



## Contribution Adjustment

To be equitable, the value of the resources contributed by each party should be in the same ratio as the division of gross income (in this example, 75-25 percent). If the older party's contribution does not meet the required percentage, an adjustment can be made by him/her buying home-raised feed from the older party 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		
	Younger Party	Older Party
Actual contributions	\$18,000	\$105,400
75%-25% contributions	<u>30,850</u>	<u>92,550</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			
	Younger Party	Older Party	Total
Sale of hogs	\$37,185	\$111,555	\$148,740
Cash oper. cost	6,600	19,800	26,400
Home-raised feed	<u>12,850</u>	<u>57,550</u>	<u>70,400</u>
Net cash income	\$17,735	\$34,205	\$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		
	Younger Party	Older Party
Net cash income	\$17,735	\$34,205
Interest on op. cap.	<u>500</u>	
Debt payments		<u>3,000</u>
Remainder	\$17,235	\$31,205

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. See *AgDM File C4-16* for additional information and examples of **Dividing Business Income** ([www.extension.iastate.edu/agdm/wholefarm/pdf/c4-16.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c4-16.pdf)).

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