of property to conduct the joint farm business.

Division of the Annual Net Cash Receipts²

In working out a plan the primary concern is to determine the division of income which will pay each person according to the extent of his contributions to the farm business. It is highly de-

²Receipts and expenses should include the items agreed upon under terms of the joint farm operating agreement. The most common sources are listed in Table 7.

sirable that the plan for division be kept in simple terms to avoid unnecessary bookkeeping; but family farming arrangements often have complications which are better recognized than ignored.

The plan outlined in Appendix B is devised on the assumption that in some cases the fairest way to divide the annual income from the farm is to take into account each year the labor contributions of each member to the agreement, as well as the contributions of capital and management. To do this it is necessary to agree on a rate or rates of interest to apply to the value of capital contributions, and the proportion in which any remaining net cash returns will be shared. Some suggestions follow:

Wages.—The personal effort put into the business is partly physical labor and partly managerial skill. Payment for the former can be calculated either at the monthly wage rate for hired labor or at whatever other rate is agreed to be equitable. One thought is that current cash living expenses may be met by periodic wage withdrawals from the farm bank account. Another thought is that unequal labor contributions can be adjusted currently when wage payments are calculated at periodic intervals.

Interest payments.—The interest due members of the farming arrangement for their real and chattel property³ used in the farm business should not be at a higher rate than is paid on borrowed funds nor lower than that realized on bonds or savings accounts. Four percent is a common rate between these two extremes. Interest payments ordinarily would be a part of the annual settlement, but in poor years it may be necessary to reduce the interest yield because of a small farm income.

The net cash return (or deficit).—That part of the annual net cash receipts remaining after nominal wages and interest returns have been set off for the contributions of individual members of the farming arrangement, can be termed the net cash return. The size of the net cash return in any one year will be affected by such circumstances as crop yield, prices, and the timing of sales and purchases in that particular year. In the long run, however, managerial skills will be an important factor in determining the size of the net cash return.

A son should receive such share of this net cash return as matches his contribution. A method of determining the contribution of each is given in a following section on annual settlement.

³Some businesses charge the same rate of interest for the use of all kinds of property; others charge different rates according to the kind of property.

Maintenance and Improvement of the Farm Property

It is equitable to pay the expense of maintaining the farm out of the farm income before division, on the theory that the physical plant that supports the business should be kept up to the standard existing at the start of the arrangement; otherwise the fixed farm capital will be converted into income.

Major improvements, such as enlargement of buildings, new buildings, new fences, drainage systems, and other major forms of land improvement are things designed to add to the annual income and also the capital value of the farm. Such expenses, however, are often larger than can be paid out of current income in any one year.

Two ways of handling the expense of such improvements are suggested: (1) The person owning the real estate may pay the total cost of labor and material going into the improvement. A sum equal to the cost of the improvement would then be added to the inventory value of the farm real estate and an annual interest paid on the increase in value. (2) Finance the improvement out of profits, or personal funds, sharing the expense in the same proportion as income is shared. Minor improvements can be made out of the undivided farm income so long as the expense does not reduce the interest and wage payments.

To make this second plan equitable it would be necessary to have an inventory of the farm real estate, either taken at the time the farming arrangement was started or at least before the improvement was made; and to have in the farming agreement a clause specifying that in the final settlement of the farming arrangement any increase (or decrease) in the inventory value of the farm real estate over the beginning inventory shall be shared in the same proportion as income is shared.

Keeping the Agreement Equitable

In a family farming arrangement that endures over a period of years, conditions will change from time to time. For instance, a son may accumulate enough capital to finance a larger share of the farm business, or the father may wish to retire gradually from his participation in labor and in management. When such things occur it is only fair that some change be made either in the sharing of contributions or in the distribution of the farm income.

This adjustment can be provided for in two ways: (1) adopt a farming agreement which bases the distribution of the net cash

receipts each year on an accounting of the labor, capital, and management contributions of each individual in that year; or (2) agree to pay each a fixed share of the income and obligate each to bear a like share of the operating expenses, that is, contributions of labor, capital, and management. If this second plan is followed, the farming agreement should provide for a division of the annual farm expenses on a basis that matches the agreed-on shares of the receipts.

Final Settlement When the Arrangement Is Terminated

The nature of a farm business is such that it is seldom practical to arrive at a *complete* financial settlement of a family farming arrangement each and every year. In certain cases where the father owns all property and plans to continue his ownership, a complete settlement can be made annually by keeping the son on a straight cash income basis, or a cash income plus or minus the money value of certain changes in inventory. In most cases, however, it is more practical and convenient to keep the annual settlement on a cash-receipts-less-cash-expenses basis and leave changes in inventory out of the calculations until the arrangement is either terminated or radically changed.

In reaching a final settlement a difficulty arises from the fact that the son often has no definite claim to a share in the increased value of improvements made at least in part by him. This difficulty can be minimized if the agreement provides for a beginning inventory of all real and personal property and an ending inventory value of the real and personal property arising from his contributions. He should also share in any decreases resulting from depletion.

Records Needed

Too often a family farming arrangement is based on a verbal understanding which drifts along from year to year. Some sons have devoted years of their lives to the operation and improvement of the family farm without definitely establishing an interest in the personal property or any prior claim over the rights of other heirs in the real estate.

The best way to minimize this difficulty is by keeping records. The following constitute a minimum of the records needed to maintain arrangements on a business-like basis:

1. A written contract covering the terms of the agreement. (Persons under 21 years of age cannot be held legally for contractual performance under all circumstances.)

2. A beginning inventory of the real and personal property used in the business.
3. An annual record of the receipts and expenses to be used in calculating the annual income of each party to the agreement.
4. An ending inventory (either at the end of each year or when the arrangement is terminated).

The Written Contract

Several blank forms, prepared to illustrate contracts suitable for the more usual farming situations, are included in the appendix. The points which the written contract should cover differ with the plan and intention of the agreement. The sample plans should be studied by those interested in developing a farming agreement.

The Inventory

If a farm account record book has been kept for the farm business, inventory values may already have been established that are satisfactory for an arrangement between father and son. In the event that no inventory has been made, or if the values stated in a previous one are not acceptable, the following comments are offered.

The farm real estate should be valued for purposes of the agreement on the basis of its agricultural value over a period of years. Its market price at times might be considerably higher and at other times lower than the long term agricultural value. Cost of equipment, machinery, work stock, and mature breeding stock, less a reasonable rate of depreciation, should give a fair present value of such property. Meat animals, hay, grain and farm supplies are ordinarily valued at the current market price at the farm.

In father-son agreements where the son takes title to part of the personal property by giving his father a promisory note, the agreement should provide that in case the arrangement is discontinued before the note is paid and the father plans to continue to operate the farm, the father will have the right to repurchase on the same value basis personal property thus sold to the son, or its original equivalent, and such credits will apply to the unpaid balance.⁴

The beginning inventory and all later ones should conform to the same method of calculating values.

⁴In case the arrangement is to be discontinued, and the father does not plan to continue farming, all jointly-owned property should be sold for what it will bring and the receipts divided according to the basis of joint ownership. The son must pay the balance of the note from his own share and his other resources.

The yardstick which should be applied to any and all inventory values is the capacity of the property to contribute to the farm business. In other words, a son should not be expected to buy a share of personal property at inflated values or a share in property of no value to the joint farm business.

Following is an example of an inventory (in summarized form) such as a father and son might take when starting a farming arrangement. In this example the son has some livestock and machinery to contribute (Table 5).

TABLE 5.—INVENTORY OF FARM PROPERTY* BEFORE† THE ARRANGEMENT IS STARTED

(Statement as of December 31, 1945)

	Total farm	Owned by father	Owned by son
Real Estate	\$15,000	\$15,000	\$ 0
Personal property:			
Poultry	200	50	150
Dairy cattle	1,400	1,000	400
Beef cattle	880	880	0
Hogs	380	380	0
Horses	300	300	0
Sheep	440	400	40
Crops and supplies	2,040	2,040	0
Machinery and Equipment	2,860	2,460	400
Total	8,500	7,510	990
Total real and personal property	\$23,500	\$22,510	\$ 990

*All property should be itemized in a separate list of which this table is the final summary of the combined values of the individual items.

†See Table 6.

Let it be assumed that the son agrees to buy a one-third interest in the personal property. One-third of the total value of personal property is \$2,833. The son already has property valued at \$990. Then \$2,833 less \$990 gives \$1,843, the value of the interest to be purchased. The son may give his promisory note to the father for \$1,843. The note should bear a reasonable rate of interest unless the father is financially able and considers it fair to all concerned to take an interest-free note.

Table 6 is a statement of the inventory after the son has purchased a full one-third interest in the farm personal property. A copy of this inventory, including a list of individual items of property, should be attached to the farming agreement and become a part of that record, each party keeping a copy.

TABLE 6.—INVENTORY OF FARM PROPERTY AFTER THE ARRANGEMENT BECOMES EFFECTIVE

(Statement as of January 1, 1944)

	Total farm	Owned by father	Owned by son
Real estate	\$15,000	\$15,000	\$ 0
Personal property:			
Poultry	200	133	67
Dairy cattle	1,400	933	467
Beef cattle	880	587	293
Hogs	380	253	127
Horses	300	200	100
Sheep	440	294	146
Crops and supplies	2,040	1,360	680
Machinery and Equipment	2,860	1,907	953
Total	8,500	5,667	2,833
Total property contributed to the business	23,500	20,667	2,833
Cash in bank (operating funds)	900	600	300
Total, all property and funds	\$24,400†	\$21,267†	\$ 3,133†

†See Table 8 for interest return on this item.

The operators will need some ready cash to pay bills until receipts from sales have built up the farm bank account. The desirable size of this operating fund will vary with the type of farming, size of business, and time of year the arrangement is to start. In this example it is assumed that the business is to start off with an operating fund of \$900, two-thirds of which is furnished by the father and one-third by the son. This money should be deposited in the farm bank account, and be subject to withdrawal by only those so authorized in the farming agreement.

Records of Cash Receipts and Cash Expenses

The keeping of adequate financial records is essential in a family-farming arrangement. Some permanent record, such as the Ohio Farm Account Book, should be used to record and classify information on inventories, cash receipts, cash expenses, and attending details of the farm business. Such information is needed for purposes associated with the farming arrangement, for income tax purposes, and for analysis of the business to improve efficiency. The one set of accounts can serve all three purposes up to the time of summary and analysis.

A record of cash receipts and expenses, plus inventory records, may be regarded as about the minimum in essential bookkeeping.

A member of the family should be responsible for keeping the account records up to date. A son will benefit by this experience and quite often is assigned this duty. Occasionally, the father, mother, or some other member of the family keeps the books. It is desirable to go over the farm accounts jointly at intervals to check errors and omissions¹.

In all cases where the net cash receipts is the basis for distribution of the farm earnings it is necessary to keep a record of cash receipts and cash expenses. Although some income can be distributed to the members of the farming arrangement at intervals

TABLE 7.—FARM BUSINESS SUMMARY, CASH RECEIPTS AND EXPENSES, FROM JANUARY 1, 1944 TO DECEMBER 31, 1944

CASH RECEIPTS		CASH EXPENSES	
Source	Amount	Kind	Amount
Dairy products	\$1,006.10	Hired labor	\$ 320.00
Eggs	501.90	Taxes	150.10
Poultry	188.00	Insurance of property	46.50
Dairy cattle	220.20	Feed purchased	1,209.90
Beef cattle	1,439.82	Rent of farm or pasture	0
Hogs	2,389.98	Seeds and plants	122.50
Horses	0	Fertilizer and lime	213.25
Sheep, lambs and wool	388.12	Supplies, spray ,twine, etc.	67.75
Crops	1,281.88	Machine hire	181.00
Miscellaneous receipts	330.05	Repairs and maintenance	323.20
Labor receipts	113.00	Interest	39.80
Total receipts	\$7,859.05	Electricity and telephone	68.25
		Vet. and med. for stock	68.00
		Gasoline, fuel and oil for farm work	237.75
		Automobile upkeep (farm share)	81.00
		Freight, trucking, etc.	3.50
		Miscellaneous expenses	75.50
		Machinery and tools bought	425.95
		Cost of feeder stock sold during the year	924.00
		Total cash expenses	\$4,557.95

NET CASH RECEIPTS—\$7,859.05 — \$4,557.95 = \$3,301.10

NET CASH RECEIPTS, as computed here, have not been reduced by any charge for annual depreciation, either actual or allowable.

¹Being on a cash basis, the summary does not take into account the depreciation allowable annually for income tax purposes. The actual depreciation to be borne by each party is deferred until final settlement when the arrangement is terminated.

²It is necessary that all members of the family of responsible age cooperate fully in helping to keep the farm records accurate and up-to-date.

during the year, there should be a final annual settlement, to square up accounts. In most cases, this annual settlement will be on a cash basis leaving inventory changes out of the calculations until the farming agreement is terminated or reorganized.

An illustration of an annual summary of cash receipts and cash expenses is shown in Table 7.

Annual Settlement for Division of the Net Cash Receipts

The final step in annual settlement is to divide the net cash receipts according to the terms of the agreement. In this case it was agreed at the start that father and son should each draw \$50 per month as wages for the time employed in the farm business, that 4 percent annual interest should be charged for the capital contributions of each party, and the remaining net cash return to be divided on a $\frac{2}{3}$ - $\frac{1}{3}$ basis. The settlement statement would be as shown in Table 8.

TABLE 8.—CASH SETTLEMENT BETWEEN J. SMITH (FATHER) AND PAUL SMITH (SON) FOR THE PERIOD FROM JANUARY 1, 1944 TO DECEMBER 31, 1944

	Total farm	To father	To son
Net cash receipts	\$3,301.10		
Wages (father 10 mo., son 12 mo.)	1,100.00	\$ 500.00	\$ 600.00
Interest (on beginning inventory)* 4%	976.00*	850.68*	125.32*
Total wages and interest paid	2,076.00	1,350.68	725.32
Net cash return to be shared†	1,225.10	816.73†	408.37†
Total income shares	\$3,301.10	\$2,167.41	\$1,133.69

*See Table 6 for inventory value of property and funds contributed by each.

†Net cash receipts less the shares to wages and interest, \$3301.10 minus \$2076.00, is divided two-thirds share to father and one-third share to son, according to the terms of their agreement.

If, however, father and son had agreed at the start that the shares of each were to be determined by the contribution of each, then the following method should be used to determine what the respective shares of each should be in terms of percent of the total contributed:

Things contributed	By father	By son	Total
Real estate — \$15,000 @ 4% interest	\$ 600	\$ 0	\$ 600
Personal property — \$9,400 @ 4% interest	251	125	376
Labor and management, (estimated value)	1,200	900	2,100
Total	\$2,051	\$1,025	\$3,076
Percent contributed	66%	33%	100

Essentials Summarized

The foregoing essentials have been discussed with the viewpoint that decisions should be based on an analysis of the fundamentals. In all cases the parties to the arrangement should have a clear understanding of these contributions provided by each member. After such an understanding is reached it may be found in some cases that an annual accounting of all contributions is justified because they will probably vary from year to year and the income should be shared accordingly.

In other cases the contributions may remain sufficiently uniform from year to year to justify a straight percentage division of the total net annual income. The latter method will require a little less bookkeeping. In all cases, however, a business-like arrangement is essentially a matter of keeping records; namely, an inventory of the property used in the business, and an accurate accounting of the receipts and expenses.

If these things are done consistently the final division of the annual income and the final settlement are matters which any father and son, intent on fair dealing, should be able to determine equitably.

TRANSFER OF PROPERTY FROM ONE GENERATION TO THE NEXT

Another essential, not previously discussed, is the division of property in case of death—an eventuality which all must face sooner or later. Too often plans to cope with a death in the family are either avoided or neglected. Such neglect may seriously influence the ultimate fortunes of many.

Ohio laws require that land must have an owner. Title to the real estate and other farm property must, therefore, be transferred eventually to a younger generation. Ideally, a good many farms should pass from father to son without any serious or prolonged period of readjustment or curtailment of production. Also, the younger generation should be able to acquire title to the farm property without assuming an unmanageable burden of debt.

In most communities relatively few families retain occupancy and ownership of the same land over a span of more than one or two generations. Part of the change arises from the lure of alternative opportunities. Free choice of occupation is a privilege which democracy seeks to preserve, but on the other hand, some young people leave the farm because no plan is devised within the family which is mutually acceptable and which protects the interests of

all concerned. Usually a triangle of interests is involved: the security and livelihood of the parents, the acquisition of capital and property interests by the son on the home farm, and the concern of other heirs over their anticipated patrimony.

It is not reasonable to expect that all these conflicting interests can be reconciled in all cases, although frequently no insurmountable obstacle does prevent all three interests being served in a satisfactory manner. A desirable component is the willingness and the ability of a family to plan some years in advance and to carry out such plans. The first part of such planning has been discussed previously in the development of arrangements whereby a father and son carry on the joint operation of the farm. A second and companion part has to do with the planning for the eventual transfer of farm ownership to the son.

In studying actual arrangements it was found that in relatively few cases had a definite decision been made for the eventual transfer of the farm real estate. In fact, in 60 percent of the arrangements studied, no plan, other than descent by law, had been devised to transfer the real estate to the next generation. On the other hand, in 13 percent of the cases studied some understanding had been reached on a verbal basis, and in the remaining cases (27



Figure 4—After operating this farm for 40 years under a leasing arrangement, a son was outbid and lost the farm on which he had spent most of his lifetime.

percent), transfers according to the terms of a will were contemplated.

Methods by which land is transferred from one generation to the next can be classified as follows:

- (1) Let the *laws of descent and distribution* dispose of the farm. This occurs when an owner dies without leaving a will. The Ohio law does not look beyond the concept of equal distribution among all the heirs at law and the protection of the surviving spouse's distributive share. Because the law provides for such distribution of property it encourages the division of land into uneconomic farm units when there is no will.
- (2) A *will* in Ohio can deviate from an equal division of the property but it cannot disinherit the wife. Thus, a *will* can make some additional allowance for circumstances which the Statute of Descent and Distribution cannot provide for.
- (3) *Distribution by deed of gift* is a device used to some extent by farm families to transfer property during the lifetime of the grantor. The gift may or may not be contingent on the performances of certain conditions, or subject to the reservation of a lifetime interest.
- (4) *Transfer from father to son by sale* is a fairly common practice. The security of the father and mother may be insured by such devices as a land contract agreement, a deed and mortgage arrangement, a bond of maintenance or annuity arrangement, or by reserving a life interest in or lifetime use of certain designated property.
- (5) *An option to purchase* at some specified future date, or at the death of either of the father or of the longest surviving parent is another device used occasionally.

There are almost unlimited pros and cons to the several methods of effecting transfer of real estate from one generation to the next. No one method can be recommended as being most desirable under all circumstances. Because the legal questions involved are likely to contain some complications the advice of a competent attorney is the best insurance that the intentions of the family are put into proper legal form.⁶

⁶For a more detailed discussion see "Transferring the Farm From One Generation to the Next", Mimeographed Bulletin 204, The Department of Rural Economics and Rural Sociology, The Ohio Agricultural Experiment Station and Ohio State University, Columbus, Ohio
Also, "Legal Aspects of the Business of the Home", Bulletin 214, Agricultural Extension Service, The Ohio State University

APPENDIX A

Agreement Form, Plan 1

This plan is suitable for situations in which the son plans to contribute his own labor and little or nothing else and where the desired relationship is one of employer-and-employee.

AGREEMENT TO CONDUCT JOINT FARMING OPERATIONS WHEN SON IS TO BE COMPENSATED WITH WAGES AND/OR BONUS

(Names and date) This agreement is entered into this day of 19..... between (father's name) and (son's name) who mutually agree to work together the farm of acres located in (twp.) (County) (State) and operated by (father's name). TERMS: This agreement is to begin (date) and (son) agrees to devote his full time to regular farm work; to devote part of his time to farm work: (mark out one not applying)

In consideration of the performance of the above work (father agrees to pay to (son) in addition to room, board, and laundry the sum of \$ in regular installments (weekly monthly) during the period covered by this agreement. Description of bonus arrangement (if any):

This agreement may be extended for additional periods by mutual agreement noting the new dates, new details, and signatures in the margin below. Notice by either party to dissolve this agreement must be given in advance of

Signed FATHER
Signed SON

APPENDIX B

Agreement Form, Plan 2

This plan is suitable for situations in which each is to contribute labor, capital, and management, on either a variable or fixed share arrangement, with the intention of conducting a joint-farm business on a nonpartnership basis. Frequently, the son will acquire the money with which to obtain an equity in the farming property by borrowing from the father.

Agreement To Operate a Farm Jointly, on a Non-partnership Basis, Under Labor, Management, and Property Share Arrangements

This agreement made this day of 19..... by and between (father), and (son), of the County of and State of Witnesseth:-

Article I. Purpose

This agreement is for the sole purpose of operating a nonpartnership farm business on the following described farm lands, being known as and consisting of acres, more or less, located in Township of aforesaid county and state; and on such other lands as may be purchased or rented.

Article II. Time of Agreement

This agreement is to begin _____ 19____ at 12 o'clock noon and is to run year after year and can be terminated by either party giving written notice to the other party _____ months in advance, and not later than _____

Article III. Extent of Agreement

This agreement shall be binding on the heirs, executors, administrators, and assigns of both father and son in the same manner as on these original parties, except as modified by mutual consent: _____

Article IV. Contributions (Things to be provided by each person)

A. *Labor.*—Each party to this agreement shall furnish his own labor as follows: _____

Father = _____ months per year; Son = _____ months per year
 Rate of pay for own labor (dollars per month): Father = _____ Son = _____
 Such wages (or cash advances) shall be paid from joint farm funds to father and son regularly each _____ (week; month; year).

B. *Real and Personal Property.*—A beginning inventory of all property owned and contributed herewith by each is attached to and is a part of this agreement. It is agreed that the personal property furnished by father is in money value \$ _____, and by son \$ _____, on this date; and the real property furnished by father is in money value \$ _____, and by son \$ _____, on this date. The value of all property contributed is agreed to be \$ _____, which is the sum of inventory values of real and personal property contributed at the start of this agreement. Real and personal property, contributed under this Section B, Article IV, are to be compensated for at a rate of _____ percent interest for real property and at _____ percent interest for personal property, payable annually, under terms of annual cash settlement to be made as required by this agreement. Changes in inventory are to be accounted for only at the termination of this agreement, except for real estate values as selected under item 2, Section E, Article IV.

C. *Management.*—The following items of responsibility are agreed upon as described:

- (1) General operating plans shall be agreed upon at the start of each year. Adjustments may be made at any time by mutual agreement.
- (2) All financial transactions shall pass through the farm bank account, except that a cash fund not to exceed \$ _____ may be kept to defray small expenditures. All checks on the farm bank account shall be signed by _____ (father), _____ (son), or _____ (Both parties).
- (3) No chattel mortgage shall be given on any property used in the farm business without consent of all parties to this agreement.
- (4) An inventory of all real and personal property shall be taken at the beginning date of this agreement and become a part of the agreement.
- (5) A strict account of all farm cash income and cash expenses shall be kept by _____ (father), _____ (son). (Use of the Ohio Farm Account Book is suggested). An account shall be kept of all cash advances made to the parties to this agreement.

D. *Receipts and Expenses Defined.*—Gross cash income shall include receipts from: livestock and livestock products; crops; used equipment; labor off the farm, and other miscellaneous income unless excepted by mutual agreement. Sales of livestock and equipment owned solely by _____ (father) _____ (son) will-will not (mark out one) be included in future joint cash receipts. Sales of timber will-will not (mark out one) be included in the joint cash receipts. Rents and royalties arising from mineral rights, sales of easements and rights of way will not be included in the joint cash receipts.

Joint farm expenses shall include expenditures for: rent of additional land; live-stock, equipment, and tools; supplies; including those for normal upkeep of farm improvements; fertilizer, lime, seeds; feeds and feed processing ;insecticides; wages and expenses of hired labor; machine hire; machinery repair; gasoline and oil; the farm share of electricity and telephone; interest and principal payments (on jointly borrowed funds only); and any other farm business expenses paid out of the undivided farm income when so agreed. The purchase and maintenance of automobiles shall be an individual personal expense. Reimbursement from joint farm funds may be made for use of personally-owned vehicles in the farm business.

E. *Maintenance of Property Defined.*—Title to the real estate contributed shall remain undisturbed in the name of the owner. It is agreed, however, that current maintenance shall be paid out of the undivided farm income to the extent necessary to maintain the real estate in its present condition. Any additional improvement or repairs may be made according to either of the following options: (Mark out one not selected).

- Option 1. The expense of improvement will be financed out of net returns (after wages and interest are provided for), or personal funds on the same basis that net cash returns are shared; in which case each party to this agreement shall also share in the unexhausted value of such improvement, when this agreement is terminated, or its terms revised, in proportion to the agreed-on share in the net cash returns existing at the time the expenditure was made.
- Option 2. The expense of the improvement will be paid in full by the owner of the land; in which case the inventory value of such real estate shall be increased by a like amount not later than the beginning of the next farm business year.

Article V. Division of annual income

An annual cash settlement shall be made on the following basis:

A. Net cash receipts (or deficit) shall be the difference between the value of cash receipts for the year and cash expenses as defined for the same period in Section D, Article IV.

B. Deductions shall be made from the net cash income in this order: (1) for wages (or cash advances) to father and son as agreed under Section A, Article IV; (2) for interest on property contributed by each as valued in the beginning inventory under Section B, Article IV.

C. (Option 1) After deducting wages and interest from net cash receipts it is agreed in advance that the remaining cash return (or deficit) shall be shared by father% and by son%.

(Option 2) After deducting wages and interest from net cash receipts the remaining return (or deficit) shall be shared in the same proportions that property was contributed and expenses were shared during the period covered by the cash settlement.

D. The following outline is provided for determining the annual cash settlement as described above: (See also Table 8 in text).

Cash Settlement Between Father and
Son for Period19..... to19.....
Cash receipts minus expenses = Net cash receipts for total farm.

Item No.	SHARES: TO TOTAL FARM TO FATHER TO SON		
1. Net cash receipts	\$	xxxx	xxxx
2. Wages advanced	\$	\$	\$
3. Interest on property contributed	\$	\$	\$
4. Total wages and interest	\$	\$	\$
5. (Item 1 minus 4 net) cash return	\$	*	*
6. Total income shares (Item 4 plus 5)	\$	\$	\$

*Percentage share of (item 5) net cash return as agreed in Section C, Article V.

E. In any year when a deficit is experienced the deficit shall be covered by (1) a reduction in the rate of interest paid on the inventory value of farm capital, or (2) a proportionate reduction in both interest rate and wages (mark out whichever does not apply).

F. When this agreement is terminated: (FINAL SETTLEMENT)

- (1) An ending inventory of real and personal property shall be taken to determine the increase or decrease in physical quantity and value of property during the period of joint operation, and the value of the final interest of each party.
- (2) The parties to this agreement shall share in any increase or decrease in the undivided personal property in the same proportion as used for the current division of the net cash return as stated in (C) above; or as originally contributed (mark out one).
- (3) The unexhausted value of improvements to real estate made by the expenditure of undivided farm income, and the depletion of improvements arising from use in the farm business shall be shared in the same proportion as the current net cash returns are shared. Differences in value arising from fluctuations in the market price of real estate shall not be shared.
- (4) (father) shall have the option to repurchase from (son) any unpaid-for share in the personal property sold to him, on the same value basis used in the original transaction, less reasonable depreciation charged against the item. The option to repurchase the son's share of jointly-owned personal property shall apply up to only the physical amount of such property listed in the beginning inventory, and at the value determined in the ending inventory.

Article VI. Living Arrangements

Both father and son and their families are to be furnished separate housing if desired. The cost of renting a separate dwelling shall - shall not (cross out one) be shared by both parties as a farm expense. A cost of \$..... per month for board and laundry for one party shall - shall not (cross out one) be paid to the party furnishing these items.

Article VII. Additional Topics Covered by This Agreement -

It is also agreed that

Article VIII. Arbitration

If on any specific problems of this joint farming business agreement the undersigned are unable to reach a decision satisfactory to both, the decision is then to be left to three other people, one person selected by each party and these two in turn to select a third person. The decision then reached by any two of these arbitrators shall be binding on both father and son.

Signed father
mother
 son
 son's
wife

Witnesses:

APPENDIX C
Agreement Form, Plan 3

This plan is suitable for situations in which the father intends to contribute little or none of his own labor and the desired arrangement is that of a landlord-tenant relationship based upon a share lease.

The lease form below suggests points which should be covered in a livestock share lease. Since conditions and circumstances vary widely between individual farms, the terms to make an equitable lease for a particular farm would require variations from those stated in this lease.

Agreement To Operate a Farm on a Livestock Share Lease Basis

This agreement made and entered in this day of, 19..... by and between landlord of, Ohio, and tenant, of, Ohio.

Witnesseth: That the said landlord in consideration of the agreements and stipulations hereinafter mentioned to be kept and performed by said tenant does hereby lease to the said tenant to occupy and use for agricultural purposes the following described real estate situated in the county of _____, State of Ohio.

Length of Lease

Said tenant to have and to hold the said property subject to the conditions and limitations hereinafter mentioned for a period of one year beginning on March 1, 19..... at 12 m., and ending on March 1, 19..... at 12 m., and from year to year thereafter until written notice is given by either party to the other on or before the first day of September before the expiration of this lease or any renewal.

Landlord's Contribution

The method of renting is known as the livestock share plan. (1) The landlord will furnish the above described farm including the improvements thereon and pay all taxes on said property. (2) He will furnish all posts and fencing materials that may be needed upon said farm, either for repairing the fences now on said farm or for building new fences. (3) He will furnish the labor to build all new permanent fences other than replacements. (4) He will furnish the material and skilled labor necessary for repair to permanent improvements. (5) He will furnish the grass and clover seed.

Tenant's Contribution

(1) The tenant agrees to farm the land in a husbandlike manner devoting his entire time thereto, and to furnish all labor necessary to successfully operate the farm; (2) to furnish all teams, tractor power, tools, machinery, and motor fuel necessary to properly conduct the farming operations; (3) to keep the buildings, fences, and other improvements in as good repair as they now are, ordinary wear, loss by fire, or unavoidable destruction excepted; (4) to provide the labor for replacing an agreed upon amount of fence each year; and (5) to haul out all manure made on the farm up to December 1, preceding the end of the lease, and spread where it will be to the greatest advantage to the farm.

Joint Contributions

The following investment and expenses shall be shared jointly and equally by the two parties to this lease. (1) All farm seeds to be planted or sown on the farm during the period of the lease, except grass and clover seed; (2) feed purchased for feeding the livestock owned in common by the parties hereto, also pasture hire if used by the livestock owned in common; (3) the expense for fertilizer; (4) _____ tons of lime to be applied annually and paid for out of A.A.A. payments if sufficient to cover the cost, the landlord to pay the cost of trucking to the farm; (5) the machine hire for threshing or combining both small grain and seed, silage cutting, or hay baling; (6) breeding fees and veterinary expense for livestock owned in common; (7) the taxes and insurance on all property owned in common; (8) hauling produce to market to be considered a joint expense; (9) all the livestock kept on the farm, except horses and hens, shall be owned equally and in common, each party owning an undivided interest therein; (10) all of the livestock to be fed from undivided feed.

Tenant's Privileges

(1) The tenant may keep not to exceed _____ work horses. No other horses. (2) If the tenant wishes to raise colts, the landlord shall pay one-half the breeding fees and own a one-half interest in the colts. (3) The tenant to have the privilege of keeping not over 50 hens and _____ milk cows for his own use, the horses, milk cows, and up to 50 hens to be fed from the undivided home grown feed. If over 50 hens are kept, all shall be kept on the same basis as the other productive livestock. (4) The tenant to have house, garden, and what milk is needed for family use free of charge. (5) Each party is to receive one-half of any jointly-owned livestock butchered for family use or to pay the other party market price for his share. (6) The tenant shall have the right to cut firewood out of the woods but he shall take only dead and fallen timber that is not good for lumber.

Division of Receipts

When any livestock owned in common, any milk, wheat, or any other products of said farm are sold or disposed of, the proceeds shall be divided equally between the two parties to this lease. The sale or purchase of jointly-owned livestock, materials, or other farm products shall be made only with the consent of both parties to this lease.

System of Farming

- (1) It is the intention of the parties to this lease to follow a rotation of
- (2) The landlord reserves the right to control the rotation and acreage of crops.
- (3) It is the intention to keep approximately the following amount of livestock:
- (4) No straw, corn stalks, chaff, manure, or stubble shall be sold or burned or hauled off the farm without the consent of the landlord, but all fed or spread upon the land.
- (5) The wheat stubble shall not be pastured after October 1.

Care of Property

- (1) The tenant agrees to take good care of said premises and to farm said land and look after said improvements in a good, careful, prudent, and farmer-like manner, and to return said property in as good condition as he found it, ordinary wear and tear excepted. (2) The tenant shall maintain the yards in a tidy manner. From May to October he shall mow the yard at least once each month and keep it in a good clean condition.
- (3) The tenant shall keep the weeds cut. He shall mow all fence rows and ditches between July 15 and August 15. He shall mow the roadside before the 25th of July.
- (4) Wheat sown in the fall of 19 by the tenant goes with the farm. If the tenant does not stay he is to be paid by the landowner for actual time of seeding and for his share of seed wheat and fertilizer. The tenant agrees to harvest the wheat seeded on the farm at the beginning of this lease, to pay for the twine and one-half of the machine hire for threshing or combining the same, and receive one-third of the wheat.

Right to Make Improvements and Compensation for Damage

The tenant shall maintain such improvements as are mentioned in this lease. If the tenant desires to make at his own expense further improvements which are usually provided by the landlord or in part by the landlord, he shall obtain from the landlord his consent to make the improvement, and mutually agree upon a basis for compensating the tenant for the unexhausted value of such improvement upon the expiration of the lease. Or it may be agreed that instead of compensation the tenant may within 60 days after the termination of this lease remove such structures as he has built, provided further that he leaves that portion of the farm from which such improvements are removed in as good condition as it was previous to the construction of such improvement.

At the expiration of this lease the tenant shall pay the landlord a reasonable compensation for any damage to the property for which the tenant is clearly responsible, an allowance being made for depreciation resulting from ordinary use.

Right of Entry

The landlord reserves the right to enter upon said land to inspect or to make improvements thereon and for any or all other lawful purposes in connection with the operation of the farm so long as it does not interfere with the rights of the tenant.

Division of Property at End of Lease

At the expiration of this lease, all produce and all property owned in common by the parties shall be equally divided as they may agree, but if they shall fail to agree at that time upon a sale or division of said property, they each shall select a referee or arbitrator who, if unable to agree, shall select another and the three shall make such division of said property as to them shall seem equitable, giving each party one-half of the same.

Arbitration

It is agreed that violation of this contract by either party shall be just cause for immediately voiding the contract. Differences between the parties of this lease shall be referred to three disinterested persons, one to be chosen by the landlord, one by the tenant, the two thus chosen to select a third. The decision of those three shall be binding.

Yielding Possession at End of Lease

The tenant agrees that at the expiration of this lease he will yield possession of the property to the landlord, without further notice, and that it will be in as good order and condition as when the same was entered upon by the tenant, loss by fire, or unavoidable accident and ordinary wear excepted.

Sub-leasing

The tenant shall not re-lease or sub-let said premises or any part thereof without the written consent of the landlord.

Partnership Not Created

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

Signed Landlord Date
 Signed Tenant Date

APPENDIX D

Agreement Form, Plan 4

This plan is suitable for those who wish to establish a joint farming business on a partnership basis.

Agreement To Operate a Farm Jointly When a Partnership Is Intended

This agreement by and between (father), and (son(s)), entered into this day of, 19....., for the sole purpose of operating a farm business in partnership on the following described real estate: located in the County of, in the State of and on any other land said partners shall agree to buy or rent for farming purposes, shall begin as a business partnership on, 19..... at 12 o'clock noon and continue year after year as long as satisfactory to all parties. Notice to terminate this agreement shall be given to the other members months before the effective termination of this partnership.

Each shall give his entire labor and management to the farming business except as follows: *

The Father shall furnish real estate valued at \$ † and the Son(s) shall furnish real estate valued at \$ † and each shall pay from his own funds all taxes, insurance, and costs of new improvements to his own land and buildings. Father and son(s) shall each own jointly, on a share basis, all equipment, tools, livestock, feed, and supplies used in the farming business except as follows: ‡

†Mark *NONE* if no real estate is furnished.

*If any partner(s) work(s) off the farm, an adjustment can be made in the amount of wage-allowance advanced to him during that period. Or, one may prefer to assume a greater share of the cost of hiring labor or of other specific expenses.

‡Son can acquire his share by giving the father a note and/or cash as preferred. In some cases father furnishes all livestock and son(s) receive(s) a share of the natural increase only.

An inventory shall be taken at the start of this partnership. This inventory record (typical forms for which are provided in the Ohio Farm Account Book available at all County Agriculture Extension Service offices) shall show the ownership, amounts, and value of all farm equipment, livestock, feed, crops and supplies on hand and in use by this partnership at its beginning.

All other plans and adjustments shall be made as needed during the farming year if agreed upon by all partners.

All purchases of more than \$..... value shall be made only when mutually agreed upon.

All farming business shall be transacted from a joint checking account at the bank.

All checks shall be signed by (name(s) of person(s) selected)

All accounts shall be carefully kept by (name(s) of person(s) selected)

Additional topics covered by this agreement are:

Each partner shall be paid an annual return of percent of the beginning inventory value of all real property and percent of the beginning inventory value of all personal property furnished by him for the use of this partnership (see balance C).

The father shall receive \$..... and son(s) \$..... each month as advance cash allowances for own labor to be paid by checks drawn on the joint farm business account, and income from work off the farm done by any partner shall - shall not (mark out one) become part of the cash receipts of the joint farm business. Any partner furnishing board, and/or laundry to another partner shall - shall not (mark out one) receive payment for these items.

The father and son(s) undersigned agree to share the net undivided farm income or Balance D (Balance D is explained below) on a basis.*

A.	Total cash farm receipts	\$
	Minus total cash farm expenses	\$
	Balance A	\$
B.	Total cash allowances advance, Item B	\$
Add these	{ Advances to Father for labor	\$
for	{ Advances to Son for labor	\$
Item B	{ Advances to Son for labor	\$
above	{ Balance A minus B	\$
C.	Returns to property for use of same, Item C	\$
Add these	{ To father for real estate	\$
for	{ To son(s) for real estate (if any)
Item C	{ To father for personal property
above	{ To son(s) for personal property
D. =	Item C deducted from A-B balance	Bal. D. \$

Balance D is the net cash return (or loss) to be divided on the basis agreed to immediately above.*

*Annual settlements should be on a cash basis on the theory that each is to be paid on the basis of what was contributed. The final settlement at the end of the partnership contract agreement shall account for the changes in inventory and the division of property shall be made on a physical rather than money-value basis wherever possible.

At the expiration of this agreement, all jointly-owned farm property shall be divided on a physical basis, in the same shares as used to divide farm income under a previous section of this agreement, and the father shall have the option to purchase any son's share of indivisible property at current market prices for such items.

Also it is further agreed that

When no agreement can be reached, each partner shall choose a representative, and those chosen shall select another disinterested person to arbitrate the dispute. A majority decision by these arbitrators shall be binding on all concerned.

Witnesses:

Signed

..... father

..... mother

..... son

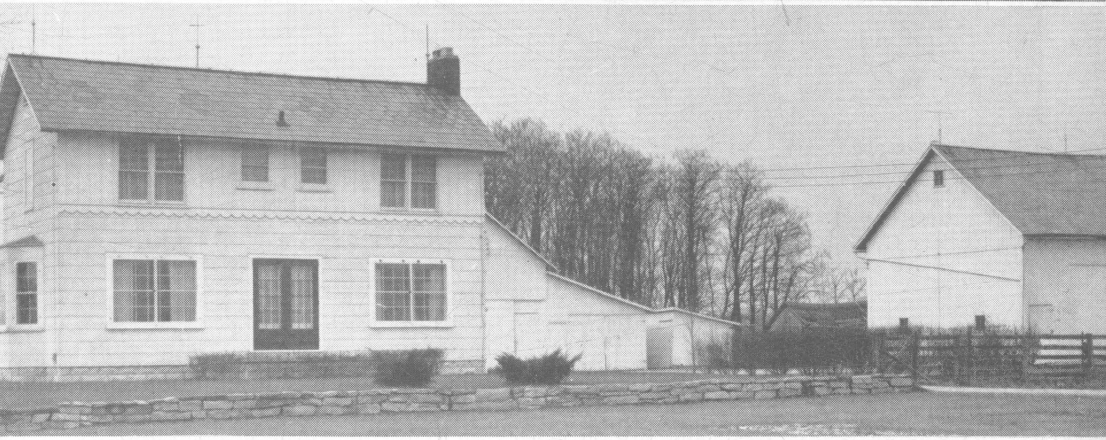
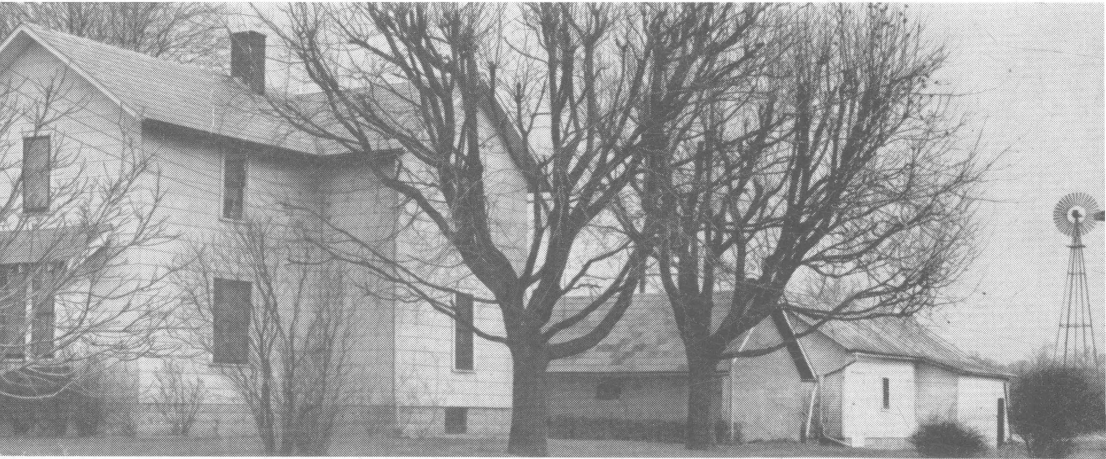
..... son's

..... wife

Witnesses:

.....

Three Good Homes On One Farm



A father, mother, one son, and his wife, have farmed and lived together since the depression of the 1930's. Since then the farm acreage and size of business have been expanded into a satisfactory three-way partnership; a second son joining the partnership after several years of nonfarm employment. The new dwelling is for the father and mother. Pleasant personalities, industry, good management, and long range planning for the whole family have contributed to the development of the present arrangement.