Indiana Father and Son Farm Agreement

Purdue University Cooperative Extension Service

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The second section contains suggestions in the use of this agreement.

INDIANA

FATHER AND SON FARM AGREEMENT

(PROVIDES THAT THE SON PARTICIPATE IN THE FARM BUSINESS ON THE BASIS OF A 50-50 CO-RENTER WITH THE FATHER)

(To be completed in duplicate - one copy for the Father and one for the Son. Any provision in this agreement which the parties thereto do not desire to become a part of their agreement or any supplementary provisions which they desire to become a part of their agreement should be so designated (in ink) identically on both copies.)

Section I. Date, Parties to the Agreement, Description of Property, and Term of the Agreement

A. This agreement is made this ___day of ____________, 19___,
   by and between ____________________________, the Father, and
   ____________________________, the Son.

B. The Father agrees to operate with the Son, subject to the agreements and
   provisions hereinafter set forth, the ____________ farm,
   containing ___ acres, located in ____________ Township,
   ____________ County, ____________, legally described as
   the ____________________________, Twp. ____________, Range ____________, with all fixed improvements thereon except__________
   ____________________________

C. This agreement shall become effective on the ___day of ____________, 19___, and shall continue in force until the ___day of ____________, 19___, and from year to year thereafter unless written notice of termination is given by either party to the other on or before the ___day of ____________, which shall be not less than 90 days, immediately

DEPARTMENT OF AGRICULTURAL ECONOMICS


Cooperative Extension Service, PURDUE UNIVERSITY, Lafayette, Indiana
preceding the date of termination.

Section II. Contributions to be Made and Income to be Received by Each Party

The Father and the Son Operate in the Capacity of Co-Renters with the 50-50 Livestock-Share Relationship. If the Father Owns the Farm, the Father Assumes the Dual Role of Landowner and Co-Renter with the Son. If the Farm is Rented the Father and the Son Operate as Co-Renters with the Landowner.

A. Contributions by Each Party

1. Real Estate

a. If the Father owns all or part of the real estate in the farm unit, he shall furnish his land and the fixed improvements thereon and shall assume all of the responsibilities and receive all of the benefits of a 50-50 livestock-share landowner in connection with his real estate. In addition the Father shall operate as a co-renter with the Son under the 50-50 livestock-share relationship.

b. 

2. Farm Personal Property

a. At the beginning of this agreement, the Father and the Son shall establish joint ownership of their farm personal property which shall include their share of all livestock, machinery, moveable equipment, feed, seed, and supplies.

(1) If the Father owns the real estate, the Father and the Son shall share the ownership of the farm personal property as follows:

<table>
<thead>
<tr>
<th>Kind of farm personal property</th>
<th>Percent of the beginning inventory value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livestock</td>
<td>75</td>
</tr>
<tr>
<td>Machinery and moveable equipment</td>
<td>50</td>
</tr>
<tr>
<td>Feed, seed, and supplies</td>
<td>75</td>
</tr>
</tbody>
</table>

\[1\] Seed and supplies for crop production for use on additional rented land shall be furnished equally by the Father and the Son.

(2) On rented land, the Father and the Son, as co-renters, shall own equal amounts of the renher's share of the farm personal property.

b. If the Son is not in a position to finance the purchase of his full share of the farm personal property, as specified in the preceding paragraphs; the Father may take the Son's note for the difference. Such note shall become a part of this agreement and shall bear interest at
the rate of ____ percent per annum and shall be drawn for a period of six months with the privilege of renewal and with the privilege of reducing the principal amount at any time. Interest shall be charged only on the unpaid balance.

c.

________________________________________


3. Labor and Management

a. If the labor and management contributed personally by the two parties, to the operation of the farm, is not substantially equal; any difference shall be valued on the basis of $$____ per month for the Father's time and $$____ per month for the Son's time and settlement shall be made at the end of the year.

b. While it is assumed that both the Father and the Son will take an active part in the management of the farm and that all decisions will be mutually agreeable; the decisions of the __________________ shall be binding.

c.

________________________________________


4. Farm Operating Expenses

a. If the Father owns all or part of the real estate in the farm unit; he shall pay all expenses associated with his real estate including any principal and interest payments, taxes and insurance on his real estate, assessments against his real estate, materials for the repair of buildings, fences, drains, and other fixed improvements, and the cost (including spreading) of all limestone and rock phosphate used on his land.

b. All farm operating expenses that customarily are paid entirely by a renter and the customary renter's share of joint expenses, between a renter and a landlord under the livestock-share contract, shall be shared by the Father and the Son as follows:


(1) If all of the farm real estate is owned by the Father:

<table>
<thead>
<tr>
<th>Item</th>
<th>Percent of the total expense for each item</th>
</tr>
</thead>
<tbody>
<tr>
<td>All crop expenses (limestone and rock phosphate excluded)</td>
<td>Father's share 75% Son's share 25%</td>
</tr>
<tr>
<td>All livestock expenses</td>
<td>Father's share 75% Son's share 25%</td>
</tr>
<tr>
<td>Expenses for machinery and movable equipment</td>
<td>Father's share 50% Son's share 50%</td>
</tr>
<tr>
<td>Hired farm labor (including cash cost of board and keep)</td>
<td>Father's share 50% Son's share 50%</td>
</tr>
<tr>
<td>Taxes and insurance on productive livestock</td>
<td>Father's share 75% Son's share 25%</td>
</tr>
<tr>
<td>Taxes and insurance on feed and supplies</td>
<td>Father's share 75% Son's share 25%</td>
</tr>
<tr>
<td>Taxes and insurance on equipment and other farm personal property</td>
<td>Father's share 50% Son's share 50%</td>
</tr>
<tr>
<td>All feed purchased</td>
<td>Father's share 75% Son's share 25%</td>
</tr>
<tr>
<td>Tractor fuel and oil</td>
<td>Father's share 75% Son's share 25%</td>
</tr>
<tr>
<td>All other cash farm operating expenses</td>
<td>Father's share 50% Son's share 50%</td>
</tr>
</tbody>
</table>

(2) If part of the land in the farm unit is rented, the Father and the Son shall share the cash farm operating expenses as specified in the preceding paragraphs with the following exceptions:

(a) All cash operating expenses paid by the co-renters and all seed and supplies furnished by the co-renters for the rented land shall be shared equally.

(b) If the crops produced on crop-share or cash-rented land are fed to livestock owned jointly by the Father and Son, the Father shall buy one-half of the Son's share of such crops.

(3) If the entire farm unit is rented, the Father and the Son shall share equally, as co-renters, the renter's share of the farm operating expenses under the rental agreement with the landowner.
B. Division of Farm Receipts

1. If the Father owns the real estate, the farm receipts shall be divided between the Father and the Son as follows:

<table>
<thead>
<tr>
<th>Receipts from:</th>
<th>Percent of receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Father's share</td>
</tr>
<tr>
<td>Livestock and livestock products</td>
<td>75</td>
</tr>
<tr>
<td>Cash crops</td>
<td>75</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>50</td>
</tr>
<tr>
<td>Custom work</td>
<td>50</td>
</tr>
<tr>
<td>Miscellaneous receipts</td>
<td>75 1/</td>
</tr>
</tbody>
</table>

1/ There may be exceptions when this division would not be equitable; for example, receipts from the sale of timber, gravel, or any other part of the Father's real estate and the receipts received by either the Father or the Son for small amounts of work done away from the farm.

2. If part of the land in the farm unit is owned and part is rented either on a crop-share or cash basis, the farm receipts shall be divided between the Father and the Son as specified in the preceding paragraph with the exception that the receipts from the sale of the renter's share of the crops produced on the rented land shall be divided equally between the Father and the Son.

a. If the additional land is rented on a livestock-share basis, the renter's share of the farm receipts from this land shall be divided equally between the Father and the Son.

3. If the entire farm unit is rented, the Father and the Son shall share equally the renter's share of the farm receipts under the rental agreement with the landowner.

4. 

Section III. Farm Records and Accounts

A. The Father and the Son jointly shall keep a complete and accurate record of their farm business including an inventory at the beginning and at the end of the year of all jointly-owned farm personal property, a current record of all joint farm receipts, and a current record of all joint farm expenses.

B. A financial settlement shall be made between the Father and the Son approximately the first of each month.
C. All joint farm receipts and all joint farm expenses between the Father and the Son shall be handled as follows:


Section IV. Other Provisions

A. If the Son is single and resides with his parents, the Son agrees to pay $____ per month for personal services rendered to him by other members of the family, for the use of the family car, and for his share of the cost of purchased food, fuel, etc.

B. If the Son is married, living quarters for the two families will be arranged as follows:


C. No sale of jointly-owned farm products and no purchase of jointly-owned farm equipment, livestock, or supplies exceeding $____ shall be made by either party without the consent of the other.

D. Neither party to this agreement shall have the right to bind the other party by any contract or agreement, not herein provided, without the consent of the other party.

E. Neither party to this agreement shall be held responsible for debts and/or obligations incurred by the other party, that are not herein provided for, without the consent of the other party.

F. ___________________________
Section V. Settlement at the Termination of the Agreement

A. The settlement at the termination of the agreement shall be made according to the procedure specified for making a periodic or an annual settlement with the following additional provisions:

1. All farm personal property owned jointly by the Father and the Son at the time of the termination of the agreement shall be inventoried and appraised jointly by the two parties. If neither the actual physical division of the jointly-owned property nor the division of the proceeds from the sale thereof is possible or desirable, either party shall have the privilege to buy the share of the other at the ending inventory or appraised values.

2. Any outstanding liens or loans between the two parties and any debts payable by the co-renters shall be paid at the time of the termination of this agreement.

B. 

Section VI. Enforcement of Agreements and Arbitration

A. The failure of either the Father or the Son to comply with the agreements herein set forth shall make him liable for damages to the other party. Any claim by either party for such damage shall be presented in writing to the other party at least _____ days before the termination of this agreement.

B. In case either or both parties to this agreement dies during the period of the agreement, the terms of the agreement shall be binding on the heirs, executors, administrators, and assigns of the party or parties involved.

C. Both parties to this agreement hereby agree to submit to arbitration all matters of disagreement which may arise under this agreement and which they themselves are unable to settle. Such arbitration shall be made by a board of three disinterested persons, one appointed by the Father, one by the Son, and the third by the two thus appointed. The decision of this board shall be binding upon both parties to this agreement except if a matter of law or a sum exceeding $_____ is involved. Any costs for such arbitration shall be shared equally between the two parties.

D. 

Section VII. Signatures

_________________________________ (Date)  ____________________________ (Father)

_________________________________ (Date)  ____________________________ (Son)
Suggestions in the Use of the Indiana Father and Son Farm Agreement Which Provides That the Son Participate in the Business on the Basis of a 50-50 Co-Renter with the Father.

(This section is not a part of the agreement. The suggestions and explanations are given for consideration by the parties to the agreement.)

This agreement has been provided to meet the needs of situations where the father and the son both will be actively engaged in the operation of the farm, where the son has definitely decided that he wants to remain on the farm, where the father is willing to share the ownership of the farm personal property with the son, and where the son is in a position to furnish or to buy from the father a substantial share of the farm personal property.

A separate alternative agreement has been provided to meet the needs of situations either where the son may be farming with his father on a temporary basis, where the son is not in a position to devote his full time to the operation of the farm, or where the son is not in a position to furnish or to buy from the father a substantial share of the farm personal property.

The basic principle on which this agreement is based is that if the father owns the farm, he should receive the customary landlord's share of the farm income and he should pay the share of the farm expenses customarily paid by a landlord under the standard 50-50 livestock-share contract. The father and the son, operating as co-renters, share equally the ownership of the customary renter's share of the farm personal property and share equally the customary renter's share of the farm operating expenses and the farm receipts. If the farm is rented, the father and the son, as co-renters, share equally the renter's share of the farm personal property, the farm operating expenses, and the farm receipts.

This agreement applies only to farm operating relationships, usually between members of a family, that are different from the customary rental relationships between a landlord and a renter. This agreement is not adapted for use as a rental contract between a father and son, who operate rented land, and their landlord.

If the relationship of the parties to the agreement is not that of father and son, the appropriate word or words should be substituted for "Father" and/or "Son" throughout the agreement.

This agreement may be used as the operating relationship between a father and son regardless of whether the farm unit is owned entirely, part owned and part rented, or rented entirely.

The Term of the Agreement (Section I, Paragraph C).

There are advantages and disadvantages to both long-term and short-term farm agreements. The year-to-year term with automatic renewal, provided in this agreement, has the advantages of both the short-term and the long-term agreements without their respective disadvantages. The agreement may be terminated, at the end of any agreement year, by either party giving the other written notice of termination by the date specified in the agreement. Indiana law specifies that a notice of not less than 90 days be given by the party wishing to terminate a farm agreement. In most cases, it is to the advantage of both parties if the notice of termination is given from four to six months in advance of the termination date.
When entering into a farm agreement with his son, the father should recognize that such an agreement is not legally binding if the son is a minor. However, it is good business experience for the son as well as protection for the father to draw up their agreement on a business basis.

Adjust the Agreement to Meet the Situation

The provisions relative to the contributions to be made and the income to be received by each party (Section II) are based on the assumption that the son will participate in the business as a 50-50 co-renter with the father. In the majority of the cases this probably would be the most desirable arrangement. However, if the father and the son wish to share the ownership of the renter's share of the farm personal property and the renter's share of the farm operating expenses and farm receipts unequally, the provisions in Section II may be adjusted to any share desired. The 50-50 basis outlined may be used as the basis for making the necessary adjustments.

Blank spaces have been provided throughout the agreement in order that any supplementary agreements desired between the two parties may be made a part of their agreement. The word "none" should be written in all unused blank spaces in the agreement.

Division of Farm Operating Expenses and Farm Income

If the father owns the farm he shall furnish his real estate, one-half of the productive livestock (all livestock with the exception of the work horses), and one-half of the feed, seed, and supplies. In addition to paying the expenses associated with his real estate, he shall pay the customary landowner's share of the farm operating expenses. He shall receive the customary landowner's share of the farm receipts. In other words, the father as the owner of the real estate shall assume the role of a landowner who rents his farm on the customary 50-50 livestock-share basis. Since the father and the son will operate the farm together; the father, in addition to being the landowner, also will operate on the basis of a 50-50 livestock-share co-renter with the son. This explains why the father shall own 75 percent of the productive livestock, feed, seed, and supplies, why he shall pay 75 percent of both the crop expenses and the expenses associated with the productive livestock enterprises, and why he shall receive 75 percent of the receipts from the sale of livestock, livestock products, and crops as specified in the tables in this section.

Farm Records, Accounts, and Settlements (Section III)

A complete and accurate record of the farm business, including inventories, farm receipts, and farm operating expenses, is necessary. The Indiana Farm Account Book or a similar farm account book should be used for this purpose.

Space is provided in paragraph C in this section to permit the parties to the agreement to designate how their joint receipts and expenses shall be handled. If the son is of age, each party may pay his share of the joint expenses from his personal account and joint receipts received by either party are deposited to his personal account. At the time of the periodic settlements, the differences due either party are paid by personal check. If the son is a minor, possible legal difficulties involved with the son making transactions with a third party may be avoided if the father pays all joint expenses and deposits all joint receipts to his personal account and at the time of the periodic settlements the net amount due the son for the period is paid to the son by the father.
The procedure that will be both expedient and satisfactory in a given situation will depend upon a number of factors pertaining to that situation. It is important that the procedure for handling the joint receipts and expenses be clearly understood by both parties.

The Living Furnished from the Farm (Section IV, Paragraphs A and B)

The provisions in these paragraphs should be adjusted by mutual agreement to meet the specific situation.

As a co-renter with the father, the son is entitled to one-half of the living furnished from the farm. That is, the son is entitled to share equally with the father in the garden space; the milk, meat, poultry, and eggs used on the farm; and in the use of the house. Therefore, if the son is single and resides with his parents, he should expect to pay a reasonable amount for his laundry and other personal services rendered by the family, the use of the family car (if he does not have his own car), and for his share of purchased food, fuel, utilities, etc.

If the son is married, it is important for the success of the agreement that a mutual agreement be made relative to the living quarters for the son. It seldom is satisfactory for the two families to occupy the same dwelling unless separate apartments can be arranged. If two houses are available on the farm, the son would be entitled to the use of one of the houses. If only one house is available on the farm and it is necessary to rent the second house, the party residing on the farm should pay the other an amount equal to one-half of a fair rental value for the house on the farm.

Arbitration (Section VI, Paragraph C)

The judgment of a board of three disinterested persons, in connection with disagreements which may arise under the agreement, should prove valuable for both the father and the son. If such arbitration is done promptly, unhappy relationships often may be avoided. Terminating the agreement should be a last resort in case either party fails to comply with any provision of the agreement. Both parties may benefit in the long run if the party at fault is so advised, by disinterested persons, and given an opportunity to comply with the provisions which had been violated.

Amendments and Renewal

If the agreement is automatically renewed from year to year, as provided for in Section I, and if the current operating arrangements differ from the original agreements; appropriate amendments should be made to the original agreement or a new agreement should be prepared. In any event, the agreement probably should be re-written and brought up to date at least every five years.