

and contributing it to the enterprise. In this example, the younger party only contributes \$18,000 but needs to increase his/her contribution by \$12,850 to a total of \$30,850 in order to make it equal to 25 percent. Conversely, the older party contributes \$105,400 but needs to decrease his/her contribution by \$12,850 to equal a 75 percent contribution. So, the younger party buys \$12,850 of home-raised feed from the older party and contributes the feed to the hog enterprise. Now the resources are contributed in the same ratio as the division of gross income.

Adjustment	Older Party	Younger Party
Actual contributions	\$105,400	\$18,000
75%-25% contributions	<u>92,440</u>	<u>30,850</u>
Adjustment	\$12,850	\$-12,850

Income sharing

The income from the sale of market hogs and cull sows is divided 75-25 percent between the two parties. To determine the amount of income each party will receive from the hog enterprise, the cash operating costs (split 75-25) and value of home-raised feed are subtracted from gross income. The value of home-raised feed must be deducted because it is a cost to the hog enterprise and income to the crop enterprise.

None of the costs (such as depreciation or real estate taxes) associated with any of the resources (such as machinery, equipment) contributed to the hog enterprise are deducted here. These costs are borne by the party owning the resource. However, minor repairs may be deducted here if an allowance for repairs was not included in determining the value of the contribution.

Net cash income	Older Party	Younger Party	Total
Sale of hogs	\$111,555	\$37,185	\$148,740
Cash oper. cost	19,800	6,600	26,400
Home raised feed	<u>57,550</u>	<u>12,850</u>	<u>70,400</u>
Net cash income	\$34,205	\$17,735	\$51,940

The younger party's annual income includes income earned from the hog enterprise, in this case \$17,735, plus wages earned from work on the other enterprises of the farm and any fringe benefits.

Cash flow

Each party's cash flow from the hog enterprise consists of the net cash income less cash costs and debt payments associated with the ownership of the contributed resources. The remaining cash flow can be used for family living, replacing capital assets, or investing in the business.

Cash flow	Older Party	Younger Party
Net cash income	\$34,205	\$17,735
Interest on op. cap.		500
Debt payments	<u>3,000</u>	
Remainder	\$31,205	\$17,235

As shown above, the younger party's net income from the hog enterprise is \$17,735. After deducting \$500 of interest payments, the younger party has \$17,235 to be combined with other income earned on the farm to be used for family living and, possibly, further investment in the business. Additional information and examples of dividing business income are available in *Information File Dividing Business Income*.

... and justice for all

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