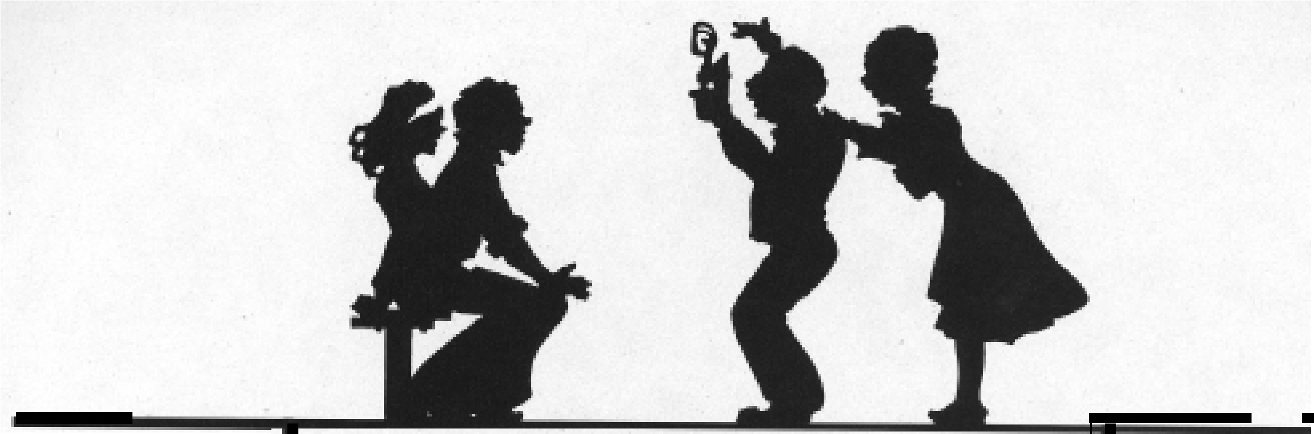

FAMILY TIES:

Will yours stand the strain?

By Raymond Schuessler, Venice, Florida

Many families have found that a well planned ranch operating agreement between parent and child has many advantages. Such an agreement makes it possible for a young man or woman to gain capital quickly by beginning ranching on a "going" ranch.

For the parents it can offer a solution to the problem of retirement by allowing them to slow down while retaining an interest in a business it has taken years to build.

Many ranches are likely to run down when the rancher grows older; bringing a younger person into the business often can keep production at a high level. At the same time, the elder's experience and understanding helps to keep the ranch organization stable. The large amount of capital needed to start ranching nowadays is making this practice more and more desirable. Other relatives may also enter into such agreements.

Agreements should start when the child is young. Such an agreement may begin when the parent gives the child a calf, puts him in charge of the garden; or makes him responsible for growing all or part of some minor crop.

The next step is to let the son or daughter be responsible for some part of the work on a ranch. At first they may take on only a single enterprise suited to the amount of time they can give to it.

The share of the income the child receives from the enterprise may be based partly on the labor, management, and capital put into it. The boy or girl should be encouraged to develop a herd, or to invest their earnings in machinery or other equipment. This should lead to a gradual accumulation of capital in either property or money.

During this time also the youngster will be developing skill in management and practical ranch business training. From this kind of agreement, parent and child may look forward to the time when they will be joint owners of the whole ranch.

How To Divide

The sharing of ownership and income may be in any proportion that's satisfactory to both. A rough approximation for sharing income may be worked out by making the share each receives proportional to the amount contributed.

For example, if the value of the child's contributions in the form of captial, operating expenses, labor and management equals 50 percent of the total contributions, then he or she would receive 50 percent of the ranch income. This method of figuring is often used by landlords and tenants in determining the rent to be paid for a ranch. The method should be adapted to suit individual needs and wishes. A parent may want to give his son or daughter a better deal than is customary in ranch leasing.

Agreements for joint operation represent a mature stage in parent-child operation of the ranch. Usually they are drawn up after the offspring is old enough to have gained valuable experience and to have saved some money to invest in the business. Usually regular schooling has been completed and they can spend full time on the ranch and take over a larger part of the management.

Some Basic Changes

Not all ranches are suitable for the development of these operating agreements. Some are too small; some are not productive enough; some are so poorly organized they cannot support two families; some are so located they cannot be made into the kind of unit upon which a son particularly wants to spend his life and rear a family.

If a ranch business as now organized is too small to provide a satisfactory income for two families, it may be possible with the son or daughter's help to reorganize and enlarge it. A common way to make the business larger is to rent or buy additional land if such is available for rent or if sufficient capital or credit is available to permit buying land.

Adding certain other livestock enterprises to the farm often brings about a better use of labor. These additions require capital. But if the full-time agreement has grown from a project or enterprise arrangement the child may already have the animals that will form the basis of a herd. This method of changing the ranch organization to fit the increasing need for income, as the son or daughter takes a greater part in the business, should be kept in mind as plans develop.

For a successful agreement, the parent must be sufficiently wise and open-minded to recognize the son's maturity and increasing ability. The child must have confidence in, and respect for, the father. The attitude of a mother and the son's wife are especially important; unless the younger woman likes ranch life and has a real interest in the ranch business, an agreement is not likely to work out well.

Parent-child ranch operating agreements are easier to start when there is only one son or only one child interested in working the home ranch. Most parents want to treat all their children equally. The son who ranches with the father sometimes may be regarded by the other children as getting more than his share, especially if there is also a transfer agreement providing that he is eventually to own part of the real property.

Ranches operated under a parent-child agreement offer good opportunities to maintain or increase ranch production. Often, because it's an agreement between members of family, both invest willingly in production items and in other items that increase the longer-term productivity of the ranch. They may do this with the expectation that the agreement will continue and both will be able to obtain the full return on their investment.

Before having an agreement drawn up, 'the parents and children must settle four big questions, among others-

1. Exactly what will each contribute to the business?
2. How will increases and decreases in inventory be shared?
3. How will operating expenses and receipts be shared?
4. How will finances be managed and records be kept?

Parent and child should prepare and carefully discuss these matters. If necessary, they should consult with an extension agent, accountant, or legal advisor who is known as a source of technical assistance.

Good business methods dictate a value should be put upon each contribution to the ranch business. The main contributions are of real estate, personal property? labor, and management.

In the early stages of the agreement, the child may have only his labor to contribute. As he or she accumulates some capital and gains experience, they can contribute more. As contributions increase, shares of the ranch income should increase proportionately.

PERSONAL PROPERTY-In the early phases of an agreement the parent may furnish all or nearly all of the personal property. If it's agreed that the child should receive a substantial share of the profits of the ranch business-even though he or she does not own much of the personal property-he may want to buy a part interest from the parent to make up the difference.

Sometimes parents sell an interest in the livestock, machinery, or other personal property to their children and takes notes for the debt. The child then usually pays interest on the note and retires the principal from their share of ranch earnings. They thus become a joint operator earlier than if they had to save the entire amount before going into business.

Under certain circumstances some parents agree to give their sons or daughters a half-interest in the personal property when the full-time agreement begins. Others take a non-interest bearing note. Generally anything that's mutually agreeable between parents and children can be worked out.

MANAGEMENT-Evaluating management is not easy. Perhaps is would be best to assume management is contributed jointly by parent and child and to make no attempt to put a monetary value on it. The idea is for the offspring to take a substantial part in the management of the ranch as confidence is built up under the patient guidance of the parent.

Often the son or daughter has learned of new developments in agriculture through high school or college work, or through reading, or at extension meetings. They may be acquainted with new ranching practices, improved varieties of crops, new seeds, new fertilizer applications, and improved livestock rations. The parent should try new methods and new ideas, but guide the process through a reasonable course.

Put it in writing

The child may help to make improvements to the land or buildings or pay part of the costs of new buildings and fences. Over several years, the productivity of the ranch may be built up by adopting soil-conservation practices and measures, adding fertilizer, and developing pastures. When the child has helped to make such improvements, their investment should be recognized and protected.

Careful records should be kept to show the contributions made by the child to improve land owned by the parent. An agree. ment should be reached, put in writing, and signed, specifying how the child is to be compensated for these contributions. It's sometimes advisable to transfer to the child a share in ownership of the real estate because other children in the family may be inclined to disregard or to underestimate the value of improvements that the son or daughter has helped bring about.

In the early stage of an agreement, the boy or girl may be allowed to keep all the income from their project or minor enter. prise, especially if they're paid the cash expenses connected with it. Expenses that aren't in cash-such as use of barn or pasture for a cow and calf-may often be furnished by the parent without cost.

How receipts are shared depends upon what the parent thinks will give his son or daughter the kind of experience, training, and incentive needed to develop into a full-time partner.