

# Profiles of Sharing

10 'case studies' of real-life sharing arrangements

- Johnson & Olson
- Stevens & Smiths
- Fergusons & Duncans
- Erikson & Zimmerman
- Parker & Anderson
- Bennett, Taylor & Nelson
- Spauldings
- Progressive Farmers
- Panhandle Farms
- Lakeside Machinery Cooperative

# A Wide Range of Sharing Arrangements



**Single  
Machine  
No Labor**

**Single  
Machine  
and Labor**

**Multiple  
Machines  
and Labor**

**Multiple  
Machines,  
Labor and  
Inputs**

**Multiple  
Machines,  
Labor, Inputs  
and  
Production**

# Potential Arrangement Benefits

- Reduced machinery costs.
- Improved technology and reliability.
- Increased efficiency from sharing labor.
- Access to specialized skills.
- Discounts from joint input purchases.
- Premiums for joint sale of products.

# Potential Arrangement Costs

- Initial costs
  - Choosing partner(s).
  - Creating operating agreement.
  - Forming legal structure, if necessary.
  - Potential depreciation recapture issues.
  - Explaining arrangement to ‘significant others’.
    - Spouses
    - Lenders
    - Landlords
    - FSA, IRS, etc.

# Potential Arrangement Costs

- Operating costs
  - Time needed from planning and coordination.
  - Added record keeping costs.
  - Tax preparation for legal structure, if necessary.
  - Updating operating agreement, if necessary.

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Does the structure of an agreement really matter?

If so, why?

The objective is to  
“make the pie bigger”

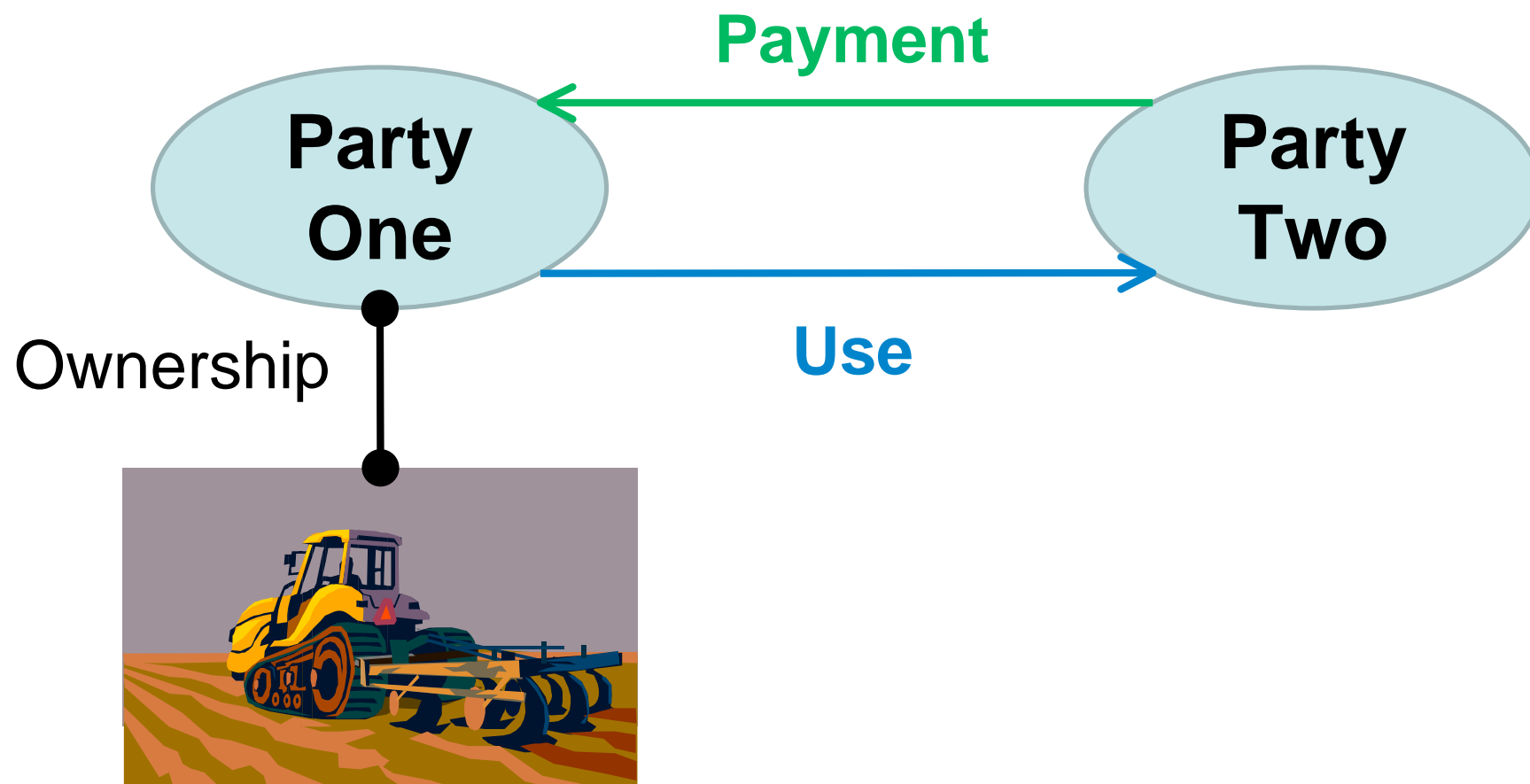
But, we must also be  
concerned with  
“how to divide the pie”

# Key Considerations

- What do we want to do?
  - Single or multiple machines.
  - With or without labor.
  - Joint purchasing of inputs.
  - Joint sales of production.
- How are we going to get there?
  - Determine appropriate ***Legal Structure.***
  - Develop an ***Operating Agreement.***

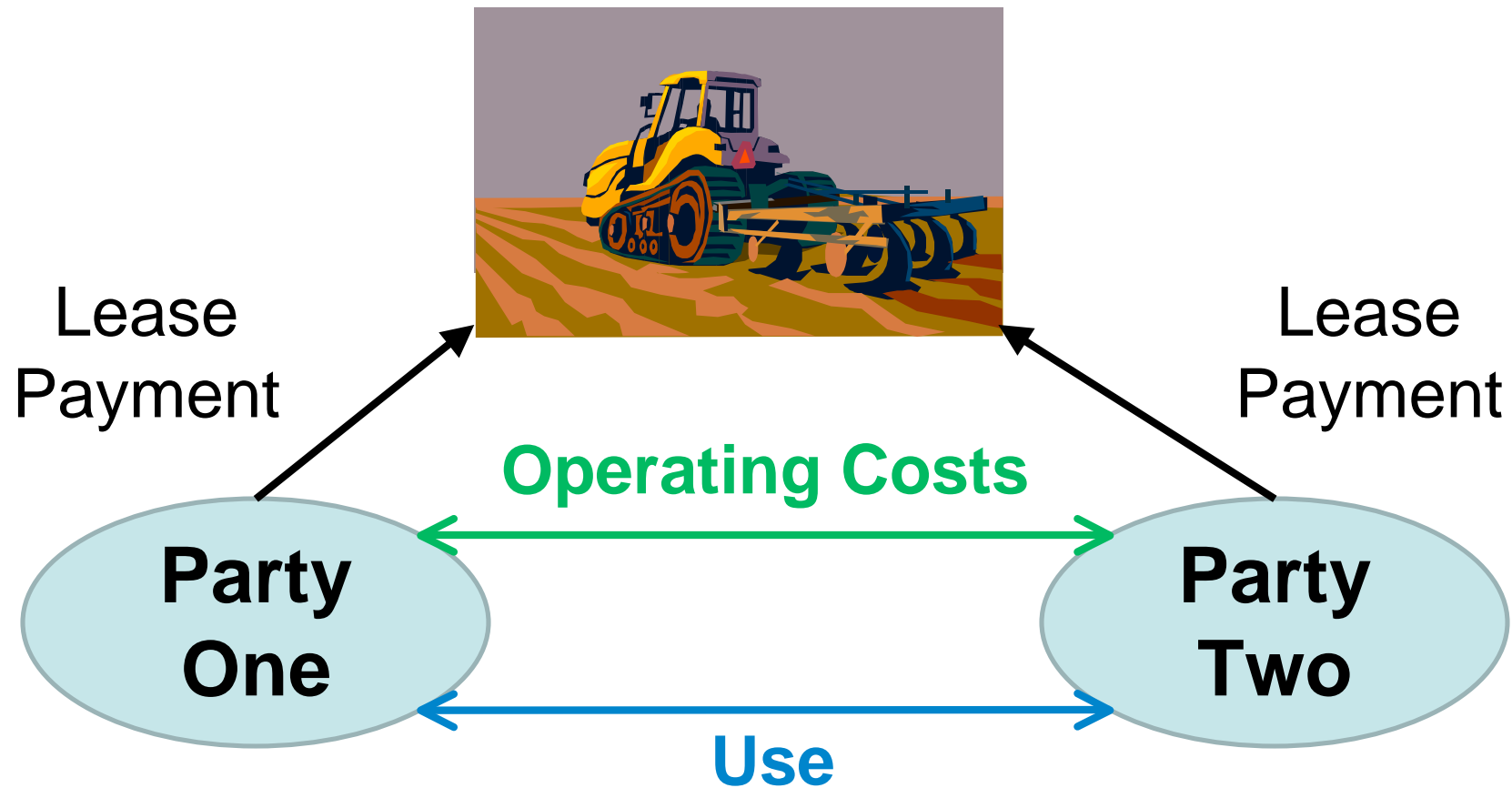
# Example #1

## Machine Only – Custom Hire



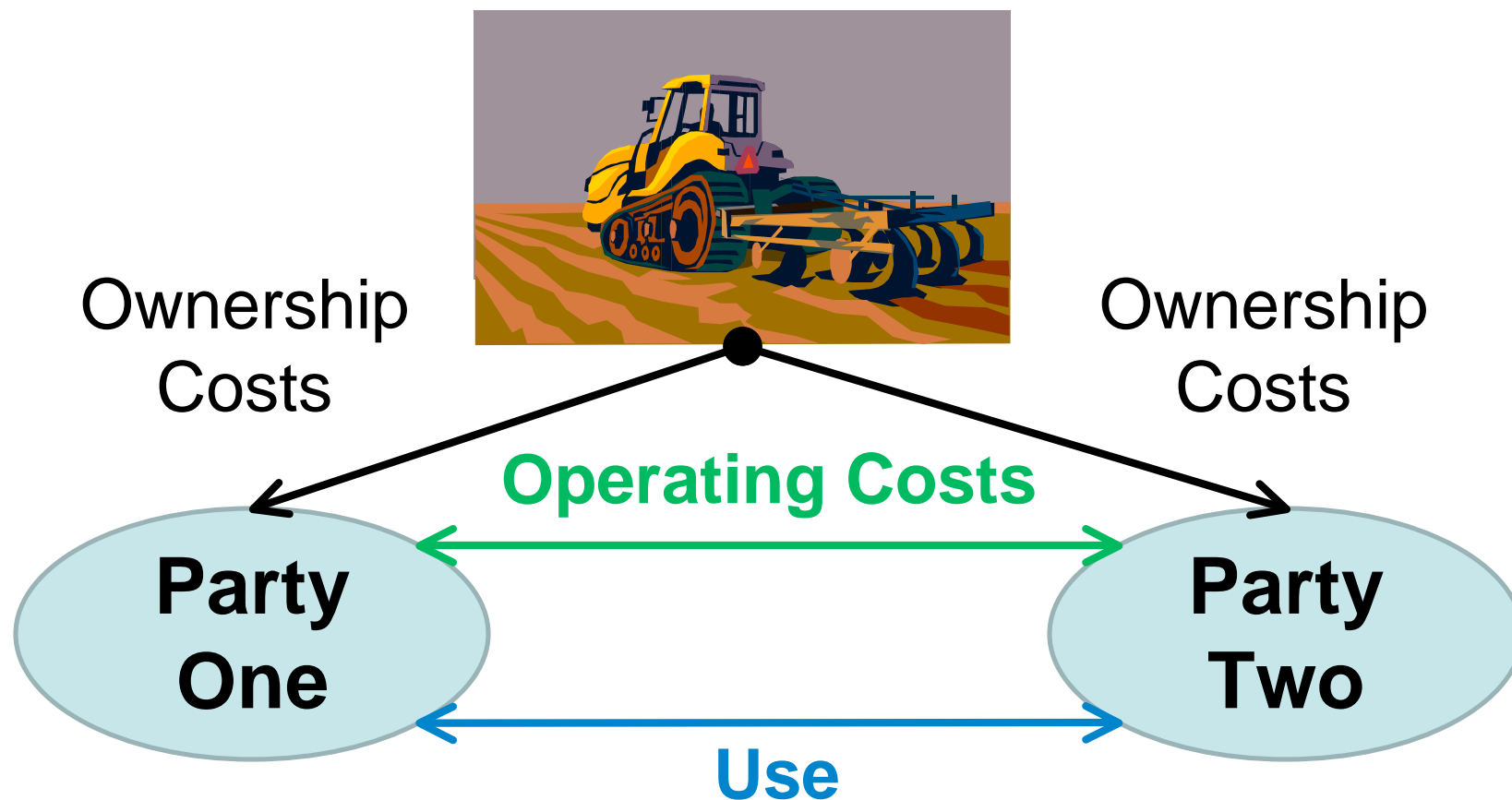
# Example #2

## Machine Only – Joint Lease



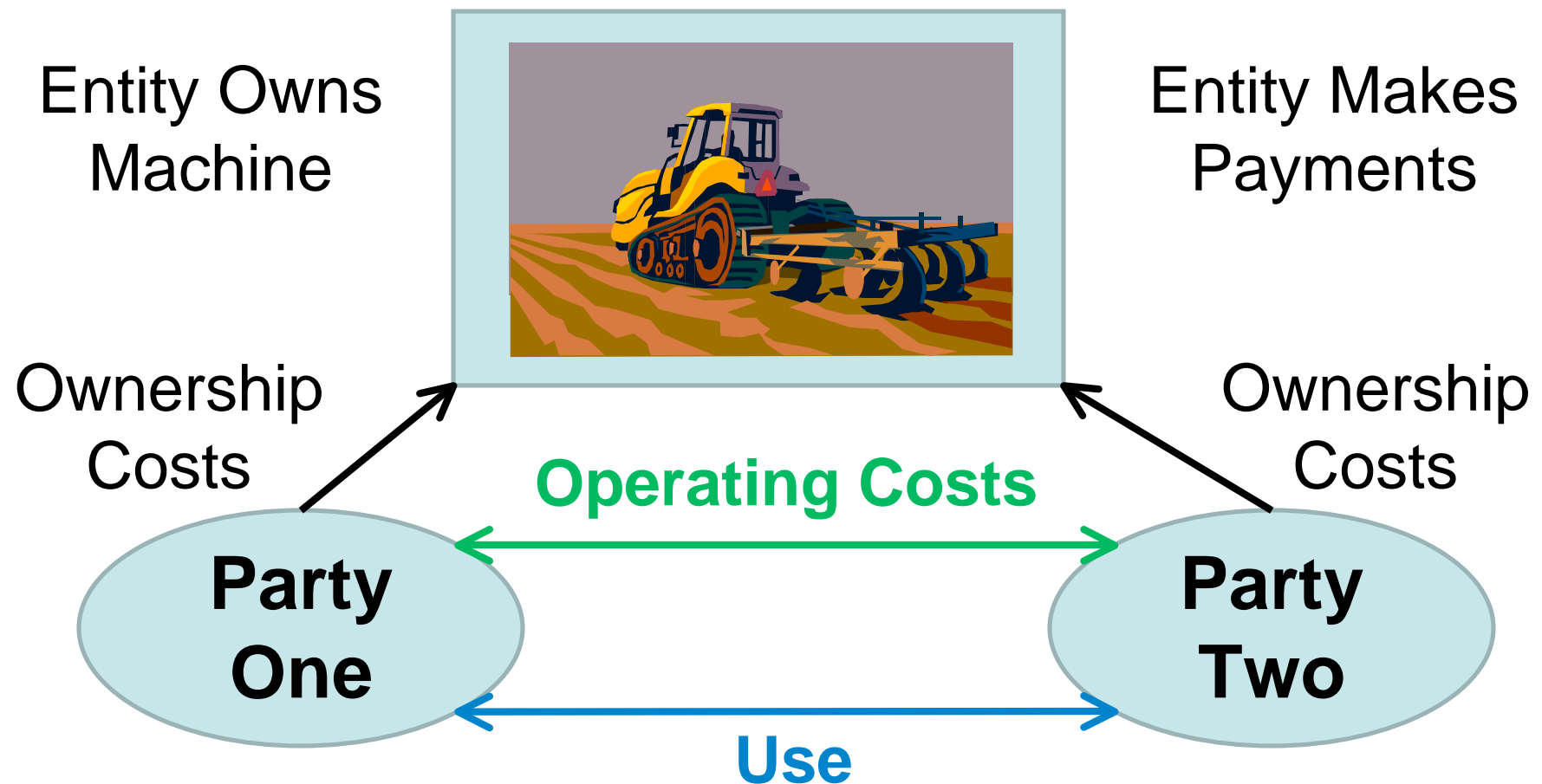
# Example #3

## Machine Only – Joint Ownership



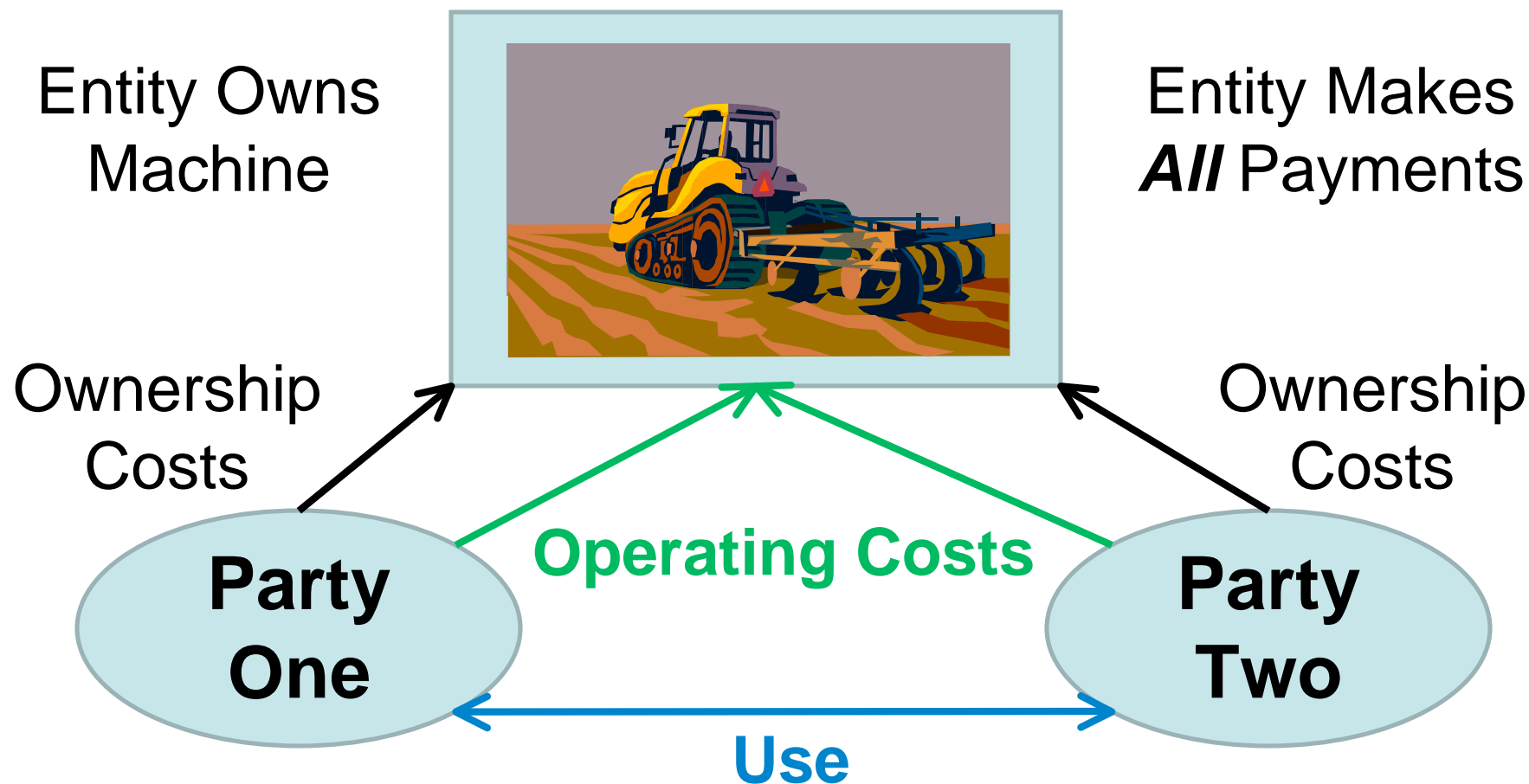
# Example #4

## Machine Only – Separate Entity



# Example #5

## Machine Only – Separate Entity



# A Wide Range of Sharing Arrangements



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***As more resources are shared the  
arrangement should become more formalized***

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# Legal Considerations

Roger McEowen  
Leonard Dolezal Prof.  
In Agricultural Law

# Legal Structures

- Sole Proprietorship
- General Partnership
- Limited Partnership
- Limited Liability Partnership
- Limited Liability Company
- S Corporation
- C Corporation
- Cooperative
- Value Added Cooperative

# Legal Structure

- Influences individual and joint liability
- Influences taxation
- May influence access to capital
  - Debt
  - Equity

# Choosing a Legal Structure

- What is the cost of formation?
  - State filing requirements.
  - Legal fees.
- Tax Considerations.
  - Filing requirements.
  - Does entity pay tax or is there a ‘pass through’?
- Individual liability.

# Choosing a Legal Structure

- What is the 'life' of the entity?
  - Perpetual or fixed.
- How do we transfer ownership?
- How difficult is it to dissolve?
- Are there farm program payment issues?
  
- Please see handout.

Characteristic	Sole Proprietorship	General Partnership	Limited Partnership (LP)	Limited Liability Partnership (LLP)	S Corporation	Limited Liability Company (LLC)	Cooperative	C Corporation
<b>Formation</b>	No state filing required	No state filing required	State filing required	State filing required	State filing required	State filing required	State filing required	State filing required
<b>Cost of Formation</b>	None	None	State filing fee required	State filing fee required	State filing fee required	State filing fee required	State filing fee required	State filing fee required
<b>Operational Requirements</b>	Operating agreement recommended	Operating agreement recommended	Some, but less formal than corp.	Some, but less formal than corp.	Board of directors, annual meetings & reporting	Board of directors, annual meetings & reporting	Board of directors, annual meetings & reporting	Board of directors, annual meetings & reporting
<b>Taxation</b>	Single	Pass Through	Pass Through	Pass Through	Pass Through	Pass Through	Pass Through or Entity	Entity and Individual
<b>Entity Tax Filing</b>	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Individual Liability</b>	Unlimited	Unlimited	At least one partner is unlimited	Usually limited	Limited	Limited	Limited	Limited
<b>Duration</b>	Dissolved at death	Dissolved at death or withdrawal of partner	Fixed Term and Dissolved at death	Fixed Term and Dissolved at death	Perpetual or Fixed Term	Varies by state statute	Perpetual	Perpetual
<b>Transfer of Ownership</b>	Private negotiations	Private negotiations	Approval required by partners	Dependent on operating agreement	Limited by IRS regulations	Dependent on operating agreement	Dependent on operating agreement	Private negotiations
<b>FSA Payment Issues*</b>	None	None	Usually none	Usually none	Usually none	Usually none	None	Usually none

# Legal Organization Resources

- Iowa Secretary of State  
[www.sos.state.ia.us/business/handbookintro.html](http://www.sos.state.ia.us/business/handbookintro.html)
- Ag Decision Maker  
[www.extension.iastate.edu/agdm/vdstart.html](http://www.extension.iastate.edu/agdm/vdstart.html)
- Drake Law Center  
[www.nationalaglawcenter.org/assets/articles/obrien\\_producemarketing\\_ch\\$.pdf](http://www.nationalaglawcenter.org/assets/articles/obrien_producemarketing_ch$.pdf)
- Personal Attorney
- Others?

# Why is an Operating Agreement Important?

- Written agreement that outlines key elements of the sharing arrangement.
- External Communication.
  - Lenders.
  - Land Owners.
  - FSA, IRS, etc.
  - Significant Others
- Internal Efficiency.

# An Operating Agreement

- Key elements of the sharing arrangement:
  - Division of costs and benefits.
    - Who pays what and when?
      - ‘External’ Payments → Joint or Individual
      - ‘Internal’ Payments → Cash or In-kind
    - Who will keep what records?
    - Who has access to joint records?
    - Insurance – for machine and/or people.

# An Operating Agreement

- Additional key elements:
  - Capital Contributions.
    - Initial Contributions.
      - Trade or sell existing machines → Tax impacts
    - New contributions.
  - Financing.
    - Lease.
    - Use same lender.
    - Used different lenders.
    - Sharing financial information.

# An Operating Agreement

- Additional key elements :
  - Use of equipment (custom work).
  - When to replace machinery.
    - Target replacement rate/date
    - Who makes decision
  - Management or decision making.
    - Sequence of operations
    - What is shared and what is individual
    - How to resolve disputes
    - Role of Spouses

# An Operating Agreement

- Additional key elements :
  - Increasing or decreasing land base.
  - Adding or removing partners.
    - Transfer of ownership
    - Death of partner
  - Dissolve the agreement.

# An Operating Agreement

- Developing an operating agreement is a great way to test if partners are compatible.
- All written agreements are ‘incomplete’.
  - Must be a willingness to be ‘flexible’.
  - Open communication is needed to adjust to changing conditions.

# Conclusions

The laws and court rulings are constantly changing, so seek your own legal advice to determine how your particular goals can best be met with various types of business entities.

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# Operating Agreement

QUESTIONS?