Indiana Income - Sharing Contract with Guaranteed Wage

Purdue University Cooperative Extension Service
INDIANA

INCOME - SHARING CONTRACT WITH GUARANTEED WAGE

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

Section I. Date, Contracting Parties, Description of Property, and Term of the Contract

1. This contract is made this __ day of ____________ 19__, by and between

_________________________________________ hereinafter called the Owner, and

_________________________________________ hereinafter called the Operator.

2. The Owner, in consideration of the agreements with the Operator hereinafter set forth, hereby employs the Operator to occupy and to operate his farm containing ____ acres, located in __________________________ Township, ______________ County, __________________________, legally described as the __________________________

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**Section II. Land Use and Farm Organization**

1. Approximately ____ acres of the farm are to be cultivated, ____ acres are to remain in permanent pasture, ____ acres in woods pasture, and ____ acres in woods not to be grazed.

2. The major crops to be produced shall be, as nearly as practicable, as follows: Corn ____ acres, small grain ____ acres, hay ____ acres, rotation pasture ____ acres, ____ acres, and ____ acres.

3. The livestock enterprises shall be maintained, as nearly as practicable, as follows: ____ work horses, ____ dairy cows, ____ young cattle, ____ beef cows, ____ feeding cattle, ____ sows, ____ hogs fattened, ____ ewes, ____ lambs fattened, ____ mature poultry, and ____ birds produced.

4. Each year that this contract is effective, the two parties shall agree in writing upon the crops to be produced and the livestock enterprises to be maintained, and that agreement shall become a part of this contract.

5. 

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**Section III. The Owner Agrees to:**

1. Furnish the land and the fixed improvements referred to in Section I.

2. Furnish all machinery, equipment, livestock, feed, seed, and supplies and to pay all expenses incurred for the operation of the farm except for labor furnished or employed by the Operator.

3. Provide the labor and the materials for making all major improvements and major repairs, and for the construction of new buildings, drains, and fences and provide the materials for the minor repair and minor improvement of buildings, fences, and drains on the farm.

4. Either provide the management for the farm in detail or share the responsibility for the management of the farm with the Operator as follows:

5. Pay all taxes and assessments against the real estate, all taxes on the Owner's personal property, and all insurance on the improvements, crops, feed, equipment, and livestock.
Section IV. The Operator Agrees to:

1. Furnish all of the labor required to operate the farm in a husbandlike manner, including labor for the minor repair of the buildings, fences, drains, and the machinery and equipment. If the Operator is unable to pay for the additional hired labor needed to operate the farm, the Owner shall advance to the Operator without interest the funds needed for the payment of his hired labor. The cost of labor employed on the farm, including the wage guaranteed to the Operator, shall not be included in the farm operating expenses.

2. Not assign this contract or any part thereof to any person or persons without the written consent of the Owner.

3. Protect from leaching all manure made on the farm, as far as facilities available permit, and spread all available manure on the fields that are designated by the Owner.

4. Cut the weeds in lots, fence rows, and along roads whenever necessary to prevent re-seeding. Mow permanent pastures at least once each year, at the time when it is most effective to destroy weeds and other undesirable plants.

5. Follow generally recommended practices in plowing, planting and cultivating to prevent excessive loss of soil and water through sheet erosion. Control gullies in their early stages.

6. Pay all taxes and insurance on his personal property.

7. Cut no live trees and burn no cornstalks, straw, or other crop residues except by permission of the Owner. All crop residues, including straw, are to be left on the land or spread back on the land and in no case is such material to be removed from the farm without the consent of the Owner.

8. Keep livestock out of the fields when the soil is soft and protect sod crops, especially new seedings, from too close grazing that might impair the following year's crop.

9. Yield peaceable possession of the premises at the termination of this contract.

10. ____________________________
Section V. **Operator's Annual Compensation**

1. The Owner guarantees the Operator an annual wage of $____ for his labor, payable in twelve equal installments of $____ each on the ____ day of each month or as follows: Jan. $____, Feb. $____, Mar. $____, Apr. $____, May $____, June $____, July $____, Aug. $____, Sept. $____, Oct. $____, Nov. $____, Dec. $____. The guaranteed wage shall be considered as advances to the Operator for his labor against the total compensation due him at the end of the year.

2. At the end of the contract year the total compensation due the Operator for the year shall be calculated as hereinafter provided (Section VI) and the Owner shall pay the Operator, in cash, that amount minus the sum of the guaranteed wage advances, that were paid to the Operator during the year, the amount that was advanced to the Operator for the payment of the additional hired labor during the year, and the amount of any cash loans for personal use which may have been made by the Owner to the Operator during the year.
   (a) If the Operator's total compensation for the year is less than the amount of his annual wage, the operator nevertheless shall receive and retain his full guaranteed annual wage less any cash loans for personal use which may have been made by the Owner to the Operator during the year.
   (b) When the total compensation due the Operator for the year exceeds the amount of his guaranteed annual wage, the Owner shall deduct the amount of the advances made to the Operator for the payment of the labor hired by the Operator during the year. If the Operator's compensation (above his guaranteed wage) is not sufficient to cover the advances made for the payment of his additional hired labor, the Operator shall not be required to pay the difference.

3. ____________________________________________________________

Section VI. **Calculating the Total Annual Compensation Due the Operator**

(Two different plans are suggested for the calculation of the annual compensation due the Operator. Select the one that is desired and cross out the other.) The total annual compensation due the Operator under this contract shall be calculated according to the provisions of Plan "A".

Plan "A": **Based on a Percentage of the Net Farm Income Including Changes in Inventory Quantities and Values**

The total compensation due the Operator for the year shall be ___ percent of the net farm income calculated as follows:

1. At the beginning and at the end of the contract year, the Owner and the Operator jointly shall make an inventory of quantities and values of all working capital on the farm. Inventory values shall be based on the estimated farm sale value of each item at the time each inventory is made. The farm working capital shall be the Owner's property, used or usable in the operation of the farm, including livestock, feed, seed, fertilizer, machinery, equipment, and supplies.
Real estate, which includes the land and the fixed improvements thereon, shall not be considered working capital.

2. A complete and accurate record of the gross farm receipts and the farm expenses during the year shall be kept jointly by the Owner and the Operator.

3. The gross farm receipts shall include the receipts from the sale of crops, livestock, livestock products, equipment and supplies, and the receipts from any custom work done by the Operator. If full-time employment is not available to the Operator on the farm and agreement has been made with the Owner for part-time work off the farm, the Operator's receipts from such work shall not be included with the farm receipts.

4. The farm expenses shall include all cash farm operating expenses with the exception of the following items: The annual wage guaranteed to the Operator and the wages paid for additional hired help; taxes, assessments, interest and principal paid on the real estate; insurance premiums paid on the fixed improvements on the land; the cost of materials and labor for the construction, major repair, or major improvement of buildings, fences, and drains. Taxes and insurance premiums paid on working capital shall be included in the operating expenses.

5. The net farm income shall be determined by adding the sum of the gross farm receipts to the sum of the inventory at the end of the year and subtracting therefrom the sum of the farm expenses and the sum of the inventory at the beginning of the year.

Plan "B". Based on a Percentage of the Net Farm Income Including Changes in Inventory Quantities but Excluding Changes in Inventory Values

The total compensation due the Operator for the year shall be percent of the net farm income calculated as follows:

1. At the beginning and at the end of the contract year, the Owner and the Operator jointly shall make an inventory of all working capital on the farm. Inventory values for the ending inventory only shall be based on the estimated farm sale value of each item at the time the inventory is made. The farm working capital shall include the Owner's property, used or usable in the operation of the farm, including livestock, feed, seed, fertilizer, machinery, equipment, and supplies. Real estate, which includes land and fixed improvements thereon, shall not be included with the working capital.

2. A complete and accurate record of the gross farm receipts and the farm expenses during the year shall be kept by the Owner.

3. The gross farm receipts shall include the receipts from the sale of crops, livestock products, equipment and supplies, and the receipts
4. The farm expenses shall include all cash farm operating expenses with
the exception of the following items: The annual wage guaranteed to the Operator
and the wages paid for additional hired help; taxes, assessments, interest and
principal paid on the real estate; insurance premiums paid on the fixed improve-
ments on the land; the cost of materials and labor for the construction, major
repair or major improvement of buildings, fences, and drains.

5. From the quantities shown in the inventories, the Owner and the Operator
shall determine by mutual agreement at the end of the contract year the increase
or decrease in the number of each kind or class of livestock and value the in-
crease or decrease at the closing inventory values respectively. They shall
calculate the total value of the net increase or net decrease for all livestock.

6. From the quantities shown in the inventories, the Owner and the Operator
shall determine at the end of the contract year the increase or decrease in the
quantities of grain, feed, seed, and supplies and value the increase or decrease
at the closing inventory values respectively. They shall calculate the total
value of the net increase or net decrease for all grain, feed, seed, and supplies.

7. They shall calculate the depreciation for machinery and equipment by
applying a percent depreciation charge to the ending inventory value of the
machinery and equipment.

8. They shall add the gross farm receipts (step 3), the net inventory in-
crease for livestock (step 5), and the net inventory increase for grain, feed,
seed, and supplies, (step 6).

9. They shall add the farm expenses (step 4), the net inventory decrease
for livestock (step 5), and the net inventory decrease for grain, feed, seed, and
supplies (step 6).

10. They shall subtract the sum of the farm expenses and the net inventory
decreases (step 9) from the sum of the farm receipts and net inventory increases
(step 8).

11. From the difference obtained in step 10, they shall subtract the amount
of the depreciation for machinery and equipment (step 7), and the difference
thus obtained shall be the net farm income for the year.

Section VII. Provisions for Handling Receipts and Expenses

1. All cash receipts, resulting from the operation of the farm and due the
Owner, shall be paid directly to the Owner or credited immediately to the Owner's
account at the Bank, located at .

2. All farm operating expenses, with the exception of the cost of the
additional farm labor employed by the Operator, shall be paid by the Owner. If
the Owner advances funds to the Operator for the payment of the Operator's hired
labor, the Operator shall obtain receipts for the payment of such labor. The
Operator shall also keep a complete and accurate record of his hired labor, in-
cluding the names of the person or persons hired, the length of time worked, the
amount paid, the date it was paid, and the amount of such payment that was ad-
vanced by the Owner.
3. As a matter of expediency, farm operating expenses, excluding labor, not exceeding \$____ may be paid by the Operator out of a cash operating fund, amounting to \$____, and made available to the Operator by the Owner. The Owner shall maintain this cash operating fund as the Operator furnishes the Owner with receipts covering the disbursements from the fund.

4. The expenses for telephone and electricity service to the farm shall be shared by the Owner and the Operator as follows:

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<thead>
<tr>
<th>Service</th>
<th>Owner's share</th>
<th>Operator's share</th>
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</thead>
<tbody>
<tr>
<td>Telephone service</td>
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<td></td>
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<tr>
<td>Electricity service</td>
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5. __________________________________________________________________________

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Section VIII. Rights and Privileges

1. While it is the intent, under this contract, that the Owner and the Operator shall share the management of the farm business, the Owner's decisions shall be binding on the Operator.

2. The Owner or anyone designated by him shall have the right of entry at any time and for any purpose not inconsistent with the rights of the Operator under this contract.

3. The Operator shall have the right to use the following without charge: (a) a house (b) a plot of land of not more than ____ acres for a family garden (c) not more than ____ pounds of dressed pork and/or beef annually (d) milk for family use (e) dead or fallen timber for fuel.

4. If the poultry are owned entirely by the Operator, he shall have the right to keep not more than ____ head of mature birds at any time and to raise not more than ____ young birds per year. He shall have the right to use farm-produced feed for his poultry and he shall receive all income and benefits from his poultry. Any purchased feed fed to the Operator's poultry and all poultry supplies shall be paid for by the Operator.

5. If the poultry are owned by the Owner and cared for by the Operator, or if the poultry are owned jointly, both the Owner and the Operator shall have the right to use eggs and not more than ____ head of poultry annually for family use, and the cash expenses and cash receipts from the poultry enterprise shall be shared as follows:

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<thead>
<tr>
<th>Expense</th>
<th>Owner's share</th>
<th>Operator's share</th>
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<tbody>
<tr>
<td>Cash expense</td>
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<td>Cash receipts</td>
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</table>
6. If no milk cows are provided by the Owner, the Operator shall have the right to keep cows and to use pasture and feed produced on the farm without charge. The Operator shall receive all the milk from his cows. Any feed purchased for the Operator's cows and any dairy supplies purchased shall be paid for by the Operator. Any calves from the Operator's cows that are kept beyond eight weeks of age shall become joint property with the Owner and the income from them shall be shared as follows: Operator's share, Owner's share.

7. 

Section IX. Enforcement of Agreements and Arbitration

1. Failure of either the Owner or the Operator to comply with the agreements in this contract shall make him liable for damages to the other party. Any claim by either party for such damages shall be presented in writing to the other party at least days before the termination of this contract.

2. If satisfactory settlements cannot be made by the parties to this contract, they shall submit all matters of disagreement to a board of three disinterested persons, one of whom shall be appointed by the Owner, one by the Operator, and the third by the two thus appointed. The decision of this board shall be binding on both parties to this contract unless a matter of law or a sum exceeding $ is involved. Any costs for such arbitration shall be shared equally between the two parties.

3. If either or both parties to this contract die during the period of the contract, the terms of the contract shall be binding on the heirs, executors, administrators, and assigns of the party or parties involved.

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

5. 

Section X. Other Agreements
Section XI. **Signatures**

_________________________  _______________________
(Date)                      (Owner)

_________________________  _______________________
(Date)                      (Operator)
After careful consideration has been given to the factors briefly outlined above, as they apply to the individual farm situation; the owner and the operator should mutually agree upon an equitable division of the net farm income and the operator's share should be specified in the space provided at the beginning of Plan A or Plan B whichever is made a part of the contract.

Calculating the Net Farm Income (Two plans suggested, Section VI)

The major difference between the two plans suggested in the contract is in the procedure for handling inventory price changes. Under Plan A, inventory price changes for property included in both the beginning and the ending inventories in addition to changes in inventory quantities, valued at ending inventory prices, are included in the calculation of the net farm income. Under Plan B, only the changes in inventory quantities during the year, valued at the ending inventory prices, are included in the calculation of the net farm income.

One of the objections to this type of contract, when a procedure similar to Plan A was followed, is that during years of rising prices large inventory price gains accrued to the operator for which he had made no special contribution. During years of declining prices, large inventory price losses accrued to the operator for which he was not responsible and for which in many cases he was not in a financial position to assume.

Under Plan B an effort is made to overcome that objection by including only the value of the increase or decrease in the quantities of feed and livestock during the year at the ending inventory prices. Also an appropriate rate of depreciation is calculated both on the beginning inventory value of machinery and equipment and on any machinery and equipment purchased and used during the year. This procedure has the advantage of eliminating large inventory price increases and decreases from the calculation of the net farm income. However, it does have the disadvantage of requiring the measurement of the increases or decreases in the value of livestock as a result of changes in weight, age, and condition although the actual numbers of livestock may remain the same. In other respects the procedure for the calculation of the net farm income, under the two plans suggested, are identical.

It is recommended that the Indiana Farm Account Book or any other suitable farm account book be used to record the farm inventories and the record of the farm receipts and the farm expenses during the year. These data must be complete and readily available before the net farm income can be calculated accurately at the end of the year.

Arbitration (Section IX, Paragraph 2)

The judgment of a board of three disinterested persons, in connection with disagreements which may arise under the contract, should prove valuable for both the owner and the operator. If such arbitration is done promptly, unhappy relationships and even litigation may be avoided. Terminating the contract should be a last resort in case either party fails to comply with any provision of the contract. 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.
Other Agreements (Section X)

This space is provided to enable the parties to the contract to include in the contract any provisions they desire which are not provided for in other sections. For example, if the owner employs someone to look after his interest in the farm; such arrangements should be specified in this section.

Amendments and Renewal

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