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Father-Son Farming Plans: Growing into the Farm Business

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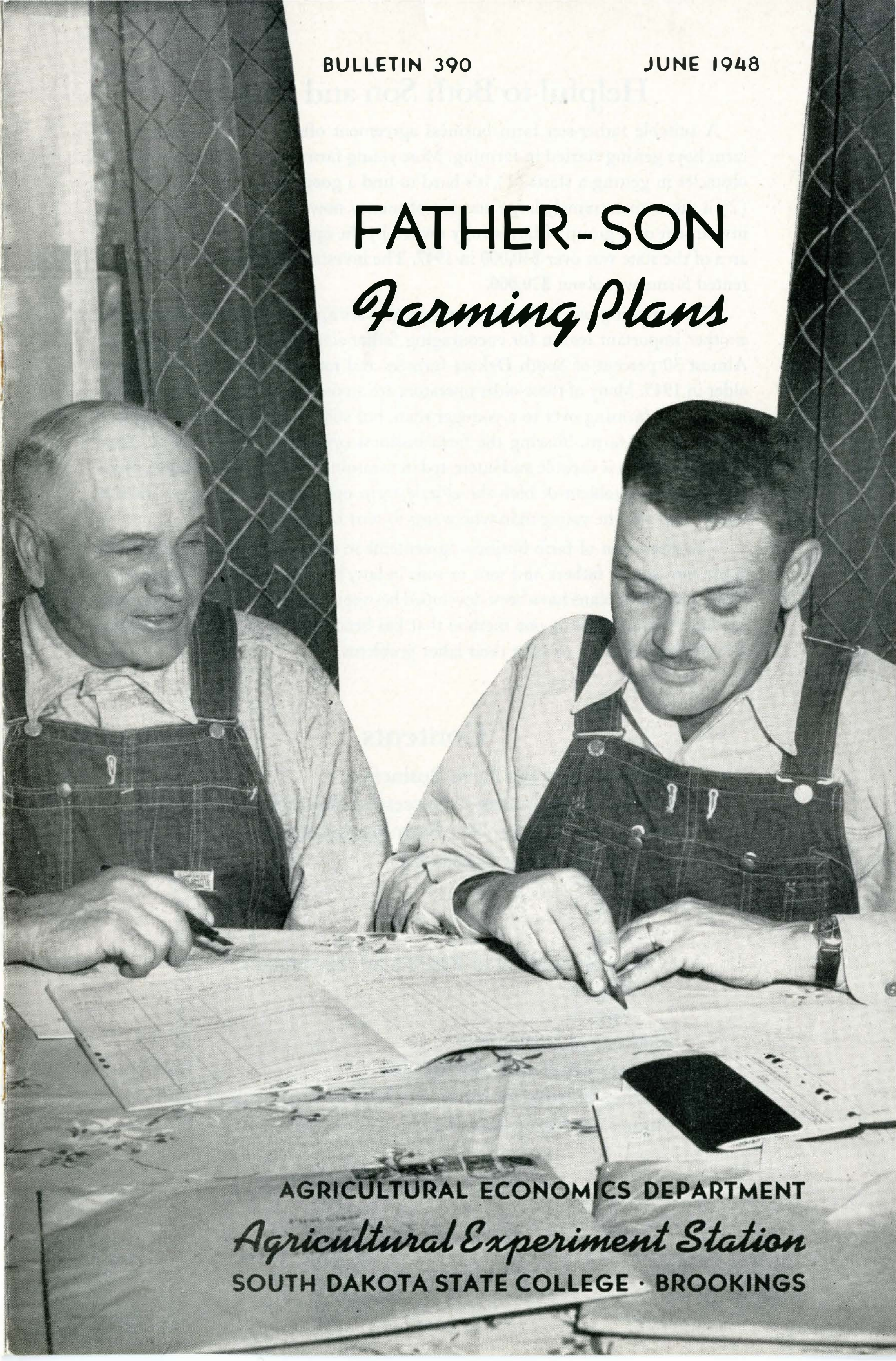
FATHER-SON
Farming Plans



AGRICULTURAL ECONOMICS DEPARTMENT
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SOUTH DAKOTA STATE COLLEGE · BROOKINGS

Helpful to Both Son and Father

A suitable father-son farm business agreement often solves the problem of farm boys getting started in farming. Most young farmers are finding two major obstacles in getting a start: (1) It's hard to find a good farm to rent or buy, and (2) it takes an extremely large amount of money now to start farming. Average investment on a group of farms fully owned by the operators in the Southeastern area of the state was over $40,000 in 1947. The investment figure for operators of rented farms was about $20,000.

The increasing proportion of operators who are approaching retirement age is another important reason for encouraging father-son farm business agreements. Almost 30 percent of South Dakota farmers and ranchers were 55 years old or older in 1945. Many of these older operators are anxious to shift much of the heavier work of farming over to a younger man, but still want to maintain an active interest in the farm. Sharing the farm business operations with a son or other young man who is capable and interested in assuming greater responsibility, often will solve the problem of both the elderly farm operator who wants to "take it easier" and also the young man who wants to start farming.

The discussion of farm business agreements in this publication is intended to apply not only to fathers and sons or sons-in-law, but also to non-related parties. Many successful plans have been developed between farmers and young men who are not relatives. This is one method that has been used by some South Dakota farmers and ranchers to solve their labor problems.

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Father-Son Farming Plans

C. R. Hoglund[1] *and* A. W. Anderson[2]

Growing Into the Farm Business

Early Start in Farm Enterprises

An early start in the farm business on the part of the son usually contributes greatly to successful father-son type of farm business agreements. Interviews with 150 farmers and ranchers throughout the state in 1947 showed that 40 percent of the sons or junior members operating under farm business agreements had started out with a share in part of livestock or crops on the home farm or a share of crops from a rented acreage. A 4-H club calf, pig, or lamb, an acre of corn, or some Future Farmer of America project was often the beginning of such a start. Many of these farm boys had expanded their original enterprise into a full-time business.

A farm boy or girl will usually show a great deal more interest in farming if he or she is permitted and encouraged to raise or fatten a few head of livestock, or grow an acreage of crops and receive the income from it. Development of business judgment is another advantage if good results are kept and the young people assume some of the expenses of producing the livestock and crops.

Under the guidance of wise parents, farm youths have the opportunity to increase livestock numbers or savings. This step helps them to get started farming on their own on an outside farm or to make their contribution to a definite father-son business agreement.

An important consideration often neglected on many farms is the provision for greater responsibility and more definite financial arrangements and farming plans for the son who is reaching maturity. Parents often fail to realize that their children have grown up and desire more definite plans regarding their future on the home farm. Whether a son is receiving wages, income from crops or livestock, or compensation from other sources, it is essential that definite business-like agreements be made and adhered to. It should also be realized that such arrangements need to be adjusted from time to time, as circumstances change.

Keeping the Farm in the Family

The transfer of farms from generation to generation within a family is desirable but often neglected. Only a very small percentage of parents in the state have made specific plans and written arrangements, while they are still living, for the transfer of their farms to sons or other heirs. This neglect has frequently resulted in costly and drawn-out legal procedures in settling estates. The net result of this lack of definite inheritance plans has been the breaking up of continuous farm ownership within many a family.

A satisfactory farm business agreement between a father and his son, or son-in-law, can serve as a means of keeping the home farm in the family. This type of agreement, if followed up by a plan for the transfer of the farm to the younger man who is farming, will do much toward stabilizing ownership.

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Factors Contributing to Successful Agreements

The study of father-son type of farm business agreements showed that certain characteristics seem to be associated with the most successful agreements. Careful consideration of these factors by farmers and their sons who are planning farm business agreements should be helpful.

Ability and Willingness to Get Along. One of the first essentials of a successful father-son type of agreement is that both members must get along with each other and like to work together. Each must be willing to "give and take" and consider the other's viewpoint.

Adequate Size of Farm Business. The farm or ranch business must be large enough to provide a satisfactory income for both father and son. The junior member should have the opportunity of making an income slightly more than that of a hired man of comparable age and ability, or as much as he might earn if he operated alone. On most farms, income can be increased by farming more land, by producing more and better livestock, or by changing over to more specialized crop and livestock enterprises.

Shift in Management Responsibility. The father or senior member should be willing to shift more and more of the responsibility of managing the farm over to the son or younger member. This increased responsibility will help the young man develop confidence and managerial ability. It also tends to heighten the son's interest in making the business profitable and successful for both of them. The son, on the other hand, can benefit greatly from the experience and advice of the father.

Satisfactory Arrangements for Housing. If the son or junior member is married, it is very advisable to provide separate living quarters for both families. This usually can be done by building or moving in another dwelling, or by making two apartments out of the present farm house, if it is large enough. A home for each family permits more individual freedom and eliminates a source of possible friction.

Equitable Sharing of Income. The sharing of the net income between father and son should be in proportion to each one's contributions to the farm business. A son or junior member who furnishes only his own labor should receive a much smaller share of the net income than a son who in addition to his labor contributes

A separate house for each family is highly desirable.

equally with his father to the investment and farm expenses.

Sharing in Entire Business. Many sons get a start in farming through a 4-H club enterprise, FFA project, or by some similar method. As the sons grow older they frequently become joint owners with their fathers in some livestock enterprise. On other farms, the sons are allowed to increase a herd of cattle, or flock of sheep, or sows of their own. These enterprises eventually become so large and the details so complicated that it is difficult to divide expenses and income between the father's and the son's share. As the son's maturity increases, therefore, it is most desirable for the son to enter into an agreement with the father providing for a share in the entire farm business. This encourages the son to take more interest in the success of the whole farm, rather than only a part of the farm business. Furthermore, the net income to the son is likely to be more uniform from year to year if he shares in the entire business.

Business-Like Arrangement. Father-son farming agreements should be based on sound business principles and not merely on sentiment. Methods of dividing items of expense and income should be agreed on beforehand, not left until after harvest, after the livestock is sold or to the end of the year. It is desirable that all members of the family become familiar with the terms of the agreement, because it is actually a family agreement.

Flexible Arrangements. If share arrangements are to continue fair to both parties, it is essential to consider frequently the value of the contributions each is making. As the son's financial contribution and interest in the farm business increases it is necessary to make changes in the sharing of income and expenses.

Agreement in Writing. The main points of the agreement should be in writing. This can help prevent future misunderstandings because verbal agreements are sometimes forgotten or remembered differently. Changes and additions can be made to the written agreement as new situations develop and require attention.

It should be clearly stated in the agreement and understood by both parties that a partnership is not being established, unless of course it is the desire of both to set up a legal partnership and operate as such. It should also be stated in writing that neither party will be liable for debts or obligations incurred by the other, without special written consent.

Adequate Farm Records. A complete record of all receipts and expenses is essential. It is needed for making periodic and annual settlements. An accurate record by both son and father helps to avoid misunderstandings at settlement time. Records also are useful as a guide for improving operations, increasing earnings, and for preparing income tax returns.

Advances and Allowances. It is usually desirable to make provisions for monthly allowances to the son to cover personal expenses. This is especially important until the son gets a good start. Any allowances or advances made should be deducted from the son's share of the net income when final settlement is made.

Operating and Living Expenses. An adequate source of funds for the younger member just getting started should be given full consideration. This can be done by direct loan from the father, or by assisting the son to secure a loan through a lending agency. Farm parents often fail to realize that the younger family just getting started has more wants and higher living expenses than their parents who already have their home established and their children grown. In addition, the son usually wants to be able to furnish some part of the farm operating expenses.

Vacation and Time-off. Definite arrangements for vacations are possible with a father-son type of business agreement. It is also desirable for junior and senior members to exchange time-off on Sundays, or agree on some other plan.

Examples of Father-Son Farming Agreements

Many types of farm business agreements are being used by South Dakota farmers and ranchers. These range from those in which the son or other junior member furnishes only his own labor or possibly a small part of the livestock and machinery, to types of agreements in which both members contribute equally to the farm business. This latter type is usually known as the 50-50 share arrangement. The 50-50 arrangement was the most common father-son type of agreement found in use on the 150 farms and ranches studied in South Dakota.

The plans and examples suggested herein assume full ownership of the farm by the father. However, they are equally adaptable to cases where the father owns part of the unit and rents part, or even where he rents all, merely by omitting from consideration the share or amount of rental paid to the land owner.

Most farm business agreements can be classified into two major types. The most common type includes plans in which a father and son are operating a farm jointly. Under such a situation both the father and son contribute to the farm labor and management. Therefore this type may be termed "Joint Operating Agreements." The second major type of agreement includes those in which the father or senior member retires or semi-retires. The son or junior member then ordinarily supplies all the labor. Both parties contribute to management. This type may be called "Semi-retirement or Retirement Agreements."

Joint Operating Agreements

Three types of business agreements are suggested for a situation where the father or senior member wishes to continue active in the operation and management of the farm business.

The first plan provides for the joint father-son operation of a farm with the son furnishing only his labor and management. This type of agreement is particularly well adapted to a situation in which a son or junior member is just starting and has little or no capital saved.

The second plan provides for joint operation of the farm on a co-renter basis with the father as landlord. This second plan might well serve as an intermediate step to a regular 50-50 share arrangement to be developed upon the semi-retirement or retirement of the senior member.

The third type of joint operating plan is similar to the usual 50-50 share agreement, except that the father contributes all or a major part of his labor and management.

The farming unit under any of these plans should be large enough to provide full-time work for at least the two men.

Plan No. 1

The son contributes only his individual labor and management. It is suggested that the son receive one-fifth of the net farm income as compensation for his labor and management contribution. This percentage figure may need to be adjusted to fit various situations. Differences in size of operating units, type of farming carried out, and age and responsibility of the junior member need to be considered.

It is generally desirable to provide a monthly wage allowance for the son or junior member until he builds up sufficient cash reserves. Such monthly allowance may be somewhat less than the wages of monthly hired men in the area. These advances should then be deducted from the son's one-fifth share of the income at the time final settlement is made. A complete record of all income and expenses for the year's business is needed. Changes in the value of livestock and crops from the beginning to the end of the year also need to be recorded.

The following example, based on an actual farm record in eastern South Dakota, for the year 1947, illustrates how net income would be divided between father and son under Plan 1. The net farm income in this example was favorably high due to a large-sized business, well managed and operated.

	Whole Farm	Father	Son
Total gross sales for year	$16,519		
Inventory increases in crops and livestock	1,801		
Total gross income for year	$18,320		
Total operating expenses for year	8,158		
Net Farm Income	$10,162		
Father's share and Son's ⅕ share		$8,130	$2,032
Less $125 monthly allowance for 12 months			1,500
Cash settlement to son at end of year			$ 532

Plan No. 2

The son contributes one-fourth of livestock, one-half of machinery and equipment, and his one-half share of labor and management. This plan is particularly well adapted to father-son situations in which the son has acquired sufficient capital or livestock and machinery of his own to make a substantial contribution to the farm business. The son on the other hand may not have accumulated enough capital or reached sufficient maturity to enter into a full 50-50 share arrangement.

The plan is based on the father and son operating jointly as co-renters, with the father being considered as the landlord. This plan may be used as a step toward a full 50-50 sharing in the farm business.

The suggested division of income and expenses is shown in the following table:

50-50 Co-Renter Share Arrangement

Income	Proportion of gross income received by each Father	Son
Livestock and livestock products	75	25
Crop sales	75	25
Custom work	50	50
Machinery and equipment sold	50	50
Miscellaneous receipts	75	25

Expenses	Proportion of expenses contributed by each Father	Son
Real estate taxes and upkeep	100	0
Power and machinery upkeep	50	50
Tractor fuel and oil	75	25
All crop expenses	75	25
Breeding stock purchased	75	25
Feeder stock purchased	75	25
Other livestock expenses	75	25
Hired labor	50	50
All other farm operating expenses	75	25

The following example from a South Dakota farm record book shows sales, expenses, and net income for father and son under Plan 2.

Receipts for Year

	Total	Father's share	Son's share
Hogs	$ 6,897	$ 5,173	$1,724
Cattle	2,938	2,204	734
Dairy Products	132	99	33
Eggs and Poultry	351	263	88
Crops	3,006	2,254	752
Miscellaneous	238	179	59
Total Sales	$13,562	$10,172	$3,390
Inventory Increases	2,196	1,647	549
Total Receipts	$15,758	$11,819	$3,939

Expenses for Year

	Total	Father's share	Son's share
Real estate taxes and upkeep	$ 858	$ 858	$ 0
Power and machinery upkeep	1,115	557	558
Tractor fuel and oil	476	357	119
All crop expenses	523	392	131
Breeding stock purchased	450	338	112
Feeder stock purchased	1,119	839	280
Other livestock expenses	85	64	21
Hired labor	60	30	30
All other farm operating expenses	56	42	14
Total Expenses	$ 4,742	$ 3,477	$1,265
Net Farm Income	$11,016	$ 8,342	$2,674

A modified form of Plan 2, which is more applicable to cash grain areas in the central part of the state, is as follows: Father and son (operating as co-renters) rent from the father (as landlord) at the crop share rental common to the area. Father and son own the machinery and equipment jointly or furnish equal amounts. They share the tractor fuel and oil expenses, machinery repairs, hired labor, and all crop expenses. If the customary crop rental is one-third, father as landlord would receive one-third of crop and as co-renter another one-third of crop. Son as co-renter would receive one-third of crop.

This type of modified plan is of course based on the assumption that one-third crop share (or whatever the rental share agreed upon) is fair to both the landlord and tenant. A plan such as this is mainly adaptable to grain farms on which the major source of income is from crops. It is not as well adapted to farms on which livestock are an important enterprise.

Plan No. 3

The son furnishes one-half of the productive livestock, all machinery and equipment, and his labor and management. The father usually furnishes all of his labor and management. This is a 50-50 joint operating share arrangement.

This plan is especially well adapted to a situation where the father desires to continue active in the operation and particularly the management of the place, and where the son is fully mature and has sufficient capital and managerial ability to assume a large share in the farm business.

The sharing of income and expenses under a 50-50 joint operating plan is usually as follows:

50-50 Joint Operating Share Arrangement

	Proportion of gross income received by each Father	Son
Income		
Livestock and livestock products	50	50
Crop sales	50	50
Custom work off farm by son	25	75
Machinery and equipment sold	0	100
Miscellaneous receipts	50	50
	Proportion of expenses contributed by each	
Expenses		
Real estate taxes and upkeep	100	0
Power and machinery upkeep	0	100
Tractor fuel and oil	50	50
All crop expenses	50	50
Livestock purchased	50	50
Other livestock expenses	50	50
Hired labor	50	50
All other farm operating expenses	50	50

If the example used for the 50-50 co-renter plan (Plan No. 2) is changed to a regular 50-50 joint operating share arrangement, income and expenses would be divided as follows:

	Total	Father's share	Son's share
Total Receipts	$15,758	$7,879	$7,879
Expenses for Year			
Real estate taxes and upkeep	858	858	0
Power and machinery upkeep	1,115	0	1,115
Tractor fuel and oil	476	238	238
All crop expenses	523	261	262
Breeding stock purchased	450	225	225
Feeder stock purchased	1,119	560	559
Other livestock expenses	85	43	42
Hired labor	60	30	30
All other farm operating expenses	56	28	28
Total Expenses	$ 4,742	$2,243	$2,499
Net Farm Income	$11,016	$5,636	$5,380

There are a great number of variations from this suggested 50-50 share arrangement. On some farms the son may not be in a position to buy into a one-half share of the livestock. On other farms, the son may be growing into the livestock enterprises by receiving a one-half share in the livestock increases. On still other farms, the father often furnishes part of the machinery and equipment, for example, the older machines.

These variations in the contributions of each party can be compensated for by allowing an interest charge for any excess investment of either party and a wage allowance for differences in the amount of labor contributed. The illustration on the next page taken from a farm record shows how this can be handled:

Investment and Labor Contributions of Father and Son

Item	Whole farm	Father	Son
Investment			
Real estate	$20,600	$20,600	0
Livestock	16,360	8,180	$ 8,180
Machinery and equipment	3,650	0	3,650
Feed and other	8,200	4,100	4,100
Total Investment	$48,810	$32,880	$15,930
Excess Investment of Father		$16,950	
Months labor contributed		6	12

Income and expenses for this same farm would be divided as follows:

Cash receipts for year	$13,562	
Inventory increases in crops and livestock	2,196	
Total Income		$15,758
Tractor fuel and oil	476	
All crop expenses	523	
Livestock purchased	1,569	
Other livestock expenses	85	
Hired labor	1,560	
All other farm operating expenses	56	
Total expenses that are shared equally	$ 4,269	
Interest on excess investment of father ($16,950 @ 5 per cent) paid to father	848	
Value of excess labor of son (6 months excess labor @ $150) paid to son	900	
Total deductions		$ 6,017
Balance to be divided 50-50		$ 9,741

Semi-Retirement or Retirement Agreements

A high proportion of farm and ranch operators have reached an age at which they desire to take it easy. Some of these operators may still want to continue living right on the farm, while others prefer to move to town. In either situation the father often wants to maintain an interest in the management and ownership of the farm business, but not do the actual work.

Two plans are suggested for this type of arrangement. Plan 4 provides for the father or retiring farm operator to turn over a completely stocked and equipped farm to a son or other young farmer on a share basis. Plan 5 suggested is the regular 50-50 livestock share lease, under which the father as landowner furnishes none of the labor.

Plan No. 4

The son contributes all labor and his share of management. The father or senior member furnishes a completely equipped and stocked farm. Senior member contributes to management. The son receives one-third of the net income after subtracting joint operating expenses from gross income of crops and livestock. The son pays all hired labor costs. Senior member pays all other operating expense.

This type of agreement especially meets the need of beginning farm operators who either lack the necessary capital or do not want to assume the risk of starting out fully on their own. It is well adapted to retiring farmers who wish to turn over the responsibility of operating a fully-stocked and equipped farm to a capable operator. It is generally desirable that such an arrangement continue for only a year or so, because the son doesn't build up an equity in the farm business under this plan.

The receipts, expenses and net income would be divided a follows under Plan 4:

	Whole farm	Father's share	Son's share
Cash receipts for year	$13,562		
Inventory increases in crops and livestock	2,196		
Gross income for year	$15,758		
Machinery and equipment upkeep	1,115		
Tractor fuel and oil	476		
All crop expenses	523		
Livestock purchased	1,569		
Other livestock expenses	85		
All other farm operating expenses	56		
Total operating expenses	$ 3,824		
Balance to be divided	$11,934	$7,956	$3,978
Less cost of hired labor			1,560
Son's net share of income			$2,418

Plan No. 5

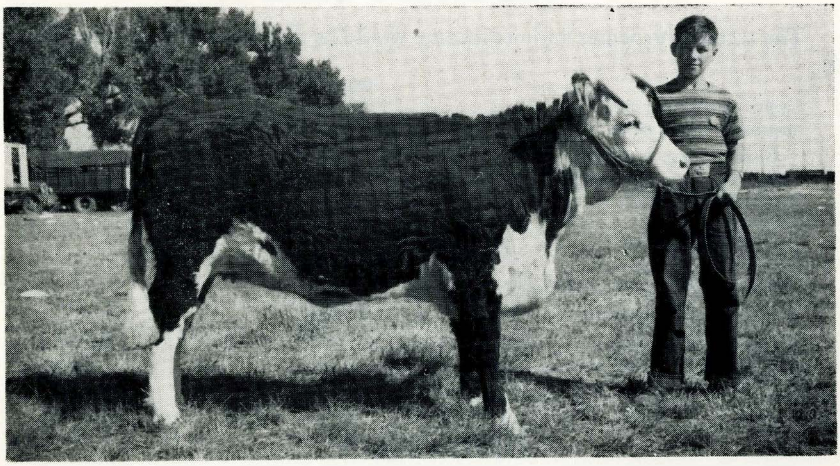
The son furnishes one-half of the productive livestock, all machinery and equipment, and his labor and management. He also pays for all hired labor. The father furnishes the land and buildings, one-half of the productive livestock and feed. The father furnishes none of the labor, but does share in the management with the son. This plan is actually the customary 50-50 livestock share lease.

Income and expenses under this type of a 50-50 share agreement are generally shared as follows:

50-50 Farm Share Agreement

	Proportion of gross income received by each Father	Son
Income		
Livestock and livestock products	50	50
Crop sales	50	50
Custom work off farm by son	25	75
Machinery and equipment sold	0	100
Miscellaneous receipts	50	50
	Proportion of expenses contributed by each	
Expenses		
Real estate taxes and upkeep	100	0
Power and machinery upkeep	0	100
Tractor fuel and oil	50	50
All crop expenses	50	50
Livestock purchased	50	50
Other livestock expenses	50	50
Hired labor	0	100
All other farm operating expenses	50	50

This Plan No. 5 differs from the 50-50 joint operating agreement (as outlined in Plan No. 3) only to the extent that the elder member under this plan ordinarily contributes nothing to the labor himself nor pays any part of the hired labor. Therefore, no example will be shown here for Plan No. 5. The only change from the example shown under Plan No. 3 is that the son would stand all of the hired labor expense. This might be substantially higher under Plan No. 5 because the father performs none of the labor. In cases where considerable labor is hired, it may even be necessary to adjust some of the hired labor expense, or a higher proportion of some other expenses, to the father in order to keep the 50-50 division of income equitable.



This 4-H Club boy with his Hereford heifer is getting an early start in a part of the farm business. From such early starts, many successful father-son combinations develop which include the entire farm business.

Methods of Settlement

Checking Accounts

The method of handling receipts and expenses between the members of a farm business agreement needs to be carefully considered. There are several ways of taking care of this. Some farmers and their sons feel that a joint checking account in which all receipts can be deposited and against which farm business checks can be drawn is the ideal method. These joint checking accounts should be distinctly separate from each individual's personal checking account and should be used only for the farm business. Most joint accounts usually provide for each member to write checks against the account and to make deposits from the sale of farm products. Absolute confidence of each member is needed for a workable joint checking account. Members of several father-son combinations recommended that the joint checking account be kept in one bank and the individual accounts in a separate bank to avoid confusion and errors on bank statements.

There are some farmers who believe joint-checking accounts may lead to trouble and that each member should keep his own bank account. Joint checking accounts lend themselves chiefly to situations in which a father and mature son expect to operate together for a period of years. They are perhaps best adapted to the 50-50 type of agreements.

Monthly Allowances

One method of providing personal operating expenses, especially where a joint checking account is not used, is to permit each member a monthly allowance. In most cases this should be handled by the father or senior member. This type of an arrangement is especially desirable when a son or other junior member is just starting out in a father-son farm business agreement.

When To Make Settlement

When should settlement of income and expenses be made? The most common method used by the farmers visited was a division of income at time of sale for the major items. Receipts from eggs, butterfat and other products sold quite frequently were usually divided periodically or in some cases at the end of the year. Expenses incurred by each member were deducted from the receipts whenever settlement was made. A joint checking account eliminates this problem of periodic settlement as final accounting could usually be left until the end of the year.

Accurate Records Important

Practically all of the farmers interviewed stressed the importance of accurate farm records. One of the members should assume the major responsibility of keeping the details of the farm business recorded. This is usually delegated to either the father or the son. In some instances the wife of the son or some other member of the family keeps the records. On many farms each member recorded certain portions of the business transacted by him. A complete and satisfactory accounting and settlement of the entire farm business at the end of the year is based on good record keeping.

Sharing Business Responsibility

Increasing the responsibility placed on the son as he matures was one factor which many farmers felt contributed greatly to successful business agreements. They emphasized the importance of both father and son contributing to major management decisions. Unsuccessful father-son combinations may result from the father insisting on "running everything" and not permitting the son to try out new ideas and methods in which he is interested.

Most of the successful father-son business agreements studied were based on the joint planning of the farm operations as well as the buying and selling. It was often found desirable for the father to assume major responsibility of some phase of farming and for the son to take over some other phase. Since the sons are usually more mechanically inclined than their fathers, machinery and equipment maintenance is often delegated largely to the son. The father might assume the chief responsibility of some livestock enterprises. The major decisions of buying and selling were often delegated to the fathers. Often times the primary responsibility of managing the farm was turned almost completely over to the son.

Testing Fairness of Farm Business Agreement

The five farm business plans suggested should be a helpful guide in developing agreements between fathers and sons, sons-in-law or non-related members. However, since there are so many variations in the contributions of each party, it is always desirable to test out the fairness of any plan adopted. Changes in the size of business, in the amount of labor and capital furnished by each, as well as changes in price levels, emphasize the importance of adjusting these agreements from time to time.

One method of testing the fairness of a farm business agreement is by comparing the value of contributions made by each member. In addition to cash expenses paid by fathers and sons, it is necessary to consider the value of the investment and labor furnished by each party. Values placed on investments such as land and buildings, livestock, machinery and equipment should be in line with general price levels. Labor contribution should be valued on the same basis. It is important that all values and prices be on a comparable basis for the various items. That is, if prices in general are high, land and buildings, machinery, feed and labor should be valued high. If low, all items should be valued low.

The following table illustrates how a 50-50 father-son agreement would be tested. The information was taken from the farm records of a farmer and his son in eastern South Dakota.

Testing Fairness by Valuing the Contributions of a Father and Son
In a 50-50 Joint Operating Share Agreement

	Estimated Annual Contribution Whole farm	Father	Son
Interest on Investment			
Land and buildings ($31,000 @ 4%)	$ 1,240	$1,240	
Machinery and equipment ($4,450 @ 5%)	222	--------	222
Horses ($150 @ 5%)	8	--------	8
Livestock except horses ($8,500 @ 5%)	425	212	213
Feeds, seed and supplies ($9,500 @ 5%)	475	238	237
Labor			
Father (6 months @ $150)	900	900	--------
Son (12 months @ $150)	1,800	--------	1,800
Unpaid family (2 months @ $150)	300	300	--------
Total Non-Cash	$ 5,370	$2,890	$2,480
Cash Expenses			
Building and fence repair	450	450	--------
Power and machinery upkeep	1,215	--------	1,215
Tractor fuel and oil	456	228	228
Crop expenses	543	271	272
Custom work hired	176	88	88
Feed purchased	570	285	285
Livestock purchased	1,369	684	685
Other livestock expense	125	63	62
Hired labor	1,560	780	780
Building insurance	35	35	--------
Real estate taxes	280	280	--------
Taxes and insurance on machinery and equipment	62	--------	62
Taxes and insurance on livestock and feed	55	28	27
All other cash operating expenses	56	28	28
Total cash expenses	$ 6,952	$3,220	$3,732
Total contributions	$12,322	$6,110	$6,212
Percent contributed by each		49%	51%

The total contributions of the father (including an interest charge on his investment, a credit of $150 per month for six months of labor, and his share of cash expenses for the year) total $6,110, or 49 percent of the total. The son's total contributions equal $6,212, or 51 percent.

The contribution of each party to his particular agreement balance out remarkably well. A greater difference might show up under a situation of lower farm prices and production. The small difference in this case could be equalized by the father paying a minor part of the power and machinery upkeep. It will be noted that the present recommendations for a 50-50 joint-operating share agreement provide for the joint sharing of the cost of hired labor. Under a different price level for farm wages it might be necessary to make some adjustment in the contribution of each member to this expense.

This same method can be used to test the fairness of any type of father-son agreement or farm lease. Estimate the value of interest on investments, labor, and cash expenses contributed by each party. Then calculate the percent of the total contributed by each to determine what the fair division of income should be.

Father-Son Type of Farm Business Agreement

(Suggested Agreement Form)

This agreement is entered into this ______________ day of ______________,
19______, by and between ______________________________
the father, of ______________________________, and
______________________________, the son.

I. Purpose

The aforesaid father and son enter into this agreement for the purpose of operating and conducting a farm or ranch business on the following described real estate: ______________________________
____
____
consisting of approximately ______________ total acres, in ______________
County. State of ______________________________; and on any other land which the father and the son may agree to purchase or rent and operate.

II. Period Covered

The term of this agreement shall be from ______________________________
19______, to ______________________________, 19______, and from year to year thereafter, unless written notice of termination is given by either party to the other at least ______________ months before the expiration of any year of this agreement.

III. 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 original parties, except as shall be provided by mutual and written agreement otherwise.

IV. 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.

V. Investments

The following investments shall be furnished by the father and the son in the proportions as designated in the columns at the right. (Fill in.)

	Share to be furnished by: Father %	Son %
A. Land:		
1. Land covered by description	______	______
2. Any other land	______	______
B. All tractors, machinery, equipment, tools and harness	______	______
C. Horses	______	______
D. All livestock except horses	______	______
E. Feed, seeds, and supplies	______	______

VI. Farm Expenses

Operating expenses and costs will be contributed, paid, or shared by the father and the son as agreed to in the columns at the right. (Fill in.)

	Share to be furnished by: Father %	Son %
A. Labor		
1. Son	xxxxxxxxx	______
2. Father	______	xxxxxxxxx
3. Unpaid family labor	______	______
4. Hired labor	______	______
B. Repairs		
1. Buildings	______	______
2. Fences	______	______
3. Power and Machinery	______	______
C. Tractor fuel and oil	______	______
D. Seed and annual crop expenses	______	______
E. Seed for permanent hay and pasture	______	______
F. Custom work hired	______	______
G. Feed purchases	______	______
H. Livestock purchases	______	______
I. Veterinary and other livestock expense	______	______
J. Insurance		
1. Buildings	______	______
2. Personal Property	______	______
K. Taxes		
1. Real Estate	______	______
2. Personal Property	______	______
L. All other cash operating expenses	______	______

VII. Division of Income. (Complete A. or B. Strike out one not used.)

A. (Plan 1 or Plan 4.) The net farm income at the end of the contract year shall be divided on the basis of ______________% to the father and ______________% to the son.

(OR)

(See next page)

B. (For Plans 2, 3 or 5.) In consideration of the respective contributions of both parties to the investments and expenses, as set forth in Sections V and VI of this agreement, all income or receipts from operation of this farm business will be distributed between the two parties as specified below:

Income or Receipts from:	**Share to be received by:** Father %	Son %
Sale of livestock		
Sale of livestock products		
Crop sales		
Custom work		
Machinery and equipment sold		
Miscellaneous farm receipts		
Ownership of livestock increase		

C. In calculating net farm income, a complete record of the farm business shall be kept in the "South Dakota Farm and Ranch Record Book" or any other good farm record book mutually agreed upon. Financial records to be kept shall consist of:

1. A complete inventory showing value and ownership of property used in the farm business at the time the agreement begins, and at the end of each contract year thereafter.

2. A complete record of all farm receipts and expenses, including allowances made to each party.

VIII. Financial

A. Wage Guarantee. A monthly cash wage of $__________ is guaranteed the son by the father, such wage being due on or before the __________ day of the following month. This cash wage shall be considered advance payment against the son's share of the net farm income at the end of the year. If the son's share of the net farm income is not equal to the total payments during the year, he shall nevertheless be entitled to keep all of it. Furthermore, no part of the son's advance payment is to be considered as expense of hired labor when computing net farm income.

B. Expenditures and Receipts. All joint purchases involving more than $ __________ shall require mutual approval by both father and son. Expenditures or committments by the son shall not exceed $__________ in value unless approved by the father. Sales of livestock, grain, or other farm produce exceeding $ __________ in value shall not be made by the son without the father's consent.

C. Checking Account. A joint farm checking account shall be carried with __________ __________ bank. Check blanks will carry the special designation __________ and will have space to be filled in showing the purpose for which issued. Checks shall be signed by (1) both father and son, (2) either father or son, (3) father only, (4) son only. (Cross out methods not desired).

IX. Living Arrangements

Living arrangements shall be provided for both the father and son, and their families as follows: __________

If either party boards the other, the boarder shall pay the one providing the board $ __________ per month as his share of the cash cost of such board and for his laundry.

X. Management

General operating plans shall be discussed and agreed upon at the beginning of each contract year by the father and the son. Adjustments that seem desirable during the ensuing year shall be made after being agreed upon by both parties.

XI. Arbitration

If any matter pertaining to this farm business agreement cannot be properly settled by mutual agreement, as a final resort the matter shall be submitted to a board of three persons: one chosen by the father, one by son, and the third by the two thus chosen. The decision of the arbitrators shall be binding on each party.

XII. It is further agreed that

Signed __________, **19**______

__________ **Father**

__________ **Son**

Witnesses: __________

____

Note: (1) Any section or parts of sections that are not applicable or are not agreed upon, should be deleted or marked "void" and initialed by both parties.

(2) This suggested agreement form may be used for Plans 1, 2, and 4. It may also be used for plans 3 and 5, or USDA "Flexible Livestock-Share Lease," Form Agri-2, may be used with minor changes.