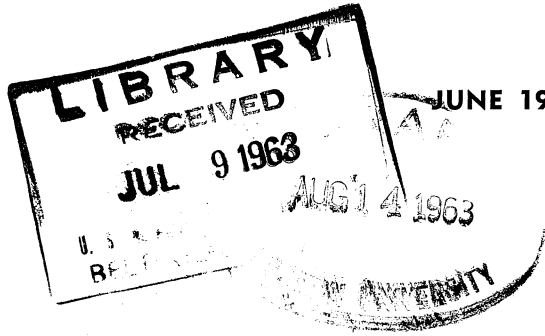


BULLETIN 345

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# FATHER-SON FARMING

Resource Accumulation and  
 Efficiency Aspects of Intergeneration  
 Family Farm Business Arrangements

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 U. S. D. A.



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This study is reported with special reference to agricultural and business aspects of the problems involved. The need for assistance by an attorney with legal aspects of the individual business has not been alleviated. To the contrary, the authors emphasize the need for an individual to obtain the counsel and services of an attorney relative to the legal aspects in incorporating a business.

# FATHER-SON FARMING

## Resource Accumulation and Efficiency Aspects of Intergeneration Family Farm Business Arrangements\*

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### INTRODUCTION

Young men seeking to become established in their chosen professions are faced with a complexity of problems. The problem of accumulating necessary resources for farming is generally one of the most difficult to overcome. The beginning farmer's problem of acquiring the necessary personal and real property has become more acute as a result of: (a) a downward trend in relative rate of return on farm capital; (b) an upward trend in prices of farm property; (c) an upward trend in farm size; (d) an upward trend in tax rates; and (e) an upward trend in the cost of living.

Various alternative procedures have been used to overcome capital accumulation problems. The agricultural ladder has been frequently cited as an approach to farm ownership and operation. The successive steps in the ladder included working on the home farm while still in school, working as a farm wage laborer, farming as a tenant renting land and buildings, farming as owner-operator with a real estate mortgage, and finally farming as owner-operator free of real estate debt. In recent years, there have been

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\* This publication resulted from Alabama Hatch Project No. 125, "The Influence of Business Arrangements on Capital Accumulation and Difficulties in Farming." The authors wish to acknowledge the assistance received from the several Extension agents and families who cooperated in the study.

\*\* Resigned.

several expressions that the agricultural ladder is no longer a meaningful approach to full ownership. The low rewards at the lower steps are very discouraging, and the time requirement becomes prohibitive.

Many young men desiring to farm have sought nonagricultural employment in an attempt to accumulate capital. The young man following this approach sometimes achieved his goal of farm ownership and successful farming. However, achieving farm ownership from savings from off-farm employment has become more difficult in the present economy. Since the acquisition of managerial ability is highly important, the young man would benefit more if these years could be used to gain experience in farming. Once a young man leaves the farm for off-farm employment, he seldom returns to the farm as a source of livelihood.

Obtaining farm ownership with extensive use of borrowed funds has always been a difficult battle. The beginning farmer has often found that he could not maintain income at a sufficient level to pay interest and principal for heavy loans, current operating expenses, and family living expenses.

This study has been directed toward family farming arrangements, e.g., father-son,<sup>1</sup> as an alternative solution to some of the problems facing the beginning farmer in accumulating adequate resources, including management. Closely associated with these problems are those of the older farmer in maintaining profitable use of his resources during the last years of his life and for financial protection of his dependents after death. The father-son alternative is widely pursued, but the basis upon which these arrangements operate falls short of the desired status from a business standpoint.

The objective in this study was to identify forces stimulating and barring adequate capital accumulation and to analyze these forces in the interest of improving the arrangements and procedures employed in farm capital accumulation and transfer.

## PREVIOUS STUDIES

Writings on father-son farm business arrangements are numerous. Research reports on these arrangements rest upon data

<sup>1</sup> The father-son expression is used to include similar situations as mother-son, father-son-in-law, and other such arrangements to even include non-relatives of two different generations farming together.

obtained from surveys of conditions existing on a sample of farms. *Prominent among such survey approaches and the prime reference in this study was the work of Gibson and Hansing in Virginia.*<sup>2</sup> They approached the problems by describing conditions on 209 Virginia farms at the time of their survey and identifying general factors and procedures fathers and sons farming together or planning to farm together should consider.

## METHOD AND PROCEDURE

The case study method was used to facilitate an analysis with greater depth of thought than had been characteristic of previous survey type studies. The study was limited to five cases to permit an intensive study of relevant details of the business arrangements and family situations on each farm.

Information from survey type studies elsewhere on father-son farming arrangements was used in developing a framework of reference covering fundamental issues involved in other arrangements.

Individual families were selected for case study purposes in cooperation with county agents in five central Alabama counties. Case studies were restricted to farms on which a father-son type arrangement existed. Families selected represented different stages in experience farming together. In no case was volume of business considered a limiting factor on the farms at the time of the initial interview. Cases were selected that represented different types of farming. Both father-son and mother-son arrangements were included in situations studied.

During the first visit to each farm the primary tasks were to familiarize the family with the study, to gain the confidence of parties being interviewed, and to arrive at a general impression of the family situation and business arrangement existing at that time. On subsequent visits: (a) the physical plant — including land, livestock, and machinery — were observed; (b) a farm business summary for the previous year was taken; (c) information on the business aspects and family farm situation was assembled; and (d) information regarding plans and desires for developing specific operating and property transfer arrangements was explored with the family.

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<sup>2</sup> W. L. Gibson, Jr., and Frank D. Hansing, *Father-Son Farm Agreements*, Va. Agr. Expt. Sta., Southern Cooperative Series Bul. 9, 1951.

An informal interviewing procedure without a predetermined schedule of questions was used as observations were made and information collected. The interview technique was adjusted to coincide with needs of each individual situation as the study progressed. Observations were concentrated during an initial 8-month period, but the range of observations to a limited extent covered a period of approximately 3 years.

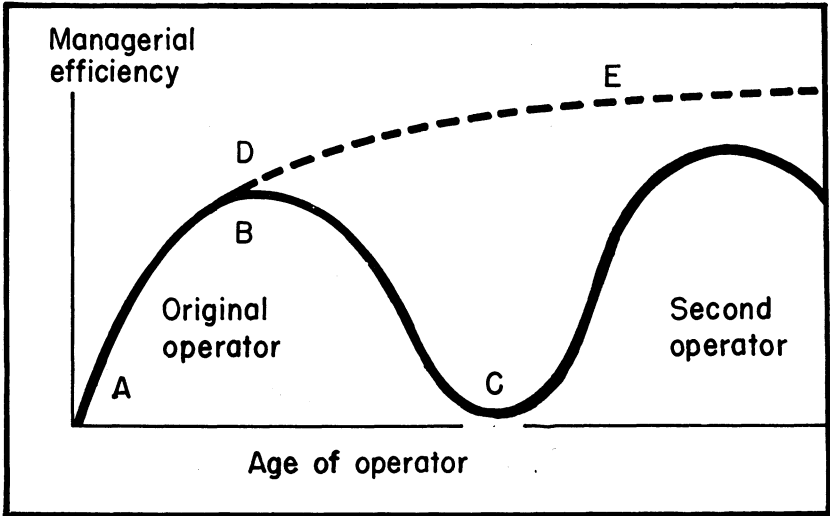
Information about each of the individual case farms was studied as a unit in an endeavor to recognize, understand, and distinguish between those characteristics contributing to success or serving as barriers to success. Facts and relationships concerning each case study were compared and contrasted with the parallel facts and relationships in the framework of reference and in the other case studies. The logic involved in observed differences was explored in the interest of obtaining meaningful insights for general strengthening of arrangements of this type and for overcoming barriers.

## CYCLICAL NATURE OF THE BUSINESS

In the past, efficiency of the typical farm firm has been closely associated with the productive life of the operator. Curve A B C in the figure, illustrates the traditional cyclical rise and fall in managerial efficiency of the farm business as related to the age of the operator. A beginning farmer comes into possession of a run-down and low producing farm at point A. Managerial efficiency increases as is illustrated by segment AB of the curve. As the operator becomes older and less active, efficiency begin to decline, eventually passing through retirement and estate stages as is illustrated by segment BC of the curve. At point C someone in the next generation acquires the property in its run-down condition and starts the cycle again.

Inheritance patterns have been characterized by a tendency for subdivision of property equally but not necessarily equitably among the survivors of a deceased.

The well planned and properly executed father-son farming arrangement is portrayed as eliminating the inefficient fluctuations and subdivisions and causing movement along line DE in the figure.



Traditional cyclical relationship between age of operator and managerial efficiency is shown here. Under single proprietorship organization, efficiency declines as the operator ages and continues to drop until the next operator takes over the business (segment BC) and reaches his peak. Father-son arrangements may aid in making the efficiency curve similar to segment DE.

### ESSENTIALS FOR SUCCESS

Previous research disclosed that among the requirements for optimum joint operation were:

A Genuine Desire on the Part of the Son and His Wife to Farm

Success in farming, as in other endeavors, depends largely on a liking for one's work. To encourage a son to farm against his will does him a great injustice and delays his training in work he prefers.

#### Separate and Adequate Housing

A home for each family permits more individual freedom and eliminates a source of friction. Farming is a business closely associated with the daily routine of home life. The father, mother, and son have lived and worked together and may be mutually adjusted to the habits and personal traits of each other, but the son's wife is not a part of this closely knit group. If a second house or two separate apartments within one house is not available on the farm, one should be built, bought, or rented.

### A Firm Conviction That the Farming Arrangement is to the Mutual Advantage of All Parties Involved

The father, son, and their wives should believe that they will get more satisfaction farming together than separately. The arrangement should also have the consent of and be understood by the other heirs.

### Ability of the Father and Son to Work and Plan Together in a Spirit of Mutual Confidence and Understanding

Family unity, as well as the operation of the business, is at stake when there is discord between father and son. The son should appreciate his father's experience and mature judgment, and the father should recognize his son's desire and need to assume increasing responsibility in management. Father and son should have confidence in each other, and respect each other's needs and desires.

### Systematic Plans for Handling Finances and Settlements

A farm bank account and separate personal accounts should be maintained with a clear understanding regarding the signing of checks.

### Complete Records of Farm Business, Including Inventories, Receipts, Expenses, and Ownership

Verbal understandings should not be used instead of a written record of contributions, receipts, ownership, and operating provisions. The arrangement should be maintained on a businesslike basis with adequate written records. A written agreement covering terms of the contract is needed. Both parties need to be protected by accurate records and appropriate written agreement provisions in event that the agreement is dissolved.

### Adequate Volume of Business to Provide Sufficient Income for Two Families

When the volume of business is too small to support two families in the beginning of the arrangement, income needs to be increased. Methods available for expansion include: (a) farming more land; (b) expanding livestock or other enterprises; (c) intensifying the cropping system; (d) performing more of the marketing services; (e) increasing economic efficiency; or (f) working off the farm.



### Opportunity for the Son to Invest Surplus Earnings in the Business and to Make Economic Progress

The rate at which the son accumulates capital and makes economic progress is dependent upon: (a) the financial condition of the parents; (b) the number of other heirs; (c) the son's certainty regarding his desire to farm; (d) the rapidity with which the son acquires managerial ability; (e) the size, productivity, and economic efficiency of the farm; and (f) the health and physical condition of the parents. In any event, he should not be on a "something for nothing" basis.

### Participation of the Son in the Entire Farm Business at an Early Date

Advantages for the son to participate in the *entire* farm business exist since: (a) wide experience and diversified responsibility is the best way for the son to learn; (b) sharing in income and expenses of the entire business encourages the son to have an interest in the success of the farm as a whole; (c) sharing income increases the opportunities for the son to buy into the business; (d) a more uniform income results for the son than if he operates only one or two enterprises; (e) participation in the entire business simplifies record keeping and income division; (f) participation in the entire business puts the son in the best possible position to be able to operate the farm effectively when the parents retire or leave the farm for any reason; and (g) on most farms greater economies of scale are possible when income and responsibility are not departmentalized.

### Mutual Understanding and Agreement

The operating arrangement and future plans for the arrangement should be understood and agreed upon by all parties, including the parents, the son and his wife, and the other heirs. Understanding and agreement reduce uncertainty and may increase satisfaction and economic efficiency.

## INTERGENERATION TRANSFER PRINCIPLES

The intergeneration transfer plan should be developed with the following principles in mind:

1. The transfer arrangements made in the presence and with the consent of all family members concerned;

2. Change of ownership from father to son kept on a business basis;
3. The son allowed to gain ownership commensurate with the responsibility he carries and his ability to pay;
4. A part of the personal property transferred to the son before the transfer of real property because an arrangement including only personal property can be more easily discontinued;
5. Provisions made in the beginning of the arrangement for the eventuality of the unexpected death of either father or son;
6. The plan kept flexible in anticipation of changing family needs and changing economic conditions;
7. As much of the property transferred to the son before the parents' death as is in keeping with the financial security and desires of the parents and the son's ability to pay;
8. Various alternative intergeneration transfer plans considered in view of the tax liabilities involved; and
9. The family agree on the business and agricultural aspects, and employ legal counsel to assist with the legal aspects of the transfer plans.

## REPORT OF OBSERVATIONS

### CASE STUDY A

The principal parties involved were the parents, the farming partner-son and his family, and a daughter and her family. The son, his wife, and small son lived in their own home located near the parents' home. The daughter lived and worked in a nearby college town where her husband was studying. The father was in his mid-fifties and the son in his mid-twenties.

The parents were high school graduates and the son and wife were college graduates. All parties involved had farm backgrounds and exhibited a sincere desire to farm if a satisfactory business arrangement could be developed. Some questions raised by father and son relative to a satisfactory arrangement apparently originated with their wives. Father and son were experiencing difficulty in working harmoniously together, even though they both had a deep desire to make a go of the operation, and each of them had a striking appreciation and respect for the other on a personal basis.

The father and the mother expressed an emphatic desire that the daughter experience economic opportunity and inheritance commensurate with that of the son. The daughter and her husband had declined an opportunity to become associated in a non-farm business interest with the parents.

The farming operation consisted of approximately 2,000 acres including 800 acres owned by the father, 80 acres owned by the son and approximately 1,100 acres rented from others. Approximately 1,000 acres were in woodland, 300 acres in improved pasture, 400 acres in unimproved pasture, and 300 acres in cropland. In addition to the land included in the joint farming operation, the son owned about 200 acres that he rented to others at a low rate of return.

Sale of milk fat calves from a 160-cow herd of grade beef cattle was the primary source of farm income. Secondary sources of income were peanuts, hogs, grass and legume seed, land rented, pecans, timber, and custom machinery work.

An analysis of the previous year's farm business summary revealed the following: (a) total receipts of \$17,860; (b) net farm income of \$8,160; (c) return on investment of 4.4 per cent; (d) productive man work units of 937; and (e) productive man work units per man equivalent of 312.

Income from timber and pecan sales was not included in the partnership income, but accrued to the party from whose land they were harvested. The limited non-farm income of the son and the father's income from non-farm sources were not considered as a part of partnership activities.

Father and son were seeking additional sources of farm income, and opportunities to increase income were promising. Some sources of additional income being considered were: (a) expansion of the beef herd; (b) drylot feeding of steers; (c) adding hogs; and (d) expansion of crop production. The father indicated that he thought the son showed too much inclination to make changes with too little concern for "Will it pay?" The son was interested in purchasing a new tractor and equipment for expansion of crop production and the construction of facilities for drylot steer feeding. The father was interested in expansion of the brood cow herd and in hog production, neither of which would have required much additional investment in buildings and equipment. Ample amounts of corn and hay were being produced on the farm for current needs.

The son had progressed from a 4-H project to full partner in a partnership arrangement. He had graduated from college, served with the military, and returned to the farm approximately one year prior to the initial visit. When the son returned to the farm, his father had verbally given him one-half undivided interest in all farm personal property, but proof of this transaction was not in writing. The father had signed low-equity notes for the son in order that he could make all his land purchases.

Father and son were farming together without the aid of a written operating agreement. An attempt to develop a written agreement with the aid of an attorney was evidence that a felt need for an improvement in their operating arrangement existed. The father's will provided that all of his personal and real property would pass to his wife at his death.

The partnership was operating on a fifty-fifty income sharing arrangement. Both parties were contributing real property as described. They owned an undivided fifty-fifty interest in personal farm property. The son was working nearly full time on the farm, and the father worked about one-half time. Management was shared to some extent, but the father was making most of the important decisions.

Monetary transactions were handled through a farm bank account, and either party could sign checks for unrestricted amounts. Separate personal accounts were maintained by each party. Each party drew a monthly wage allowance as advance payments against their shares of net cash income which was determined by an annual joint audit. Net cash income, profit or loss, was shared by father and son on a fifty-fifty basis. Changes in inventory of farm personal property were also shared on a fifty-fifty basis. Mortgage payments, interest, and taxes were the responsibility of the individual owning the property.

Many conditions considered necessary for successful father-son arrangements existed when this partnership was formed. Approximately one year later, at the time of the initial visit, serious doubt had arisen in the minds of both parties regarding the advisability of their continuing to farm together.

The son felt insecure about what the future held for him if he continued farming with his father. Because of inadequate analysis of farm records and lack of understanding, he was not sure the farm was netting and would net enough to continue paying him

the monthly stipend. He had been considering selling his real property and seeking employment elsewhere.

The father was concerned about the son's attitude and was doubtful that they would be able to succeed with the arrangement. The father's concern was considered to be a partial outgrowth of the rapid rate at which the son was given a full partnership in the business.

At the time of the initial visit, a definite agreement had not been reached on how managerial decisions were to be made. Quite serious disagreements had developed regarding both daily decision making and long-range planning. The son had an unusual number of new ideas that conflicted with his father's more conservative ways of doing things. The father indicated that the son often gave too little consideration to the profitability of a proposed change, but that a realistic budget of a proposal would satisfy his reservations.

Both parties had postponed the task of having their attorney prepare agreements because they were unsure of the terms that should be spelled out in the agreement. The delay was not caused by the legal aspect but the agricultural and business arrangements that would be reflected in the legal document.

The father and the son were assisted with an analysis of the farm business summary, with the business and agricultural aspects of an agreement, and a general discussion of this arrangement. The analysis instilled confidence in their financial position and the equitable provisions of their arrangement, basing equity on reward to contributions.

Improvements in attitudes and the opportunities visualized for the arrangement by both father and son were conspicuously evident, between the first and second visits particularly, and also between each of the succeeding visits. The improvements observed were believed traceable to the role of the disinterested third party. The improvements noted apparently rested with the processes employed rather than any knowledge inputs.

Consideration of previous writings on father-son arrangements and the conditions on this farm at the time the partnership was initiated would have suggested a high probability that this joint farm venture would have proved both pleasant and profitable. Analysis of the observations suggests that for success with father-son arrangements more detailed points must also be considered

including: (a) the rate at which the son is allowed to progress in the business; (b) the role of a disinterested party to guide thought relative to agricultural and business aspects of the arrangement; (c) the role of the time element; (d) means of affording assurance to the families that their approach is a sound one, since misunderstanding often evolves from lack of knowledge; (e) definition of the role of attorneys in such arrangements; and (f) the role of a motivating force for obtaining legal documents to meet the needs of the arrangement.

### CASE STUDY B

The family group centered around the widowed mother. Her oldest son farmed with her, and three sons were in high school. Three daughters were away from home with only one dependent upon her for support. The mother and her farming son were college graduates.

The son had a farm background, was married, and lived in a rented house nearby. The son had married shortly after returning to the farm from military service, and his wife taught school until shortly before the arrival of their child.

The mother owned about 2,500 acres of land including about 350 acres of cropland, 900 acres of permanent pasture, and 1,250 acres of woodland. The current principal sources of farm income were from a 100-cow Grade A dairy, a 120-cow beef herd, and about 30 acres of cotton. All of the major feed requirements with the exception of protein supplements were produced on the farm. A hog enterprise was discontinued the year of the visits, and the cotton enterprise was to be discontinued the next year.

The farm business summary revealed the following approximate figures: (a) total annual farm receipts — \$30,000; (b) net farm income — \$6,500; (c) return on investment — 3.0 per cent; (d) productive man work units — 1,684; and (e) productive man work units per man equivalent — 355.

Mother and son were experiencing difficulty in working together. Evidence was quite conspicuous that the other children were also dissatisfied with the arrangement.

Management decisions were shared, but they were a source of major difficulty. The son made minor decisions having to do with crops, pastures, and the beef herd, and the mother made all major decisions and was responsible for the supervision of laborers in

connection with the dairy. The mother's word was final in all management decisions. She kept records and paid all bills. A second source of difficulty was the son's dislike for dairying and his unwillingness to supervise the milking operation. All parties were aware of inefficiency in the dairy operation because the hired man at the dairy needed closer supervision.

The son had been active in 4-H Club and Vocational Agriculture project work. His primary project interest had been beef cattle, but had also worked with his parents under dairy, hog, and field crop project arrangements. All livestock he accumulated was sold to help finance his college education.

Upon his return to the farm the son began working with his father under an indefinite wage arrangement that varied with the son's financial needs. In addition, he had been given a few grade calves with which he had started his own beef herd. In addition to working with his parents, the son managed a neighboring beef cattle farm on a small salary basis. In this work the son used the father's truck, the father paying the truck operating expenses.

Shortly after the son's return to the farm and 16 months prior to the beginning of the case study, the father died unexpectedly. Some vague promises that were not recognized by other members of the family had been made by the father to the son. These promises had a retarding influence on the son's attitude and his willingness to negotiate a satisfactory arrangement on a business basis with the mother. All the father's property had been willed to the mother. With the use of the father's life and mortgage insurance and a part of one year's farm income, the mother had eliminated most of the farm debt.

Mother and son had unsuccessfully attempted to develop a satisfactory arrangement. The mother, with the assistance of her attorney, banker, and county agent, could develop no arrangement agreeable to all of the family — including mother, son, and other children. A number of alternative share and lease arrangements advanced by the banker had been considered. The arrangement in effect at the time of the beginning of the study approximated that which existed at the time of the father's death except that the son received \$100 per month cash wages from the mother. He also received feed and pasture for his 18 head of cattle. The lack of more income was a point of concern to the farming son and his wife.

The mother had no will, and no other intergeneration transfer plans had been made.

In summary, many conditions observed led to a first impression that the task of working out an orderly arrangement satisfactory to all parties should have been easy. Characteristics leading to this impression were: (a) the volume of business or potential volume of business was sufficient to support the two families; (b) the mother and son exhibited a desire to work together; (c) the son's agricultural background, training, and general fitness for the task appeared desirable; and (d) the mother, son, and the other heirs were all conscious that an orderly arrangement was needed and would be beneficial.

A primary source of difficulty was the inability of mother and son to agree on an arrangement based on sound business principles. The son's specific desires relative to the arrangement were never expressed even though attempts were made during private conversation to get such an expression from him. The son apparently was seeking an arrangement of the nature visualized by his father and him whereby the son would have received rather liberal family assistance in becoming established. The mother felt that the financial structure of the farm business would not bear the strain of the kind of arrangement that the son had in mind. She had three younger sons to educate and three daughters' interests to consider.

She was conscious of her son's need for additional income in the short-run and his need for more certainty of what the future held for him. However, she felt that the son was seeking an arrangement that was somewhat unreasonable and inequitable, considering the existing circumstances surrounding the family and farm. The father's verbal promises to the son had made it difficult for the son to accept an equitable arrangement.

The mother considered the dairy their primary and most reliable source of income and was interested in making improvements and increasing efficiency of the dairy unit. The son's primary interest was in increasing and improving the beef herd and permanent pasture.

Proposed alternative agreement, responsibility, and return arrangements drawn up by their banker apparently were in keeping with the mother's wishes. Under the arrangements proposed by the banker, the mother and son would have operated on an in-



come share basis. Each party's share of income would have been based on his contributions.

The mother sought an equitable arrangement with sufficient flexibility for adjustments to meet future needs such as the eventuality of one or more of the other sons wanting to remain on the farm.

The son stated that he would not accept the arrangements proposed by the banker on the basis that: (a) all details were not specifically outlined to the extent that he could know the amount of his share of farm income; and (b) the proposed arrangements restricted his authority regarding management decisions. The son's lack of understanding and appreciation of the business aspects of the arrangements indicated weakness in applying his college training in farm management.

The mother expressed a desire to have her oldest son stay on the farm if he would become a party to an arrangement which would be reasonable and equitable to her, the son, and the other six heirs. She indicated that, in the event a reasonable plan was not developed with the oldest son, she would attempt to work out an arrangement with one or more of the younger sons later. She expressed confidence that an equitable arrangement could be worked out with one or more of the younger sons and suggested that the oldest son might profit from at least a short period of off-farm employment.

At the conclusion of the study, four alternative plans were being considered: (a) the continuation of the wage arrangement in effect at the time the study was conducted; (b) the continuation of the wage plan in conjunction with a lease or purchase contract; (c) a share arrangement similar to that proposed by the banker; and (d) other employment for the son, the mother employing a farm manager or developing plans with other sons.

Analysis of the case situation brings into focus the importance of a number of factors: (a) oral promises that do not materialize, in addition to current financial losses, may have a retarding influence on the subsequent development of a satisfactory arrangement; (b) undue partiality shown by the father to the son remaining on the farm may stimulate wrath of other heirs; (c) both parties should be willing to approach the joint farming venture on a business basis and to take action accordingly; (d) the assistance of a disinterested third party is needed in the development of the business and agricultural aspects of the agreement; (e) an elapse

of time during which the parties involved discuss and analyze alternative plans contributes to the development of an agreement; and (f) even though favorable conditions may have existed at one time, misunderstandings that evolve may direct that the partnership not be continued; therefore, termination and arbitration clauses in the agreement are desirable.

### CASE STUDY C

The families involved were: (a) the parents; (b) the farming partner son and his family; (c) a younger son and his family; and (d) a daughter and her family. The daughter and the younger son lived out of state where they had vested interests. The farming son and his wife had a daughter and a son in their teens. The son owned his home located about one-half mile from the father's home. The father was in his mid-fifties and the son was in his mid-thirties. Neither the father nor son had education beyond high school level.

Father and son exhibited an unusual ability to work harmoniously together. They reported differences on many occasions, but their mutual respect and confidence and "give and take" attitude enabled them to resolve differences to the extent that they could reach decisions in keeping with effective management. There was no evidence of antagonism from either partner's wife or from either of the other heirs.

The farming operation involved 303 acres that included 67 acres owned by the father, 93 acres by the son, and 143 rented acres. Principal sources of income were about 75,000 broilers, 30 beef cattle, 20 acres of cotton, 80 acres of cash grain crops, and some custom machinery work.

The last farm business summary revealed: (a) total receipts of \$14,070; (b) farm income of \$7,343; (c) return on investment of 4.6 per cent; (d) productive man work units of 844; and (e) productive man work units per man equivalent of 281.

Both parties had been farming together since the beginning of the son's participation in 4-H Club and Vocational Agriculture project work in high school. The son married the year he graduated from high school, and began farming with his father as a sharecropper, and this arrangement continued for 2 years until he was called into service. Following the son's discharge after the

war, he and his father began farming together as a partnership, sharing income and expenses on a fifty-fifty basis.

Under project and sharecropping arrangements, the son had accumulated some farm personal property. His father gave him one-half undivided interest in the remainder of the personal farm property when the partnership was formed. No record of this transfer had been made.

From their joint farm income, father and son had purchased about 100 acres of additional land in two separate tracts, in 1948 and 1960. These tracts were deeded to the son at the time of purchase. The son and his family had lived with his parents until the first tract of land, on which a comfortable house was located, was purchased.

Two 7,500 capacity broiler houses had been constructed — one on the father's land and one on the son's land. Construction costs were paid from joint income. Until the broiler houses were constructed, the father had worked off the farm periodically to supplement farm income.

The father and son currently owned fifty-fifty undivided interest in personal property. Each contributed full time labor. Management decisions were shared on what appeared to be a fifty-fifty basis. All farm and non-farm income was deposited in a joint account, and all expenses, both farm and personal, were paid out of the joint account. Either the father, the son, or the son's wife could write checks on the account for unrestricted amounts. Neither party maintained a personal bank account.

No written operating agreement existed and neither party had a will. Cancelled checks were the only records of farm business transactions maintained. The father made arrangements for all loans and signed all notes.

In many respects the arrangement under which father and son were farming was proving to be beneficial to all parties involved. The son was afforded the opportunity to maintain a comfortable living in his chosen profession in his home community. Without his father's capital, credit, and managerial leadership, the son would have had difficulty accumulating and managing the necessary resources for success. Through the years the son had gradually come into one-half ownership of all personal farm property<sup>3</sup>

<sup>3</sup> The son's ownership in personal property was on shaky ground because no document existed as evidence of his ownership.

and full ownership of 93 acres of land and a comfortable home.

The arrangement had also been beneficial to the other heirs as it contributed to a considerable increase in value of personal and real property owned by the parents. The heirs would receive this benefit in the final settlement at the parents' death.

The arrangement had afforded the parents a more comfortable living than they had ever enjoyed. They had the satisfaction of seeing the farm increase in productivity and value, and they had the pleasure of having the son and his wife and part of the grandchildren near.

The congenial attitude of all parties involved contributed to the success of the arrangement. Father and son exhibited an exceptional ability to work and plan in a spirit of mutual confidence and understanding.

The presence of separate and adequate housing and sufficient volume of business to support two families were other factors that contributed to success.

Though a strong case could be built that the arrangement was a striking success, conditions existed that could, and very likely would, lead to difficulty in the future under typical circumstances. Serious sources of potential difficulty were: (a) the absence of documents specifying the sharing of costs and returns, the sharing of managerial responsibility, the ownership of personal property, and the disposition to be made of personal and real property at the death of either party; and (b) the banking plan in use that provided no restrictions on the purpose or quantity for which any one of three parties could write checks.

At the time of the initial visit, the father indicated: (a) all was going well with the arrangement; (b) he felt no need for adjustments in the arrangement; and (c) he was confident the heirs would experience no difficulty in the settlement of the estate at the parents' death, even though no will or other transfer plans had been made. During a later visit, however, he asked questions about joint banking arrangements, wills and other transfer instruments, and written operating agreements. During the last visit to the farm, the father stated that he knew in general what he desired in terms of longtime plans for property transfer, even though he had earlier commented to the contrary. Indications were that the presence of a disinterested third party, who had gained his confidence, had had one or both of the following ef-

facts: (a) the father had been led to recognize a need for adjustment in the arrangement; and/or (b) at the time of the initial visit, before confidence was established, the father was unwilling to divulge information of a personal nature about the arrangement.

During the first visit, when not in the presence of his father, the son had indicated a felt need for placing the operating and property transfer arrangements on a sound business basis. He was concerned that at the parents' death: (a) his interest in farm personal property might not be protected; and (b) the real and personal property might be subdivided in such a way that he could not continue to farm on an economically efficient basis.

During subsequent visits to the farm, father and son were considering means of placing the farming arrangement on a sound business basis. They indicated a need for assistance in developing an operating and transfer agreement. They exhibited confidence in their assistant county agent's ability to help with the agricultural and business aspects, but they lacked trust in any attorney with whom they were familiar.

Examination of the observations revealed that: (a) exceptional ability of father and son to work together may overshadow characteristics that otherwise would serve as barriers to success; (b) the presence of a disinterested third party may lead the parties involved to recognize obscured problems; (c) confidence in the researcher is required, otherwise the parties interviewed may withhold information; and (d) either party may express his desires and attitude more freely when not in the presence of the other.

#### CASE STUDY D

The principal parties included a widowed mother, a farming son and his family, and four married daughters who were away from home and independent economically. The son's family consisted of a wife and three children. Following marriage, the son and his family had lived in a rented house off the farm until 1958, at which time he built a house on a 2-acre tract deeded to him by his mother. In addition to the 2-acre tract, the mother had deeded the son a 120-acre woodland tract in order that he could qualify for a Farmers Home Administration home building loan. The mother lived alone. The mother was in her early sixties, and the son was in his late thirties.

The mother owned approximately 700 acres of open land and 400 acres of woodland, and the son owned approximately 120 acres of woodland. The principal sources of income in 1959 were 132 acres of cotton and a 170-cow herd of grade beef cattle. In addition the son owned 18 cows that ran with the mother's herd. Secondary sources of income were custom machinery work, timber, and clover seed.

An analysis of the 1959 farm business summary revealed: (a) total receipts of \$43,332; (b) farm income of \$13,453; (c) return on investment of 8.0 per cent; (d) productive man work units of 1,662; and (e) productive man work units per man equivalent of 415. The above measures of volume, income, and efficiency do not include the 18 beef cows owned by the son.

The son had worked with his father under 4-H Club and Vocational Agriculture project arrangements while in high school. Following high school graduation and military service, he returned to the farm and worked with his father under a wage arrangement until his father's death 4 years prior to the visit. The son had continued under a wage agreement with his mother following his father's death. The wage had been increased periodically and at the time of the study had doubled from the initial rate. In addition to the salary, the mother was paying for utilities at the son's home and furnishing feed and pasture for the 18 beef cows owned by the son. The son had a salary equivalent of approximately \$5,100.

The son was experiencing some difficulty meeting his financial obligations with present income. To supplement his income in future years, the son had rented 44 acres from his mother on which to plant cotton. He was to pay a nominal rent for the land, and he was also paying the operating costs on his mother's machinery with which he was growing the cotton.

The relationship between mother and son was both that of employer-employee and that of landlord-tenant. No written agreement covering either the landlord-tenant or the employer-employee relationship existed. The mother kept records, paid bills, and handled the general business aspects of the arrangement. Day-to-day management, such as the management of labor, was handled by the son, but he checked with his mother for her approval on more important decisions.

The mother expressed concern over what she considered an inclination of the son to want her to spend too freely for farm pur-

chases, especially for machinery. The cotton enterprise was highly mechanized, including pre-emergence weed control equipment, flame cultivators, and a cotton picker. The son's attitude was that the mother was too restrictive on necessary expenditures for labor saving equipment.

The mother's will provided that all heirs would share equally in her property at her death.

The arrangement had been beneficial to the mother, the son, and the other heirs in many respects. Without the son, or some other party in a similar role, the mother could not have maintained the farm in a profitable state of production following her husband's death. The farm was providing her a dependable income.

The farming arrangement had afforded the son an opportunity to follow his chosen profession; an achievement that would have otherwise been difficult from the standpoint of the acquisition of capital and managerial ability. He had progressed from an annual salary of \$1,300 with food and lodging to the equivalent of a salary approaching \$7,000 in favorable cotton and beef cattle years. In addition to this annual income, he had accumulated 120 acres of woodland and the 2-acre tract on which his house was located as remuneration for his contribution. He had a title to the real property in which he was investing, but his ownership of his cattle was questionable.

The other heirs benefitted as the productivity and market value of the property increased and the debt against the property decreased. The increase in the net worth of the mother, arising from increased farm income, would ultimately pass to them. They had the satisfaction of knowing that a member of the family was near to care for their mother.

The arrangement had served many worthwhile functions as stated above, but dissatisfaction with the plan was expressed by each party during the initial visit. The son desired more security than the arrangement offered. Under the present arrangement, he was not certain that he could continue to farm on the home place following his mother's death. Since his mother's will provided that all heirs would share alike in the settlement of her estate, the son knew this might lead to subdivision of the farm into uneconomic sized units, or even to sale of the property to someone outside the family. He had not accumulated sufficient capital to purchase either of the other heir's share even if the opportunity

should arise. He and the husband of one of his sisters had discussed the corporate structure as an instrument to facilitate the perpetuation of the business following the mother's death, but no action had been taken.

The mother's dissatisfaction with the existing arrangement was evidenced by: (a) her concern over her son's tendency to spend her money too freely for farm purchases; (b) her concern over inheritance tax; and (c) her interest in proposed changes in the arrangement.

Plans for developing specific operating and transfer documents had been discussed with their attorney, their county agent, and representatives of their lending agencies. Those to whom mother and son had gone for assistance made broad general suggestions, but none of them had offered detailed suggestions to the satisfaction of the parties involved.

Mother and son gave evidence of interest in a fifty-fifty share arrangement when such an arrangement was suggested. The share arrangement appealed to the mother because she saw in it an opportunity to shift a part of the burden of management to the son. The opinion was expressed that the son would be more conservative in farm spending if one-half of the costs were his responsibility. She indicated that an arrangement placing all the expense of machinery purchases on the son would be desirable.

A share arrangement appealed to the son because he saw in it an opportunity to gradually move into ownership of more resources. Alternative share arrangement plans were discussed and analyzed over a period of several months suggesting the need for an elapse of time during which to develop an agreement.

Factors of importance revealed in an analysis of the observations were: (a) father-son arrangements may be mutually beneficial to all parties involved, even in the presence of serious barriers to maximum satisfaction; (b) a feeling of security is of considerable importance to the son, and lack of secure feeling contributes to unrest; (c) broad general suggestions are not sufficient for the development of agreements based on sound business principles; (d) a need for a third party at the county level with an understanding of the business and agricultural aspects was suggested; and (e) a broad difference in age may be a barrier to understanding of the son's financial needs.



## CASE STUDY E

The principal parties were a widower, the farming son and his wife, and four other sons. The father was in his mid-sixties, and the son in his early forties. The son on the farm was married but had no children. He and his wife owned their home located a short distance from the father's home. Their progression in living arrangements had been (a) an apartment in town, (b) a trailer in the father's yard, (c) an apartment in the father's house, and (d) a comfortable home of their own. The son's wife was employed off the farm. She did not take an active interest in the farming operation, and all characteristics of the arrangement were not pleasing to her, but indications of serious concern were not observed.

The other sons were all adults and had interests away from the farm. They had indicated little interest in inheritance of the father's property, but at the father's death they would be heirs-at-law just as would the farming son.

The farming operation consisted of 1,140 acres, 240 acres of which was rented. Part of the land was owned jointly; part was owned by the father; and part was owned by the son. A 68-cow dairy unit was located on the home place; owned by the father. All but about 100 acres of the home place was in improved or semi-improved pasture. Expenditures for buildings and other improvements had been borne equally. Sources of income other than the dairy were cotton, hogs, beef cattle, timber, and custom work. In normal crop years, ample hay and corn were produced on the farm for the livestock. Volume of business and farm income were sufficient to support two families.

Father and son had farmed under a verbal share arrangement in the dairy operation for the first seven years. They had been operating under a written agreement, drawn up by an attorney, for five years. The agreement for the dairy specified that (a) the father had transferred one-half interest in all personal farm property used in connection with the dairy unit to the son as partial payment for the son's services in connection with the farming operation in prior years; (b) each party was to contribute his one-half interest in personal property to the partnership; (c) profits and losses were to be divided equally; (d) a joint bank account was to be maintained by the partnership; (e) general management of the partnership business was to be shared equally; (f)

neither partner was to have the right to mortgage partnership property or to obligate himself or the partnership as surety or guarantor of the debt of any person without the written consent of the other partner; and (g) the contract could be annulled by either partner upon 60 days notice and would be dissolved upon the death of either partner.

During the 12 years that father and son had been farming on a partnership basis, they had gradually progressed into a fifty-fifty share arrangement on all other farm enterprises as well as the dairy. The son disliked cotton and had declined becoming a partner in this enterprise until the current year.

They and their attorney had discussed plans for developing a written agreement to cover the entire farming operation, including longtime plans for the transfer of personal and real property, but no such document had been completed.

The father had a will specifying the manner of distribution of his property at his death, but the will had not been revised and adjusted as the son contributed more to the value of farm personal and real property. Both the father and the son indicated that adjustments were badly needed. The son was quite concerned about this situation and had urged the father to assist him and the attorney in bringing the transfer arrangements up to date. The father recognized the problem, but he did not feel the urgency demonstrated by the son.

Each contributed labor and management, but because of the father's age, the son was contributing more labor. Major management decisions such as to plant additional crops or to purchase a tractor were made by mutual consent, and less important day-to-day decisions were made by either party.

The verbal agreement, which covered farming aspects other than the dairy, was essentially the same as the written agreement covering the dairy enterprise. Farm income and expenditures were handled through a farm bank account, and personal income and expenditures were handled through separate individual bank accounts. Either party could sign checks for amounts up to \$50 on the farm account for the payment of farm debts. Signatures of both parties were required for greater amounts. Each party had the prerogative of writing checks on the farm account as needed for personal expenditures. A record was to have been kept of the amounts taken by each party; then at the end of each year, a final settlement was to have been made, and amounts withdrawn from

the farm account by each party were to have been deducted from his share of farm income. These annual settlements were never made, and no records, other than cancelled checks, were kept of amounts drawn from the farm account for personal expenditures.

The father-son arrangement had been beneficial to the father, the son, and other heirs in many respects. The total value of the farm property had increased as additional land, livestock, and equipment had been purchased and as improvements had been made on the real property. All parties had the satisfaction of having the home place remain in the family in a high state of production.

The son had progressed gradually in the accumulation of resources and in his standard of living. This progress would have been difficult or impossible without the father's land, capital, credit, and managerial leadership.

The father placed special emphasis on the importance of a gradual, as opposed to a rapid, movement of the son into ownership of personal and real property. His attitude was that the rapidity of the son's accumulation of capital should be commensurate with his contribution to the arrangement. He warned against the possibility of giving the son property in early stages of the arrangement and having him sell the property upon deciding against a farming arrangement with his father.

The 5-year-old written agreement on the dairy enterprise had caused father and son to give more serious thought to the contributions, returns, and responsibilities of each. Putting the agreement on the dairy enterprise in written legal form had also provided evidence of ownership of personal dairy property and protected the equity of either party in the event of death of the other. The agreement on the dairy enterprise needed adjusting to conform to conditions existing at the time of the study.

Since the entire farming operation had progressed into a fifty-fifty share arrangement, a need existed for a document stipulating the terms of the entire arrangement. Father and son recognized this need, but action on developing the needed document had been deferred because of: (a) the father's complacency; and (b) disagreement and uncertainty on terms of the agreement. Father and son expressed confidence in an accountant friend's ability to handle inheritance and income tax aspects and confi-

dence in their attorney's ability to handle the legal aspects, but there was evidence of a need for a disinterested third party to assist with planning the agricultural aspects of the agreement.

The son was anxious to get an operating arrangement and inter-generation transfer plans into legal form as protection for his equity in personal and real property. He had contributed one-half the cost of improvements on real property and to increases in personal property. He was especially concerned that his father retained title to the home farm on which most of the permanent improvements had been carried out. He expressed concern that a settlement of estate at his father's death might result in a subdivision and/or sale, causing him to lose a part of his equity and the opportunity to continue the farming operation. The father's will was not up-to-date and the son recognized that the will could be changed at any time the father desired to do so.

The father recognized that the existing situation needed changing, but continued to postpone action. His statement warning against a too rapid movement of son into ownership indicated that he wished to exercise caution in releasing ownership and control of most of the property. The attitude, "We have plenty of time," was also evident.

Many of the essential characteristics for success promulgated in the framework of reference were present, but an analysis of the observations suggests certain factors that should be considered: (a) the importance of a motivating force to encourage an early development of an agreement on a sound business basis; (b) the importance of a gradual but positive movement of the son into ownership of personal and real property; (c) the role of the third party in development of a satisfactory agreement; (d) the importance of the time element; (e) the need for education at the county level; and (f) the importance of a title of ownership to protect each party's contribution to improvements and additions to personal and real farm property.

## SUMMARY

The essentials for success of father-son farming arrangements outlined in the framework of reference were found to be relevant. Since this framework was based on the state of knowledge developed from a review of previous studies, the previous survey type studies served to identify some of the essentials for success under father-son arrangements. It was observed that when one of the "essentials" was absent on a case study farm, maximization of satisfaction was obstructed.

Certain factors not revealed in previous studies are of importance in the development of father-son farming agreements:

1. The development of effective father-son farming agreements may be aided by a competent third party with an understanding of the business and agricultural aspects of the agreement. In the past, attorneys have usually been relied on to handle all aspects of the agreements which have been developed. The attorney is trained to handle legal documents, and the legal aspects of the agreement are of a routine nature for him. However, the attorney often has no agricultural background and should not be required to handle the agricultural and business aspects alone.

2. A need existed for an educational program to familiarize farmers with the business aspects of father-son agreements. Among all families interviewed, there were indications of lack of knowledge of the business aspects of father-son agreements.

3. An elapse of time during which father and son think through and discuss their problems contributes to the development of operating and transfer agreements. Since in each case father and son were nearer an orderly agreement at the conclusion of the study than at the initial visit, the conclusion was drawn that an elapse of time was a contributing factor.

4. The parents' attitude that "We have plenty of time" was a barrier to the development of plans for intergeneration transfer of real property. On all farms the son and his wife gave evidence of more concern relative to longtime plans than did the parents. A need existed for a motivating force to stimulate action in the development of agreements.

5. Oral promises which cannot be later substantiated legally may be a barrier to successful arrangements in later years.

6. General recommendations for establishing satisfactory contractual arrangements may be helpful to farmers, Extension workers, Vocational Agriculture teachers, attorneys, or others working with such problems. Those who make such general recommendations, however, frequently overlook the wide difference that exists on different farms. Some fathers and sons may be so situated that they may need a plan directly contrary to a plan that is best for others.

As opposed to making blanket recommendations at their face value, the analysis of the farm situations led to the conclusion that father-son agreements should be developed only after an intensive analysis of the particular situation.

7. Farm situations change, and even though favorable conditions may have existed at one time, changes that evolve may direct that the arrangement not be continued; therefore, termination and arbitration clauses in the agreement are desirable.

8. Exceptional ability of father and son to work together may overshadow characteristics that otherwise would serve as barriers to success. However, as with other socio-economic problems involving personalities and property of worth, change which typically accompanies the passage of time may reveal human qualities which lend strength to the hypothesis that a father-son arrangement should be based on sound business principles.

9. In dealing with the problems facing fathers and sons farming together, the need is for more detailed information than that revealed by survey type research. The case study method, which facilitates an analysis with a greater depth of thought, may provide research information which will answer precise questions and solve specific problems rather than deal in generalities.

## APPENDIX

Research results from surveys in other states were used extensively in developing a framework of reference for use with the case studies discussed in the preceding pages. A minimum of information from the framework was presented in the main body of this report in the interest of brevity. This appendix is included to facilitate further appreciation of the possible benefits of these intergeneration arrangements to all parties affected, the characteristics of the different stages through which the arrangement may develop, and some generalizations relative to property transfer methods and attributes of these methods.

### BENEFITS TO THE PRINCIPAL PARTIES

The parties involved in the typical father-son arrangement are: (a) the father and mother; (b) the son and his wife; and (c) the other heirs. The benefits of the well-planned and properly-executed father-son arrangement can accrue to all the parties involved.

#### Father and Mother

The father and mother reach an age when continued operation and management of the farm would be too strenuous for their physical conditions. The parents' primary resources are a farm operating as an established business and years of experience in farming. The parents can avail themselves of the opportunity to maintain satisfaction as they continue working on the farm until retirement while gradually shifting hard work and responsibility of management to the younger generation, and to keep the farm in the family in a high state of production.

#### Son and His Wife

The son and his wife can avail themselves of the opportunity to surmount the problem of capital accumulation and start farming on a farm of adequate size in good operating condition, setting the stage for the eventual transfer of ownership of the farm to them. They can gradually develop managerial ability under the steadying hand of the more mature parents. The son and his wife's primary contributions are hard work, youthful enthusiasm, and care of the parents in the parents' declining years. They attain satisfaction in becoming established in their chosen profession.

### Other Heirs

Satisfaction of the other heirs can likewise be maximized. They receive equitable financial treatment while the farm is being transferred to the son remaining at home with the parents. They have vested interest elsewhere and should be aware that the father-son arrangement can be in the best interest of all parties involved. The other heirs can have the pleasure of seeing the home place progress as a successful business rather than culminate as a run-down farm or fall into the hands of someone outside the family circle. The knowledge that a member of the family will be near the parents during their old age can also be a source of satisfaction to the other heirs.

### STAGES OF THE OPERATING AGREEMENT

Each farm situation is different and no one set pattern is best for or adaptable to all situations. The exact nature of the optimum agreement under which father and son should operate is dependent upon a variety of circumstances. However, valid generalizations can contribute to obtaining a desired arrangement. These generalizations need to be evaluated in terms of the individual family and farm situation.

The father-son arrangement should be the result of a gradual and deliberate development process, beginning with responsibilities for chores while the son is quite young and progressing through various stages including partnership stage, to eventual full ownership and operation by the son. This progression to farm ownership may have many or few stages, depending upon the circumstances surrounding the farm and family. Because the original arrangement will usually not fit conditions in later years, father and son should modify their arrangement as time passes.

The progression of the father-son arrangement should usually follow the general sequence suggested by the following types of agreements, but the inference should not be made that all the steps would be followed in any one case.

#### Project Agreement

The project agreement, such as 4-H Club and Vocational Agriculture projects, under which the son cares for and receives profit from certain livestock or crops serves the following purposes: (a) teaches the son management; (b) gives the son the opportunity



to learn whether he likes to farm; (c) gives father and son an opportunity to form the habit of talking things over and working together; and (d) provides an opportunity for the son to begin building equity in the business. The project agreement should be established as soon as the son displays interest and is willing to accept limited responsibility.

### Enterprise Agreement

Following experience with projects, a shift may be made to an enterprise agreement under which the son takes all or part of the responsibility and the returns from one or more enterprises on the farm. The enterprise agreement should be considered only a short transition stage from the simple project period to a business arrangement with the father on the entire farm.

### Income-Sharing Agreement

In order to give the son additional training in farm management and to determine that he seriously wants to farm, the arrangement should progress from an enterprise agreement to a guaranteed wage and share of net farm income agreement. The son would get a check each month and a percentage share of net farm income at the end of the year, if his agreed percentage share exceeded his wage advance for twelve months. The son furnishes labor and cooperates in management. The father owns the farm's real and personal property, pays operating expenses, and has the final word in management decisions. The general principle upon which the plan is based is that each party shares net farm returns in proportion to his contribution of resources. The agreement should be reviewed annually and adjusted as dictated by changes in contributions and changes in cost and price relationships. The table illustrates a method of arriving at an equitable division of net farm returns.

In the example, see table, the father contributes 70 per cent of the total value of resource services while the son contributes 30 per cent. The net income of the farm is divided in the same ratio. Assuming that net income is \$7,000, the father will get \$4,900, and the son will get \$2,100. Assuming that the son receives a wage of \$110 per month, he will have received \$1,320 by the end of the year and will have \$780 more due him. The son receives his guaranteed wage regardless of net farm income or loss.

METHOD OF CALCULATING CONTRIBUTIONS BY FATHER AND SON UNDER INCOME-SHARING AGREEMENT

	Value	Interest rate	Total contribution	Father's contribution	Son's contributions
Interest Charges:					
Real property	\$20,000	4%	\$ 800	\$ 800	\$ 0
Personal property	10,000	5%	500	250	250
Operating Expenses:					
Fertilizer and lime			\$ 2,630	\$1,972	\$ 658
Feed and seed			3,275	2,456	819
Fuel, oil, and grease			1,400	1,050	350
Repairs			850	638	212
Taxes and insurance			300	225	75
Non-Cash Expenses:					
Labor and management			2,640	1,320	1,320
Depreciation			900	675	225
Total Contributions			\$13,295	\$9,386	\$3,909
Per Cent Contributed by each party			100	70	30

After the son has reached maturity and proved his desire and ability to farm and after father and son have proved their ability to farm together, a complete profit sharing agreement may be formed. Both parties contribute resources to the partnership, the son participates in management decisions, and net farm profit or loss is shared in proportion to factor contributions with the son receiving no guaranteed wage.

### Rental or Retirement Agreement

After father and son have operated as partners for a number of years, the father may wish to retire from farming and give the son full responsibility for operation on a rental basis. The son by this time is in position, from the standpoint of experience and capital accumulation, to accept greater responsibility. The father maintains part ownership in the farm and receives a portion of the farm income in the form of rent.

### INTERGENERATION TRANSFER ARRANGEMENT

The father-son arrangement should provide for an orderly transfer of real and personal property to the son, preventing the inefficient decline of the existing firm and the inequitable distribution of property at the parents' death. Transfer of personal property should begin in early stages of the operating arrangement. The son may earn equity in personal property while operating under project and enterprise agreements. As he develops managerial ability and accumulates capital through successive stages of the arrangement, his equity in personal property should increase.

Before the parents' death but after the son has: (a) gained experience in farming; (b) proved his desire and ability to farm; and (c) accumulated some capital, arrangements may be for him to begin to acquire equity in real property. The parents, the son and his wife, and other heirs should participate in the discussion of the real property transfer agreement. The provisions of the property transfer agreement may be such as to assure: (a) security for the parents during their old age; (b) protection of the son's rightful ownership in the property; (c) equitable treatment of other heirs; and (d) maintenance of the home farm as an established and efficient business.

Three broad general classifications of methods of transferring property from one generation to the next are: (a) laws of descent and distribution; (b) wills; and (c) deeds.

### Laws of Descent and Distribution

In event a person dies without a will, the disposition of his property will be in accordance with the laws of descent and distribution of the state. This method of transfer has the following inherent weaknesses that render it undesirable when father-son arrangements are involved: (a) each heir-at-law shares the inheritance with no consideration for the farming son's contribution over and above that of other heirs; (b) no consideration is given to the desires of the deceased; (c) the surviving spouse may be left without adequate income; (d) the farm property may be subdivided in such a way that neither heir will inherit sufficient property for an economically efficient unit; and (e) the expense of death taxes and the administration of the estate may be higher than under alternative transfer plans.

### Wills

Wills, as a means of intergeneration transfer, are preferable to laws of descent and distribution settlement because wills permit the parents to fit the distribution of property to the family situation as they think best from the standpoint of equitable treatment of all heirs.

A "conditional will," bequeathing the farm to the farming son with the requirement that he pay the other heirs each a specified amount, may in some instances be preferable to outright sale to the son. Under this plan the father retains control over the farm during his lifetime.

A will in ordinary usage can be changed at any time prior to the death of the person who makes it; therefore, such a document offers no real assurance to the son that he will eventually own the farm.

**Contract to Will.** Under the laws of Alabama and some other states, the parents can enter into a contract not to change the will. If the parents later attempt to break the contract to will, the courts will enforce it. Certain conditions such as provision that the son must care for the parents during their lifetime may be incorporated into the contract to will. The extent of the care should be stipulated.

The contract to will eliminates the disadvantage of uncertainty which normally is associated with transfer by will, but it introduces the following other disadvantages to the will: (a) the contract to will is a more complicated and, therefore, less appealing method than transfer by will alone; (b) the father loses more control over the property during his lifetime than when the will alone is used; and (c) attorneys do not make extensive use of the contract to will and, therefore, discourage its use.

### Transfer Before Death of the Father

Numerous devices are available to facilitate property transfer between father and son during the lifetime of the father. The various methods may be grouped as follows:

**Outright Sale.** In those rare instances when the son has sufficient capital (approaching 25 per cent of the purchase price) for a fair down payment, the outright sale at current market value has some advantages: (a) the problem of equitable treatment of various heirs is separated from the problem of farm transfer, and all parties are more likely to receive their equitable share; (b) the son can start paying for the farm during his most productive years; and (c) the inefficient downward trend of farm productivity that typically occurs when an old man allows the farm to run down is eliminated.

Some of the disadvantages of the transfer from father to son by outright sale are: (a) the father loses control of the property; (b) the father loses a source of income; (c) the tax cost to the father may be greater than when the transfer is made gradually over a period of years by gift; and (d) the son seldom can accumulate enough capital for the needed down payment early in life.

**Conditional Sale.** The father may transfer the farm to the son by the use of a purchase contract under which the father agrees to convey the farm to the son at an agreed price. The son does not actually gain legal ownership until he has paid an agreed percentage of the selling price in regular installments. Since the son may be required to make little or no down payment, the use of a purchase contract provides a means whereby a young man with little capital may gain control of the factors of production early in life with security for future years.

Another conditional type of transfer between father and son is the bond-of-maintenance and annuity transfer. Under this plan

the father transfers the farm to the son and takes in part or full payment the son's agreement for maintenance or support for the remainder of the parents' lives. A condition stated in the deed is that if the son fails to perform certain specific acts of maintenance, the title reverts to the father. The bond-of-maintenance method of transfer has inherent weaknesses that limit its usefulness: (a) in the event of long-lived parents, the son may pay an exorbitant price; (b) in the event of early death of the parents, the other heirs may resent the "bargain" the son received; and (c) the arrangement could result in legal complications in the event that either party became dissatisfied.

**Gifts.** An outright gift or a transfer that has some element of gift, such as a price below market value, may be made to the son. A deed as a record of the transfer should be used to protect the son's interest. The deed may or may not provide for the parents to reserve a life estate, giving them control over the farm and the income derived therefrom until their death.

#### THE CORPORATE BUSINESS STRUCTURE<sup>4</sup>

The corporate structure may facilitate an orderly intergenerational transfer of property and may be adaptable to the father-son arrangement. The ownership is represented by shares of stock, and these shares can be divided among family members in any manner desired.

The act of incorporating does not get the ownership transferred from father to son. It is necessary to make plans to transfer the ownership of the shares of stock. The shares can be sold, given, or willed to the son. If no action is taken, the parents' shares will be distributed in accordance with laws of descent and distribution.

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<sup>4</sup> Further details on the corporate structure are available in Auburn University Agricultural Experiment Station Bulletin 343 entitled "Adaptability of Corporate Organization to Family Farms."

## LITERATURE CITED

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