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Indiana Father and Son Wage, Income-Sharing Farm Agreement

Purdue University Cooperative Extension Service
The second section contains suggestions in the use of this agreement

INDIANA

FATHER AND SON WAGE, INCOME-SHARING FARM AGREEMENT

(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 [month], 19 [year], by and between [Father's name] the Father, and [Son's name] the Son.

B. The Father agrees to operate with the Son, subject to the agreements and provisions hereinafter set forth, the [Name of farm] farm, containing [acres] acres, located in [Township], [County], [State], legally described as the [legal description], Twp. [Twp.], Range [Range], with all fixed improvements thereon except [exceptions].

C. This agreement shall become effective on the [day] of [month], 19 [year], and shall continue in force until the [day] of [month], 19 [year], 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 [month], which shall be not less than 90 days, immediately preceding the date of termination.

Department of Agricultural Economics

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-operators either when the farm is owned by the Father or when the farm is rented. If the Father owns the farm the Father assumes the dual role of landowner and co-operator with the Son. The Father shall own the renter's share of all the farm personal property. Provided it is mutually agreeable, the Son may loan to the Father capital he has to invest at the beginning of the agreement or at the beginning of any year that the agreement is in force. At the end of the year the renter's share of the net farm income is divided between the Father and the Son in the following order:

1. The Father and the Son each receive an agreed amount for his labor on the farm during the year.
2. The Son receives an agreed rate of return on the amount of his loan to the Father at the beginning of the year.
3. The Father receives an agreed rate of return on the amount of the total investment in the renter's share of the farm personal property at the beginning of the year minus the amount of the Son's loan to him at the beginning of the year.
4. The remainder is divided between the Father and the Son according to their mutual agreement.

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 in connection with his real estate that are customary in the community for a landowner who rents his farm on a livestock-share basis.

   b. _______________________________________

   _______________________________________

2. Farm Personal Property

   a. At the beginning of this agreement the Father and the Son shall make a complete inventory of the Father's farm personal property. This inventory shall set forth the quantities and values of all livestock, machinery, movable equipment, feed, seed, and supplies furnished by the Father as the landowner (if he owns the farm) also the quantities and values of the renter's share of the farm personal property.

   b. At the beginning of this agreement the total value of the renter's share of the investment in the farm personal property is $____, all of which is owned by the Father.

   c. At the beginning of this agreement the Son shall loan $____ to the Father for which amount the Father shall give the Son a non-interest-bearing note. Such note shall be due and payable on demand at the termination of this agreement.
3. **Labor and Management**

a. Unless other arrangements are mutually agreeable, both the Father and the Son shall devote their full time to the labor and management required to operate the farm. The Father and the Son each shall receive the amount hereinafter provided for his labor on the farm during the year.

b. Both the Father and the Son shall take active parts in the management of the farm, each party giving due consideration to the judgment of the other; however, in case of disagreement the decision of the shall be binding.

c. 

4. **Farm Operating Expenses**

a. If the Father owns all or part of the real estate:

   (1) The Father shall pay all expenses associated with his real estate including principal and interest paid on his real estate mortgage taxes and insurance on his real estate, assessments against his real estate, materials for the repair of buildings, drains, and other fixed improvements, and the cost (including spreading) of all limestone and rock phosphate used on his land.

   (2) As the landowner the Father shall pay the share of the other farm operating expenses that is customarily paid in the community by a landowner who rents his farm on a livestock-share basis.

   (3) The Father and the Son as the co-operators shall pay out of the renter's share of the farm receipts the share of the farm operating expenses that is customarily paid in the community by a renter who rents a farm on a livestock-share basis.

b. If the Father rents all or part of the real estate:

   (1) On rented land the Father and the Son as the co-operators shall pay the renter's share of the farm operating expenses in accordance with the rental contract or agreement with the landowner.
B. Division of Farm Receipts

1. If the Father owns the real estate:
   
a. The Father shall receive the customary landowner's share of the gross farm receipts under the customary livestock-share contract used in the community.
   
b. The Father and the Son, as the co-operators, shall receive and share as hereinafter provided the customary renter's share of the gross farm receipts under the customary livestock-share contract used in the community.

2. If the Father rents the real estate:
   
a. The Father and the Son, as the co-operators, shall receive and share as hereinafter provided the renter's share of the farm receipts in accordance with the rental contract or agreement with the landowner.

3. If the Father owns part and rents part of the real estate:
   
a. The provisions in paragraph 1 above apply with the following additional provisions.

   (1) When additional land is rented on a crop-share basis the renter's share of the expenses on the rented land shall be paid by the co-operators. The Father and the Son shall share the cash income received from the sale of the renter's share of the crops produced. If the labor and management provided by the two parties for the production of such crops are approximately equal, the income from the sale of such crops shall be divided equally between the Father and the Son.

   (2) When additional land is rented on a crop-share basis and the renter's share of the crops produced is not sold but is fed to the Father's livestock or in any way loses its identity with feed produced on the Father's land, the Father shall pay to the Son, in cash or credit, the amount necessary to make the Father's contribution to the feed produced on the rented land comparable to his contribution to the feed produced on his own land. If the labor and management provided by the two parties for the production of the crops on the rented land are approximately equal, the Father shall reimburse the Son for approximately one-fourth of the market value of the renter's share of the crops at harvest time.

   (3) If the additional land is rented for cash, the Father shall pay the cash rent. The farm operating expenses on such land and the income from such land shall be considered in the same way as the operating expenses and the income on land owned by the Father.

4. 
C. Procedure for Making Annual Settlement Between the Co-operators

1. Procedure for calculating the renter's annual net farm income.
   a. Add the total value of the renter's share of the farm personal property at the end of the year to the total value of the renter's share of the farm receipts during the year.
   b. Add the total value of the renter's share of the farm personal property at the beginning of the year to the total cost of the renter's share of the farm operating expenses during the year.
   c. Subtract the sum obtained in (b) from the sum obtained in (a) and the difference obtained shall be the renter's net farm income for the year.

2. Wage payments to the co-operators.
   a. The Son shall be paid $____ from the renter's net farm income for his labor on the farm during the year.
   b. The Father shall be paid $____ from the renter's net farm income for his labor on the farm during the year.

3. Interest payments to the co-operators.
   a. From the renter's net farm income, the Son shall be paid interest at the rate of ____ percent on the amount of his loan to the Father at the beginning of the year.
   b. From the renter's net farm income, the Father shall be paid interest at the rate of ____ percent on the total inventory value of the renter's share of the farm personal property at the beginning of the year minus the amount of the Son's loan to him at the beginning of the year.

4. Division of the remainder of the renter's net farm income.
   a. The amount of the renter's net farm income for the year remaining after the Father and the Son have received payment for labor and interest shall be divided between the Father and the Son as follows:

      (1) ____ percent shall be the Father's share.
      (2) ____ percent shall be the Son's share.

5. Both the Father and the Son shall have the privilege of receiving, from the renter's share of the farm receipts, advances for personal expenses during the year. The amount of such advances shall be no more than $____ monthly for the Father and no more than $____ monthly for the Son. The sum of such advances received by each party during the year shall be no more than his wage allowance for the year and the sum of such advances received by each party during the year shall be deducted from his wage allowance for the year at the time of the annual settlement. The sum of the wage advances made during the year shall neither be included as a farm operating expense nor as a farm receipt during the year.
Section III. Settlement at the Termination of the Agreement.

A. Settlement at the termination of the agreement shall be made according to the procedure specified for making an annual settlement with the following additional provisions.

1. The Father's notes held by the Son shall be due and payable by the Father to the Son at the time this agreement is terminated.

2. Any unpaid obligations payable from the renter's account shall be paid in full prior to the final settlement at the termination of this agreement.

3. Any account receivable by the renter's account shall be given due consideration at the time of the final settlement at the termination of this agreement.

4. 

Section IV. Other Provisions

A. If it is agreeable with the Father the Son may loan an additional amount to the Father at the beginning of any year that this agreement is in force.

B. 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.

C. 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.

D. If the Son is single and resides with his parents, the Son agrees to pay $ per month for his share of the cash cost of living and for personal services such as laundry, cooking, etc. rendered to him to other members of the family.

E. If the Son is married, living quarters for the two families will be arranged as follows:
F. Decisions relative to the sale of the renter's share of the farm personal property and farm products in amounts of more than $____ and decisions relative to the purchase of the renter's share of items of farm equipment, livestock, and supplies in amounts of more than $____ shall be considered managerial decisions and shall be made subject to the provisions of paragraph "b" under "Labor and Management".

G. ____________________________________________

______________________________________________

Section V. Farm Records and Accounts.

A. The Father and the Son jointly shall keep a complete and accurate record of the renter's share of the farm business during the year. Such records shall include an inventory of the renter's share of the farm personal property at the beginning and at the end of the year, a record of the renter's share of the farm receipts during the year, and a record of the renter's share of the farm operating expenses during the year.

B. The renter's share of the farm receipts and the renter's share of the farm operating expenses shall be handled by the Father and the Son as follows:

______________________________________________

______________________________________________

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 Wage, Income Sharing Farm Agreement

(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 provides for a working relationship between the father and the son. When the farm is rented by the father this agreement is supplementary to the contract or agreement with the landowner. A written rental contract or agreement between the father and the landowner is advisable when the farm is rented by the father. When the father owns the real estate no other agreement is necessary.

The attached agreement has been provided for use in situations where both the father and the son will be actively engaged in the operation of the farm, where the son may be farming with the father on a temporary basis, and where the son has either no capital or only a relatively small amount of capital. This agreement is not recommended for use in situations where the son has a substantial amount of capital.

Another Father and Son Agreement which provides that the son participate in the farm business on the basis of a 50-50 livestock-share co-renter with the father is available. That agreement was provided for use in situations where both the father and the son are 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 for the son to own one-half of the renter's share of the farm personal property, and where the son is in a position to furnish or to buy from the father a one-half interest in the renter's share of the farm personal property.

The principle on which the attached agreement is based is that if the father owns the farm he should receive the customary landowner's share of the farm income and he should pay the customary share of the farm expenses paid by the landowner in the community who rents his farm on a livestock-share basis. The father and the son operate the farm as co-operators either when the farm is owned by the father or when the farm is rented. Both the father and the son receive from the renter's share of the net farm income agreed amounts for their respective labor on the farm during the year. The son receives from the renter's share of the net farm income an agreed rate of return on the amount of capital he had loaned to his father at the beginning of the year. The father receives from the renter's share of the net farm income an agreed rate of return on the total investment in the renter's share of the farm personal property at the beginning of the year minus the amount of the son's loan to him at the beginning of the year. The remainder of the renter's share of the net farm income is divided between the father and the son according to a mutually agreeable plan.

This agreement applies only to farm operating relationships, usually between members of a family, that are different from the customary rental relationships between a landowner and a renter. If the father is not actively engaged in the operation of the farm and the son operates the farm on the same basis as any other renter or operator, the appropriate lease or agreement should be used. This agreement is not adapted for use as a rental contract between a third party as the landowner and a father and son who operate rented land.

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 a safeguard against possible misunderstanding by both parties if the agreement is drawn up on a business basis.

Ownership of the Farm Personal Property

Under this agreement the father retains the ownership of the renter's share of the farm personal property. If the son has capital, he may loan such capital to his father for which the father gives the son a non-interest-bearing note. The reason for this arrangement rather than to provide for the son to own part of the renter's share of the farm personal property is that if the son owns part of the renter's share of the farm personal property it is necessary for the father and the son to divide the renter's share of the net farm income (after deductions have been made for their respective labor and interest) in the same proportion that they shared in the ownership of the renter's share of the farm personal property. If the son owns part of the renter's share of the farm personal property and the division of the renter's share of the net farm income is not made in the same proportion as the ownership interest, the son would receive one amount if the livestock or the feed was sold during the year and a different amount if the same property was kept on the farm and included in the inventory at the end of the year. Such an arrangement would not be advisable. Also if the son should own only a small part of the renter's share of the farm personal property and if the division of the renter's share of the net farm income is made in the same proportion as the ownership interest, the son's share might not be equitable for his contribution to the labor and management during the year.

Farm Operating Expenses

In the paragraphs entitled "Farm Operating Expenses" the agreement provides that if the father owns the farm he shall pay all farm operating expenses associated with the ownership of his real estate. In addition the father as the landowner shall pay the share of the other farm operating expenses that is customarily paid by a landowner in the community who rents his farm under the customary livestock-share contract. The share of the farm operating expenses that is customarily paid by a livestock-share renter in the community is paid out of the renter's share of the farm receipts. Care should be taken to include in the renter's share of the farm operating expenses all of the farm operating expenses that customarily would be paid by a livestock-share renter. This can be done easily if the records of the farm operating expenses are set up in two columns - one for the father's share as the landowner and the other for the renter's share (father and son). The division of the farm operating expenses can be recorded as the expenses are incurred.

On rented land no separate division of the farm operating expenses is necessary because the father and the son as the co-operators pay the renter's share of the farm operating expenses under the father's contract or agreement with the landowner.
Farm Receipts

If the father owns the real estate he receives the landowner's share of the gross farm receipts under the customary livestock-share contract used in the community. The father and the son, as the co-operators, receive the customary renter's share of the gross farm receipts. It is recommended that the records of the farm receipts be divided into two columns similar to the suggestions made for recording the farm operating expenses.

The customary livestock-share relationship between the father as the landowner and the father and the son as the co-operators is provided in this agreement because most farms have some livestock and the livestock-share arrangement eliminates the necessity for dividing the feed produced and the necessity for the calculation and the payment of privilege rent for the use of pasture.

If the land is rented the father and the son as the co-operators receive the renter's share of the farm receipts under the father's contract or agreement with the landowner.

The agreement provides for special consideration to be given in situations where part of the land in the farm unit is owned by the father and part is rented. If the son's contribution to the labor and management on the farm is approximately equal to the father's, the father and the son should share equally the income from the sale of the renter's share of the crops produced on the rented land. If the crops produced on the rented land are fed to the father's livestock, the father should reimburse the son for one-fourth of the market value of such crops. This adjustment is necessary because the father under this agreement receives the landowner's share of the livestock and the livestock products when he owns the farm. When additional land is rented the operating expenses on such land are paid from the co-operator's account; therefore, if the son contributes labor and management equal to the father, the son's share of the crops produced on the rented land would be the same as the father's share.

The Annual Settlement Between the Father and the Son

The procedure for calculating the renter's share of the annual net farm income is specified in the agreement. Both the father and the son receive from the renter's share of the net farm income at the end of the year the amounts specified in the agreement for their respective labor on the farm during the year. In most cases the wage allowance should be considered a minimum wage, based on the current farm wage rate in the community, rather than the maximum amount that each party thinks his labor is worth. If the father or the son have received advances for personal expenses during the year, as provided in the agreement, the amount of his wage payment at the end of the year would be his wage allowance for the year minus the sum of the advances he received during the year.

After the wage allowances for the father and the son have been deducted from the renter's share of the net farm income for the year, each party receives interest at the rates specified in the agreement. The interest rate should be the same for the father and the son and should be determined by mutual agreement. The current rate of interest on short-term loans could be used as the basis for determining the rate of interest. The son's interest payment is based on the amount of his loan to his father at the beginning of the year. The father's interest payment is based on the amount of the total inventory value of the renter's share of the farm personal property at the beginning of the year minus the amount of the son's loan to him at the beginning of the year.
After deductions for wages and interest have been made from the renter's share of the net farm income for the year the remainder is divided between the father and the son according to the percentage distribution specified in the agreement. The percentage distribution will depend upon the specific farm situation but should be determined to a large extent upon the respective contributions of labor and management made by the two parties. If the son contributes labor and management approximately equal to the father, a distribution of the remaining renter's net farm income which would give the son approximately 40 percent and the father approximately 60 percent would be somewhere near equitable. The father should receive a somewhat larger share than the son to compensate for the risk of the father's investment in the renter's share of the farm personal property.

Farm Records and Accounts (Section V)

A complete and accurate record of the farm business including an inventory of the renter's share of the farm personal property at the beginning and at the end of the year and a record of the renter's share of the farm receipts and farm operating expenses during the year are necessary. The Indiana Farm Account Book or a similar farm account book should be used for this purpose.

Space is provided in Paragraph B in this section to make it possible for the parties to the agreement to designate how the renter's share of the farm receipts and farm operating expenses shall be handled. The procedure that will be both expedient and satisfactory in a given situation will depend upon a number of factors pertaining to that situation; however, it is important that the procedure to be followed is understood by both parties at the beginning of the agreement. In most cases, especially when the son is a minor, a satisfactory procedure is for the father to establish a separate farm bank account for the co-operators. The renter's share of the farm receipts are deposited to this account and the renter's share of the farm operating expenses are paid from this account.

Other Agreements

Blank spaces have been provided throughout the agreement in order that any supplementary agreements desired by 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.

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 rewritten and brought up to date at least every five years. When the son is in a position to buy a 50 percent interest in the renter's share of the farm personal property, the Father and Son Agreement mentioned on page 1 in this section would be preferable to the attached agreement.