Father-Son
PARTNERSHIP AGREEMENTS in Farming

George B. Davis

Oregon State System of Higher Education
Federal Cooperative Extension Service
Oregon State College
Corvallis

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FOREWORD

The extent to which the most capable farm boys and girls remain on the farm will determine, in substantial measure, the future quality of Oregon agriculture. Each year, because of age of the operators and for other reasons, several thousand farms in Oregon pass to new hands. The more these farms pass to the capable young men and women who have been farm-reared and who have a background of understanding and experience of the farm and its problems, the more stable Oregon agriculture will become.

For that reason, this bulletin on father-son partnership agreements in farming has been prepared. Its suggestions, if applied, should assist in effecting a growing and understanding business relationship between father and son. Also, there may be many instances in which the present farm-owner without a son interested in farming may feel kindly enough toward a returned serviceman to give him the same chance as he would his own son, and enter into the same type of farm partnership agreement.

With increased understanding between father and son, the future stewardship of Oregon agriculture may be passed with confidence to these capable young people.

WM. A. SCHOENFELD
Dean and Director
Father-Son Partnership Agreements in Farming

by

GEORGE B. DAVIS

Assistant Economist, Oregon Agricultural Experiment Station

MUCH OF THE ECONOMIC and social stability in our present-day agriculture has been the result of the continuation of one family on the same farm from one generation to another. To a considerable degree these desirable objectives have been attained without any definite written agreement between father and son, the son eventually taking over the operation of the home farm. Undoubtedly even greater accomplishments could be effected if a financial agreement were drawn up between father and son enabling the latter to establish himself on the home farm when he is ready to start out for himself and before the father retires from active management.

Usually the son receives an indefinite amount of spending money as his wage while working on the farm. Though no specific arrangement has been made, he expects to inherit a share of the farm. If a partnership arrangement is made whereby the contribution of each is considered, it greatly increases the son’s incentive to farm and provides for a desirable disposal of the home place upon the retirement or death of the father. In the absence of such a partnership agreement, the son, approaching maturity, may often lose interest in farming as a livelihood and turn to some other occupation.

The success of a partnership depends largely on the solution of problems arising from the physical characteristics of the farm organization, the personal elements involved, and the nature of the partnership agreement. Some of these problems are considered in the following points of discussion.

1. A farm capable of supporting two families

It is essential that the farm should have a business large enough to support the two families as well as to return interest on the total

In the preparation of this report the author gratefully acknowledges the helpful suggestions and much basic material taken directly from similar publications by the Department of Agricultural Economics and Farm Management, New York State College of Agriculture, Cornell University; the Department of Agricultural Economics, College of Agriculture, University of Illinois; and the Extension Service, College of Agriculture, University of Vermont. Acknowledgment is made also for the excellent photographs by Dr. Curtis Reid, specialist in visual instruction.
farm investment. Decision as to whether the farm is large enough to support two families should not be based entirely on the present income produced by the farm. The physical size and productivity of the farm unit in relation to the probable future agricultural price level must be considered. Many farms today are producing an income adequate for two families, yet only a few years ago some of these same farms were considered too small to return a satisfactory level of living for even one family.

If the present farm is too small, perhaps the size of business can be increased by renting additional land, expanding livestock enterprises, or by intensifying the cropping system. An increased number of livestock, especially dairy and poultry, will often fit into the partnership agreement because such enterprises require year-long attention and therefore provide a productive outlet for the labor and management of father and son.

2. Living conditions

If father and son each has a family, it is highly desirable for the two families to live in separate houses. This tends to minimize personal friction which oftentimes is a factor in the failure of a father-son partnership. In connection with living conditions, an agreement should be reached regarding the use of farm furnished products such as milk, butter, eggs, vegetables, etc.

3. Personal relationships between father and son

It is absolutely necessary for father and son to have the ability to work and plan together. In fact, if this is not possible, the partnership will probably be a failure. A son, interested in farming, usually has considerably more imagination and enthusiasm than his father. On the other hand, a father's attitude and policies are more likely to be tempered by mature judgment and experience. These characteristics of the two men should not be a hindrance to the success of their relationship; but rather the opposite should be true, for in properly worked out partnerships each member benefits from the qualities possessed by the other.

4. Business-like arrangement

Very often the father-son relationship is not treated with the consideration it deserves because the relationship is not expressed by a specific written agreement. A written agreement should not be regarded as evidence of distrust between father and son. It should be considered as an aid to the partnership, an instrument that will help hold it together and keep the interested parties satisfied. The
agreement will stimulate the incentive of the son by being evidence of his part in the management and operation of the farm, and it insures an equitable return for both father's and son's contributions.

5. Farm account books

The whole father-son relationship should be based on a business-like arrangement in which the keeping of accurate farm records is essential. Otherwise, it is doubtful whether a fair division of expenses and incomes can be obtained. Furthermore, these records will provide the essential information required for income tax purposes. In reporting the federal income tax for a genuine father-son partnership, a special form for the partnership must be filed. Then on the basis of it, each partner reports his individual income from the farm. The local income tax deputy should be consulted for details.

The farm accounts should include a detailed list of all income and expenses. To be absolutely fair to each party, the accounts also should include a record of all inventory changes. This will mean keeping the farm records on an accrual basis in which inventories of
Figure 2. A few minutes in the evening is sufficient to record the largest day's receipts and expenses. Carefully kept farm records form the backbone of successful father-son partnerships.

crops, livestock, machinery and equipment, and improvements in real estate must be kept. An account book designed and published by Oregon State College will be suitable for this purpose and can be obtained from your county agricultural agent.

PARTNERSHIP AGREEMENTS

The nature of the father-son written partnership agreement will not be the same in all cases. It will depend on whether the son contributes only his labor; whether he owns part of the personal property of the farm; whether he has a share in the ownership of real estate as well as personal property; or whether the father plans to retire from farming, thus leaving the son the entire responsibility. In the latter case a tenant relationship could exist between father and son, and it could contain arrangements for the son's acquiring an equity in the farm. In all cases the agreement should provide for a fair division of income and expense according to the contributions of each party.
In all father-son partnership agreements it is assumed that each party will contribute his entire time to the farm business either in the form of labor or management or both. These agreements can be classified under three general headings which are as follows:

1. **Labor and Management Share**: Father furnishes all of the owned farm property.

2. **Personal Property Share**: Son owns half interest in livestock, equipment, and other personal property but owns none of the real estate.

3. **Real Estate and Personal Property Share**: Son owns half interest in personal property plus a part interest in real estate.

Suggested partnership forms with examples for each of these three different types of agreements are included at the end of this bulletin. Obviously these partnership forms will not fit exactly the requirements of all kinds of partnership arrangements. They should be used as a guide and modified to meet the individual situation. Additional copies of the forms, together with instructions and examples, may be obtained through the County Agricultural Agent or the Department of Farm Management, Oregon State College, Corvallis, Oregon.

**HOW TO USE THE PARTNERSHIP AGREEMENTS**

The following general instructions will apply to all three types of agreements. These instructions should be carefully studied before the partnership agreement is filled out.

1. **Read the appropriate agreement carefully**. After careful consideration of the form as a whole, mark out those conditions which are not applicable, and add any conditions desired which are not present.

   For example, it may not be possible for the son to contribute his entire time to the operation of the farm because of school or other reasons. In such cases the father and son should adjust the wages of each party as well as the division of income above wages and interest. (See Article III, Section A, and Article V, Section D.) Also, in case the personal property is shared on any other basis than 50-50, proper adjustments should be made. (See Forms 2 and 3, Article III, Section C, and Article V, Section C.)

2. **Decide on the date the agreement will begin**. In many cases the spring, when the inventories of growing crops, feed, and supplies are usually the lowest, will be a good time for the partnership to begin. January 1 is also a good time since it coincides with
the beginning of the usual business year for income tax purposes. The agreement, however, can start any time during the year.

3. **Enumerate and place a value on all farm property.** The day the agreement becomes effective, a complete inventory should be taken of all real estate, livestock, machinery, equipment, crops, and feeds and supplies. Both partners should participate in the enumeration and valuation of the inventory so that misunderstandings will not develop later concerning the inventory and its value.

The inventory value should be based on the price that could be received for the property if a reasonable length of time were allowed for its disposal.

4. **Arrange for personal advances from joint checking account.** In case checks are drawn against the partnership for personal expenses of the partners, the amounts can be charged against the partnership in the farm account book as “wage payments” to the respective partners. Then at the end of the month, the total of the advances to each partner should be deducted from his monthly wage allowance.

5. **Determine the wage allowance for each party.** The wage for labor and management of father and son should be based on the anticipated income of the farm and the labor and management contribution of each party. During years of low farm incomes, it may be necessary to lower the wage allowances. In case the net farm income is not sufficient to pay the combined wage allowance of the partners, then the wage allowance paid to each may be decreased proportionately.

6. **Decide on the interest rate for farm capital.** In Article V, Section C, a space is reserved for the interest rate allowed the father on the value of his farm property. The interest rate will have to be arbitrarily selected on the basis of the interest rates prevalent on real estate and chattel mortgages in the local farming community and the interest rate that could be received for other than agricultural uses of the money now invested in farm property.

7. **Decide whether wages and interest are to be cumulative.** The father and son should mutually agree on the procedure to be followed in the event the partnership fails to return a sufficient amount to pay the full wages and interest due the partners. Payment of all or any portion of wages and interest may be made cumulative. If this procedure is followed, then the wages due the partners, either current or cumulative, should have priority over any payments for current or cumulative interest on investment.
8. Make proper provision for the disposal of farm property. Also, provide for the management of the farm in the event of death or incapacity of either party. Since each partnership has certain peculiarities, it has not seemed feasible to prepare a standard form for this purpose. It is therefore recommended that the partners obtain legal assistance in this connection.

9. Prepare partnership agreement in duplicate. Each party to the agreement should have a copy signed by both partners.

Form 1. Labor and management share

FATHER-SON FARM PARTNERSHIP AGREEMENT

This agreement made this __________ day of ______________________, 19____,
by and between _____________________________________________ the father,
and ________________________________________________________ the son.

Witnesseth:

ARTICLE I. PURPOSE

The aforesaid father and son hereby form a partnership for the sole purpose of operating a farm business on the following described real estate:

--------------------------------------------

situated in the County of ____________________, in the State of ________,
and on any other land which said partners may agree to rent for farming purposes.

ARTICLE II. PERIOD COVERED

This partnership is to start __________, ________, 19____ and
(Month) (Day)
to continue from year to year on the terms herein stated until the partnership is dissolved or until this agreement is replaced by another written agreement. The partnership may be dissolved by either party serving notice on the other at least ______________ months prior to the end of the fiscal year when dissolution is desired.

ARTICLE III. CONTRIBUTIONS

A. Labor

Each party shall contribute his entire labor and management to the farm business.
B. Real Estate
   Father shall furnish the land and buildings as described in Article I.

C. Personal Property
   Father shall furnish and have ownership of all livestock, power equipment, machinery, tools, crops, and feeds and supplies connected with the farm business.

ARTICLE IV. MANAGEMENT

A. General operating plans shall be discussed and agreed upon at the beginning of each fiscal year. Adjustments that appear feasible during the ensuing year shall be made after being agreed upon by both parties.

B. All purchases involving more than $........................................ shall require mutual approval.

C. A joint checking account shall be carried with................................................ bank. Checks shall be signed by both parties, or by either party. (Cross out method not desired).

D. Financial records to be kept consist of:
   1. A complete inventory showing ownership and value of all property used in the farm business at the time the partnership starts and at the end of each fiscal year thereafter.
   2. A current record of all farm receipts and expenses, including wage payments and allowances made to each partner.

Figure 3. Father, son, and the county agricultural agent discuss plans for next year.
ARTICLE V. RECEIPTS AND EXPENSES

The following payments and allowances are to be taken out of undivided gross farm receipts (gross receipts shall include receipts from sale of farm products; increases in inventory values of real estate, livestock, power equipment, machinery and tools, crops, and feeds and supplies; pay for work off the farm; and miscellaneous farm receipts):

A. Pay all cash operating expenses of the farm business including taxes; property insurance; rent for additional land; purchases of livestock, equipment and tools; operating expenses of all equipment and tools; the cost of new building and real estate improvements; repairs and replacements necessary to keep buildings, fences, wells, and drains in good condition; fertilizer and lime; seed; purchased feed; spray materials; wages and cash cost of board for hired labor; threshing; silo filling; electric lights and power; interest on short term credit; interest on real estate mortgage indebtedness; and such other expenses mutually agreed necessary for the operation of the farm business.

B. Pay each partner a monthly wage as agreed upon at the beginning of each fiscal year.

C. Pay the father the difference between ............. per cent of the value of his property used in the farm business, and the amount paid on real estate mortgage interest under Section A above. (The value of the property as of the beginning of the fiscal year shall be used.)

D. Share on a 50-50 basis any balance remaining after payments and allowances provided in Sections A, B, and C are deducted. If at the end of the fiscal year, there is insufficient partnership cash to pay the son in full settlement for his share, as shown by the financial summary, then the father should personally pay the son by cash or note. This will permit the son's income to be cash (or note) and will give the father full ownership of the son's share in inventory increases.

ARTICLE VI. FINANCIAL SETTLEMENT

A complete financial settlement based upon the provisions of Article V shall be made at the end of each fiscal year.

ARTICLE VII. LIVING ARRANGEMENTS

Living arrangements are to be provided for both father and son and their families. If an additional house is rented for either party, the rental cost shall be shared as a farm operating expense. If either party boards the other, the boarder shall pay to the one providing the board $.......................... per month as his share of the cash cost of such board.
ARTICLE VIII. INCREASES AND DECREASES IN VALUE OF FARM PROPERTY

The ending inventory value of real estate should reflect any increase or decrease in value due to changes in the productivity of the soil and to changes in value of real estate improvements, including the value of permanent plantings. The ending inventory value of real estate should not be increased or decreased from the value at the beginning of the year because of a change in the general price level. Likewise, the value of livestock kept on the farm for breeding purposes should not reflect increases or decreases in market values but should show changes in value due to growth, productivity, or age.

ARTICLE IX.

It is further agreed that...

ARTICLE X. ARBITRATION

If any matter pertaining to the farm business cannot be settled by mutual agreement, that matter shall be submitted to one disinterested person agreeable to both, or to a board of three persons; one chosen by the father, one by the son, and the third by the two thus chosen. The decision of the arbitrator(s) shall be binding on the partners.

Father

Mother

Son

Son’s wife

(Witnesses)
### PARTNERSHIP INCOME STATEMENT
(for Form 1 with example)

<table>
<thead>
<tr>
<th>Item</th>
<th>Example</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash farm receipts</strong></td>
<td>$3,000</td>
<td></td>
</tr>
<tr>
<td><strong>Plus increase or minus decrease in value of farm inventories</strong></td>
<td>500</td>
<td></td>
</tr>
<tr>
<td><strong>Total farm receipts</strong></td>
<td>$3,500</td>
<td></td>
</tr>
<tr>
<td><strong>Hired help (including cash cost of board)</strong></td>
<td>200</td>
<td></td>
</tr>
<tr>
<td><strong>Purchases of livestock</strong></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>Purchases of machinery and equipment</strong></td>
<td>180</td>
<td></td>
</tr>
<tr>
<td><strong>Purchases of feeds, crops, and seeds</strong></td>
<td>200</td>
<td></td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>70</td>
<td></td>
</tr>
<tr>
<td><strong>Rent for additional land</strong></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>Custom work</strong></td>
<td>60</td>
<td></td>
</tr>
<tr>
<td><strong>Repairs on personal property and real estate</strong></td>
<td>150</td>
<td></td>
</tr>
<tr>
<td><strong>Electric lights and power</strong></td>
<td>30</td>
<td></td>
</tr>
<tr>
<td><strong>Operating expenses on farm equipment</strong></td>
<td>230</td>
<td></td>
</tr>
<tr>
<td><strong>Interest on short term credit</strong></td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Interest on mortgage indebtedness</strong></td>
<td>80</td>
<td></td>
</tr>
<tr>
<td><strong>New buildings and real estate improvements</strong></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>Total farm expenses</strong></td>
<td>$1,520</td>
<td></td>
</tr>
<tr>
<td><strong>Net farm income (total farm receipts less total farm expenses)</strong></td>
<td>$1,980</td>
<td></td>
</tr>
<tr>
<td><strong>Less wage for father ($...) and son ($...)</strong></td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td><strong>Less interest to be paid father for the use of his farm property</strong></td>
<td>$780</td>
<td></td>
</tr>
<tr>
<td><strong>To be equally divided between father and son</strong></td>
<td>$520</td>
<td></td>
</tr>
</tbody>
</table>

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1. The items listed in this column appear in the same order as the items in Article V of the "Labor and Management Share" agreement.
2. Includes receipts from sale of farm products; pay for work off the farm; miscellaneous farm receipts; plus increases, or minus decreases, in inventory values of real estate, livestock, machinery and equipment, crops, and feeds and supplies.
3. See Section D, Article V and Article VIII in Labor and Management Share Agreement.
4. All principal payments on real estate mortgage indebtedness are to be paid personally by the father and are not to be paid with partnership funds.
5. To obtain this figure, subtract the interest actually paid on real estate mortgage indebtedness, as indicated above, from the per cent of the value of the father's farm property at the beginning of the year. (In the example the father has been allowed 4 per cent interest on a valuation of $15,000 for his farm property, which includes personal property as well as real estate. This amounts to $600. Subtracting $80 from $600 leaves $520.)
Form 2. Personal property share
FATHER-SON FARM PARTNERSHIP AGREEMENT

This agreement made this ______________ day of ______________, 19______,
by and between ________________________________________ the father,
and ______________________________________________ the son.
Witnesseth:

ARTICLE I. PURPOSE

The aforesaid father and son hereby form a partnership for the sole purpose of operating a farm business on the following described real estate:

situated in the County of ________________________, in the State of ______________ and on any other land which said partners may agree to rent for farming purposes.

ARTICLE II. PERIOD COVERED

This partnership is to start _______________ (Month) _______________ (Day), 19______ and to continue from year to year on the terms herein stated until the partnership is dissolved or until this agreement is replaced by another written agreement. The partnership may be dissolved by either party serving notice on the other at least _______________ months prior to the end of the fiscal year when dissolution is desired.

ARTICLE III. CONTRIBUTIONS

A. Labor
Each party shall contribute his entire labor and management to the farm business.

B. Real Estate
Father shall furnish the land and buildings as described in Article I.

C. Personal Property
Father and son to own jointly on 50-50 basis, all of the power equipment, machinery, tools, livestock, crops, and feed and supplies connected with the farm business.

ARTICLE IV. MANAGEMENT

A. General operating plans shall be discussed and agreed upon at the beginning of each fiscal year. Adjustments that appear feasible during the ensuing year shall be made after being agreed upon by both parties.
B. All purchases involving more than $.................................. shall require mutual approval.

C. A joint checking account shall be carried with ...................... bank. Checks shall be signed by both parties, or by either party. (Cross out method not desired.)

D. Financial records to be kept consist of:
   1. A complete inventory showing ownership and value of all property used in the farm business at the time the partnership starts and at the end of each fiscal year thereafter.
   2. A current record of all farm receipts and expenses, including wage payments and allowances made to each partner.

ARTICLE V. RECEIPTS AND EXPENSES

The following payments and allowances are to be taken out of undivided gross farm receipts (gross receipts shall include receipts from sale of farm products; increases in inventory values of real estate, livestock, power equipment, machinery and tools, crops, and feeds and supplies; pay for work off the farm; and miscellaneous farm receipts.)

A. Pay all cash operating expenses of the farm business including taxes; property insurance; rent for additional land; purchases of livestock, equipment and tools; operating expenses of all equipment and tools; the cost of new building and real estate improvements; repairs and replacements necessary to keep buildings, fences, wells, and drains in good condition; fertilizer and lime; seed; purchased feed; spray materials; wages and cash cost of board for hired labor; threshing; silo filling; electric lights and power; interest on short term credit; interest on real estate mortgage indebtedness; and such other expenses mutually agreed necessary for the operation of the farm business.

B. Pay each partner a monthly wage as agreed upon at the beginning of each fiscal year.

C. 1. Pay the father the difference between ............... per cent of the value of his farm property, used in the farm business¹, and the amount paid as real estate mortgage interest under Section A above.

   2. Pay the son ............... per cent of the value of his farm property, used in the farm business.

D. Share on a 50-50 basis any balance remaining after payments and allowances provided in Sections A, B, and C are deducted.

ARTICLE VI. FINANCIAL SETTLEMENT

A complete financial settlement based upon the provisions of Article V shall be made at the end of each fiscal year.

¹The value of the father's and son's property as of the beginning of the fiscal year shall be used.
ARTICLE VII. LIVING ARRANGEMENTS

Living arrangements are to be provided for both father and son and their families. If an additional house is rented for either party, the rental cost shall be shared as a farm operating expense. If either party boards the other, the boarder shall pay to the one providing the board $................ per month as his share of the cash cost of such board.

ARTICLE VIII. INCREASES AND DECREASES IN VALUE OF FARM PROPERTY

The ending inventory value of real estate should reflect any increase or decrease in value due to changes in the productivity of the soil and to changes in value of real estate improvements, including the value of permanent plantings. The ending inventory value of real estate should not be increased or decreased from the value at the beginning of the year because of a change in the general price level. Likewise, the value of livestock kept on the farm for breeding purposes should not reflect increases or decreases in market values but should show changes in value due to growth, productivity, or age.

ARTICLE IX.

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### PARTNERSHIP INCOME STATEMENT
(For Form 2 with example)

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<thead>
<tr>
<th>Item</th>
<th>Example</th>
<th>Year</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
<td>19...</td>
</tr>
<tr>
<td><strong>Farm Receipts:</strong></td>
<td></td>
<td></td>
</tr>
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<td>Cash farm receipts</td>
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<tr>
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<td>Less interest to be paid father ($...........) and son ($...........) for use of their farm property</td>
<td></td>
<td><strong>$780</strong></td>
</tr>
<tr>
<td><strong>To be equally divided between father and son</strong></td>
<td></td>
<td><strong>$260</strong></td>
</tr>
</tbody>
</table>

1The items listed in this column appear in the same order as the items in Article V of the "Personal Property Share" agreement.
2Includes receipt from sale of farm products; pay for work off the farm; miscellaneous farm receipts; plus increases, or minus decreases, in inventory values of real estate, livestock, machinery and equipment, crops, and feeds and supplies.
3See Article VIII in "Personal Property Share" agreement.
4All principal payments on real estate mortgage indebtedness are to be paid personally by the father and are not to be paid with partnership funds.
5To obtain this figure, subtract the interest actually paid on real estate mortgage indebtedness, as indicated above, from ......... per cent of the value of the father's farm property at the beginning of the year. (In the example the father has been allowed 4 per cent interest on a valuation of $12,000 for his farm property, which includes personal property as well as real estate. This amounts to $480. Subtracting $40 from $480 leaves $400. The son's investment in personal property amounts to $3,000. This figure times 4 per cent gives $120. Thus the total interest to be paid father and son is $400 plus $120 or $520.)
ARTICLE X. ARBITRATION

If any matter pertaining to the farm business cannot be settled by mutual agreement, that matter shall be submitted to one disinterested person agreeable to both, or to a board of three persons; one chosen by the father, one by the son, and the third by the two thus chosen. The decision of the arbitrator(s) shall be binding on the partners.

Father

Mother

Son

Son’s wife

(Witnesses)

Form 3. Real estate and personal property share

FATHER-SON FARM PARTNERSHIP AGREEMENT

This agreement made this __________ day of ________________, 19_____, by and between __________________________________________________ the father

and ___________________________________________________________ the son.

Witnesseth:

ARTICLE I. PURPOSE

The aforesaid father and son hereby form a partnership for the sole purpose of operating a farm business on the following described real estate:

__________________________________ owned by father, and

situated in the County of ______________________, in the State of _______________; and on any other land which said partners may agree to rent for farming purposes.

ARTICLE II. PERIOD COVERED

This partnership is to start ________________, __________, 19_____, and to continue from year to year on the terms herein stated until the partnership is dissolved or until this agreement is replaced by another written agreement. The partnership may be dissolved by either party serving notice on the other
at least ......................... months prior to the end of the fiscal year when dissolution is desired.

ARTICLE III. CONTRIBUTIONS

A. Labor
   Each party shall contribute his entire labor and management to the farm business.

B. Real Estate
   Father and son each shall furnish a portion of land and buildings as described in Article I.

C. Personal Property
   Father and son to own jointly on 50-50 basis, all of the power equipment, machinery, tools, livestock, crops, and feeds and supplies connected with the farm business.

ARTICLE IV. MANAGEMENT

A. General operating plans shall be discussed and agreed upon at the beginning of each fiscal year. Adjustments that appear feasible during the ensuing year shall be made after being agreed upon by both parties.

B. All purchases involving more than $.......................... shall require mutual approval.

C. A joint checking account shall be carried with ......................... bank. Checks shall be signed by both parties, or by either party. (Cross out method not desired.)

D. Financial records to be kept consist of:
   1. A complete inventory showing ownership and value of all property used in the farm business at the time the partnership starts and at the end of each fiscal year thereafter.
   2. A current record of all farm receipts and expenses, including wage payments and allowances made to each partner.

ARTICLE V. RECEIPTS AND EXPENSES

The following payments and allowances are to be taken out of undivided gross farm receipts (gross receipts shall include receipts from sale of farm products; increases in inventory values of real estate, livestock, power equipment, machinery and tools, crops, and feeds and supplies; pay for work off the farm; and miscellaneous farm receipts):

A. Pay all cash operating expenses of the farm business including taxes; property insurance; rent for additional land; purchases of livestock, equipment and tools; operating expenses of all equipment and tools; the cost of new building and real estate improvements; repairs and replacements necessary to keep buildings, fences, wells, and drains in
good condition; fertilizer and lime; seed; purchased feed; spray materials; wages and cash cost of board for hired labor; threshing; silo filling; electric lights and power; interest on short term credit; interest on father's real estate mortgage indebtedness; interest on son's real estate mortgage indebtedness; and such other expenses mutually agreed necessary for the operation of the farm business.

B. Pay each partner a monthly wage as agreed upon at the beginning of each fiscal year.

C. 1. Pay the father the difference between \[ \text{per cent of the value of his property, used in the farm business} \] and the amount paid as interest on the father's real estate mortgage indebtedness under Section A above.

2. Pay the son the difference between \[ \text{per cent of the value of his property used in the farm business} \] and the amount paid as interest on the son's real estate mortgage indebtedness under Section A above.

D. Share on a 50-50 basis any balance remaining after payments and allowances provided in Sections A, B, and C are deducted.

ARTICLE VI. FINANCIAL STATEMENT

A complete financial settlement based upon the provisions of Article V shall be made at the end of each fiscal year.

ARTICLE VII. LIVING ARRANGEMENTS

Living arrangements are to be provided for both father and son and their families. If an additional house is rented for either party, the rental cost shall be shared as a farm operating expense. If either party boards the other, the boarder shall pay to the one providing the board \[ \text{per month as his share of the cash cost of such board.} \]

ARTICLE VIII. INCREASES AND DECREASES IN VALUE OF FARM PROPERTY

The ending inventory value of real estate should reflect any increase or decrease in value due to changes in the productivity of the soil and to changes in value of real estate improvements, including the value of permanent plantings. The ending inventory value of real estate should not be increased or decreased from the value at the beginning of the year because of a change in the general price level. Likewise, the value of livestock kept on the farm for breeding purposes should not reflect increases or decreases in market values but should show changes in value due to growth, productivity, or age.

ARTICLE IX.

It is further agreed that

\[ \text{The value of father's and son's property as of the beginning of the fiscal year shall be used.} \]
### PARTNERSHIP INCOME STATEMENT
(For Form 3 with example)

<table>
<thead>
<tr>
<th>Item</th>
<th>Example</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Farm Receipts:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash farm receipts</td>
<td>$3,000</td>
<td></td>
</tr>
<tr>
<td>Plus increase or minus decrease in value of farm inventories*</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td><strong>Total farm receipts</strong></td>
<td>$3,500</td>
<td></td>
</tr>
<tr>
<td><strong>Farm Expenses:</strong> (to be paid out of undivided total farm receipts)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hired help (including cash cost of board)</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Purchases of livestock</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Purchases of machinery and equipment</td>
<td>180</td>
<td></td>
</tr>
<tr>
<td>Purchases of feeds, crops, and seeds</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Rent for additional land</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Custom work</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Repairs on personal property and real estate</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Electric lights and power</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Operating expenses on farm equipment</td>
<td>230</td>
<td></td>
</tr>
<tr>
<td>Interest on short term credit</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Interest on father's mortgage indebtedness*</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Interest on son's mortgage indebtedness*</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>New buildings and real estate improvements</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>Total farm expenses</strong></td>
<td>$1,520</td>
<td></td>
</tr>
<tr>
<td><strong>Net farm income</strong> (total farm receipts less total farm expenses)</td>
<td>$1,980</td>
<td></td>
</tr>
<tr>
<td>Less wage for father ($............) and son ($............)</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td><strong>Less interest to be paid father ($............) and son ($............) for use of their farm property</strong></td>
<td>780</td>
<td>520</td>
</tr>
<tr>
<td><strong>To be equally divided between father and son</strong></td>
<td>$260</td>
<td></td>
</tr>
</tbody>
</table>

1Includes receipts from sale of farm products; pay for work off the farm; miscellaneous farm receipts; plus increases, or minus decreases, in inventory value of real estate, livestock, machinery and equipment, crops, and feeds and supplies.

*See Article VIII in "Real Estate and Personal Property Share" agreement.

*All principal payments on real estate mortgage indebtedness are to be paid personally by father and son and are not to be paid with partnership funds.

*To obtain these figures, subtract the interest actually paid on the father's real estate mortgage indebtedness from the per cent of the value of the father's farm property at the beginning of the year. The same procedure should be followed in computing the interest to be paid the son. (In the example the father has been allowed 4 per cent on a valuation of $9,000 for his farm property. This amounts to $360. Subtracting $60 from $360 leaves $300. The son's investment in farm property amounts to $6,000. This figure times 4 per cent gives $240. Subtracting $20 from $240 leaves $220. Thus the total interest to be paid father and son is $380 plus $220 or $600.)
ARTICLE X. ARBITRATION

If any matter pertaining to the farm business can not be settled by mutual agreement that matter shall be submitted to one disinterested person agreeable to both, or to a board of three persons; one chosen by the father, one by the son, and the third by the two thus chosen. The decision of the arbitrator(s) shall be binding on the partners.

...........................................................................................................
Father
...........................................................................................................
Mother
...........................................................................................................
Son
...........................................................................................................
Son's wife
...........................................................................................................
(Witnesses)