

The transfer stages

Most businesses go through four stages in the transfer process: testing, commitment, established, and withdrawal. The business agreement determines how the farm income will be divided, based on the contributions of capital, labor and management by each party. As these change, the type of arrangement or its provisions need to be changed. A more in-depth discussion of business agreements is presented in other *Information Files*.

1) The testing stage

Most families have little experience in operating a business together. It is recommended that they first enter a testing stage — a stage similar to an engagement period in a courtship. The objective is to determine whether the young person really wants to farm and how well the parties can work together.

Wage agreement - Many farm families find the easiest way to begin is with a wage. The wage should be reasonable and the arrangement considered temporary.

Wage-incentive plans - With an incentive, the young person's income depends partly on the success of the business. These plans are often used to motivate a young person to take more interest and responsibility in the business.

2) The commitment stage

After the young person has made a commitment to farming, he/she begins to contribute personal property and management in addition to labor to the business. This stage includes various *joint operating agreements*, that provide a vehicle for dividing income in *multi-person* arrangements. It also includes *sharing agreements* for use in *spin-off* arrangements.

Enterprise operating agreement - The young person becomes involved in one specific enterprise by furnishing personal property, management, and labor. He/she receives a share of the income from the enterprise but works for a wage on the rest of the operation.

Farm business operating agreement - The young person furnishes a portion of the personal property, labor, and management for the entire operation. He/she receives a share of either gross or net farm income based on his/her business contribution.

Labor and machinery sharing agreements - Each party has a separate farming operation, and they share machinery and labor.

3) The established stage

In this stage, both parties are fully engaged in farming. The young person has acquired sufficient maturity and skills to manage the business. The older party is still fully involved in the business. This stage includes the *corporation* and *partnership* for use in *multi-person* arrangements. In this stage, the *spin-off* arrangement is usually represented by *two separate businesses*.

Corporation - A corporation may be used in a multi-person arrangement. It is useful when there is a large and growing business, and continuity, control, and transfer of the business are key concerns.

Partnership - The general partnership also is used in a multi-person arrangement. It can provide an on-going means of doing business, represent a stepping stone to incorporation, or revert to a sole proprietorship upon the withdrawal of a partner.

Separate businesses - After the young person spins off from the parents' operation, a distinct and separate business is formed. Depending on individual circumstances, the parties may continue to share labor and machinery, or they may be completely separate.

4) The withdrawal stage

The last transfer stage occurs when the older party withdraws from the business at retirement. They often continue to own the real estate, but provide little or no business personal property, labor, or management.

Lease arrangements - The young person may obtain the use of the older party's business real estate with a lease arrangement. A traditional crop-share, cash, or livestock-share lease can be used.

Corporation - Because a corporation is a separate legal entity, it continues even though the parents withdraw from active participation in the business.

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