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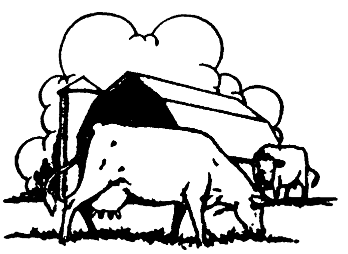
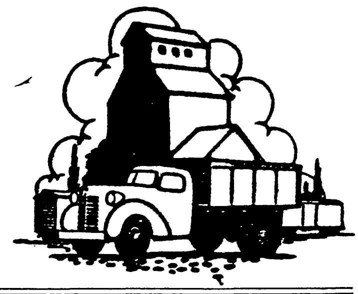


MINNESOTA farm business NOTES

NO. 387 ST. PAUL CAMPUS, UNIVERSITY OF MINNESOTA SEPTEMBER 30, 1957



FARM INHERITANCE IN MINNESOTA

Philip M. Raup and G. A. Jawando

What is the size and composition of the representative farm estate in Minnesota? Is farm property typically held in individual ownership, or owned jointly with somebody else? To what extent do farm people have savings accounts, life insurance, government bonds, or other forms of investments? Does inheritance often result in the break-up of farms?

To answer these and other questions, a study was made of 304 estates selected from the files of the Inheritance and Gift Tax Division of the Minnesota Department of Taxation. Most of the estates resulted from deaths occurring in 1953 and 1954.

The estates were selected to include holdings of rural real estate of farm and nonfarm people. Of the 304 estates, 77 involved owners who were active farmers at the date of death. Retired farmers accounted for 120 of the estates, and the remaining 107 had been owned by nonfarmers who owned at least 20 acres of farm land.

Records do not cover all rural estates, since some are so small that no inheritance tax is due. The estates in this sample, therefore, should be considered as representative of the larger or taxable estates only.

The total appraised value of the 304 estates was approximately $8.5 million or an average value of $28,000 each. State inheritance tax collected from all estates was 1.2 percent of their total value; and the highest for any estate was less than 2 percent. Sixty-five of the estates were valued at less than $15,000 while only 32 were worth over $60,000. The largest estate in the sample was valued at $155,460.

The composition of the estates of deceased farmers, retired farmers, and nonfarmers is shown in table 1. Rural real estate is the most important type of asset held by active farmers and retired farmers, as well as by nonfarmers whose estates included a significant interest in farm land. For those who were active farmers at the time of their death, 85 percent of the value of their estates was in land and working capital, including cash.

Table 1. Percentage Distribution of Assets of 304 Estates

Occupation of deceased	Urban realty	Rural realty	Working capital	Cash assets	Investment	Mortgages and sales contracts	Gift before death	Life insurance	Total property
				percent					
Farmer	2	55	17	13	8	2	0	3	100
Retired farmer	10	42	4	13	13	13	3	2	100
Nonfarmer	13	45	3	12	8	8	8	3	100

For the retired farmers and nonfarmers, urban real estate was an important item, and machinery, livestock, and equipment of minor importance. Over half of all the estates of retired farmers and nonfarmers included a "house in town," while only 3 of the 77 active farmers held any urban real estate.

The average percentage held in cash was surprisingly similar for all three classes of estates, averaging about one-eighth of the total estate. The estates of retired farmers included more stocks and bonds (13 percent of total estate value) and more mortgages and land contracts.

Over half of the total number of estates reported no checking accounts among the assets of the estate, while 171 of the 304 estates included government savings bonds. Life insurance was a surprisingly small fraction of estate value. Only 77 out of the 304 estates included any life insurance (25 farmers, 21 retired farmers, and 31 nonfarmers).

The transfer of real estate during the owner's lifetime was comparatively rare. Among the retired farmers, 9 out of 120 had transferred some part of their estates as gifts during lifetime (inter-vivos transfers), as had 12 of the 107 nonfarmers. There were no inter vivos transfers in the estates of active farmers.

Ownership in Fee Simple or Joint Tenancy

The proportion of assets held in individual fee simple ownership (exclusively in the name of the deceased) or in "joint tenancy" (co-ownership with the right of survivorship usually with wife) is shown in table 2. For all estates approximately three-fourths of the value of assets was held in fee simple and one-fourth in joint tenancy. Joint tenancy was most important among retired farmers, largely due to the practice of holding title to the house in town jointly with a spouse.

The variations in methods of holding the different types of assets are shown in table 3. Fee simple ownership accounted for 85 to 90 percent of the value of all rural real estate and for almost the total value of all machinery, livestock, and equipment. On the other hand, investments, particularly government bonds, were quite frequently held in joint tenancy. In general, the productive assets (land, livestock, equipment) were held in fee simple, while urban homes, or investments expected

Table 2. Value of Property Held in Fee Simple and Joint Tenancy

Occupation of deceased	Fee simple	Joint tenancy	Life insurance*	Total
		percent		
Farmer	76	21	3	100
Retired farmer	68	30	2	100
Nonfarmer	78	19	3	100

* Life insurance is neither fee simple nor joint tenancy.

(Continued on pages 2 and 3)

FARM SALES ON THE INSTALLMENT PLAN

H. W. Baumgartner and P. M. Raup

Among 1,563 sales reported in 1957 by Minnesota farm real estate brokers in the annual survey of the Minnesota farm real estate market, 583 or 37 percent were financed by contracts for deed or "land contracts."

This represents a fairly steady increase in the use of land purchase contracts in Minnesota since the end of World War II. Then, only 20 percent of all farm sales were financed by contracts for deed.

What Is a Land Contract?

A sales contract is a written agreement between a buyer and a seller for the "installment sale" of a particular parcel of land. The buyer will generally make a down-payment, with the balance plus interest to be paid in stated installments over a period of years. The title to the land remains with the seller until final contract payments have been made. Occasionally the contract will provide that after a certain period of time, or after a stated fraction of the purchase price has been paid, the seller will give the buyer the deed and in return take a purchase money mortgage. Whatever the arrangements may be, the buyer under a contract for deed can be considered the owner.

The averages of a 1956 study of 205 respondents in Freeborn County are given below:

1. Downpayment requirements were low (20 percent).
2. Annual payments were small (4 percent).
3. Sale contracts were frequently used in farm family transfers.
4. Nearly one-half of all sellers were retired farmers; three-fourths of all sellers were 60 years of age or over.
5. One-fifth of all buyers had no previous farming experience; only one-tenth of all buyers were 30 years of age or younger, while nearly one-third were 45 years or older.
6. A vast majority of contracts (2/3 to 4/5) were unrecorded; therefore, obtaining statistics on contract sales is difficult.

Buyers under contract for deed, when asked what would best safeguard a contract purchase, most frequently mentioned:

1. A large downpayment of one-third or more.
2. Small payments over a long period of time, as long as 30 or 35 years.
3. Prepayment privileges that would permit the buyer to make payments in advance of his repayment schedule in a good year.

To this we might add:

4. The provision of a sliding scale of repayment that would permit the buyer to pay more heavily in good years and reduce his payments in poor years.
5. A provision permitting the buyer to convert the contract into a mortgage after he has paid enough to raise his equity to approximately one-half the purchase price.

It appears that a sale on contract is attractive to the seller for the following reasons:

1. The seller retains an investment in a business with which he is familiar.
2. A seller who receives a downpayment of 30 percent or less may spread any capital gains from the sale over several years. If his income is low enough, he may pay less than the stipulated 25 percent capital gains tax; if he has little or no other income, he may be able to claim the capital gain as tax-exempt income.
3. Contract payments may be geared to the income needs of the seller.

From the buyer's point of view the following advantages may be cited:

1. A contract enables a buyer to achieve ownership with a relatively small initial capital outlay.
2. A contract, if drawn properly, may afford a buyer sufficient security to enable him to start farming as an "owner," thus aiding him in obtaining operating capital and production loans.
3. In a period of rising farm prices and fewer opportunities to rent, buying on contract offers advantages over renting, and may even be a necessity in some communities where there are few farms to rent.

Conclusion

Our study indicates that contracts have worked out well for buyers and sellers alike. One word of caution, however, may be appropriate—the favorable experience with land contracts during the post-war period of high farm incomes and rising land values may not recur during a prolonged period of lower farm incomes and unpredictable land value trends. Credit needs to be used cautiously, and buyers should safeguard themselves by having recommended provisions inserted into their contracts.

MINNESOTA
farm business
NOTES

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Farm Inheritance—

(Continued from page 1)

to mature over a lifetime, were frequently held in joint tenancy with the intended beneficiaries.

Inheritance and Farm Parcelization

One of the important factors contributing to a division of a farm is the occurrence of a death without a will. This is because state law requires that such estates be shared by the heirs. In many cases disagreement among the heirs may force the sale of the farm, or it may be split up into several small, uneconomic ownership units.

From the estate records available in this survey it is impossible to determine the many variations in the ways in which the land is being operated. It was possible, however, to determine those cases in which subdivision of the property resulted from the fact that the deceased owner had died intestate (had left no will). In these cases the assets were divided among the heirs in accordance with the state laws of intestate succession, and ownership subdivision occurred.

Death without a will is not the only cause of ownership subdivision. Many owners who had made wills intentionally provided for a physical break-up of their farm lands. And whether or not a will had been made, many of the farms continued intact as operating units, even though ownership rights had been subdivided.

Table 4 presents the data for the 266 estates that contained farm land. Slightly over one-half (136) estates involved no will. Wills were more frequent among the retired farmers, whereas 60 percent of the active farmers died without leaving a will.

In 90 out of the 136 cases of intestate succession there was ownership subdivision of the farm land. This occurred most frequently among the active farmers, least frequently among nonfarmers. For example, because they had no wills, the rural lands in 41 percent of the

Have You Considered Part-time Farming?

Frank T. Hady[1]

Many Minnesota farmers have quit farming completely. Many others have taken other employment (for all or part of the year) but have retained their farming operations. Have you considered such moves?

There are two areas in the state where part-time farming is very common. The largest of these is in northeastern Minneosta. In much of this area more than 60 percent of all farm operators worked at jobs away from their farms during 1954, according to the U. S. Census of Agriculture. The other area, located around Minneapolis and St. Paul, is much smaller in size but includes large numbers of people.

It should be noted, however, that part-time farming is found, to a lesser extent, in all parts of the state.

Part-time farming may be a permanent mode of making a living or it may be merely a transitional phase during which the family is either entering or leaving farming. Whichever of these situations exist, the reason for accepting an off-farm job is usually to obtain a higher income.

In a study made in northeastern Minnesota in 1955, the average income of a group of part-time farmers was $3,339 while the income of full-time farmers averaged about $1,800.

In fact, the average income of part-time operators exceeded by several hundred dollars the net income received by the one-third of the full-time farmers with the largest farm operations. These figures would indicate that an average job away from the farm presented about as good an income opportunity as the larger farm operators in the community.

It may be much simpler, faster, and easier to obtain and hold such an average job than it is to obtain the necessary capital and to develop a large farm business.

The income from an off-farm job is regular and is largely available for family living. There is less necessity to put some of it back into the business as is true with most farmers. Generally speaking the hours worked per week on off-farm jobs are rigidly determined and fewer in number than most farmers put in. These are the principal factors that led northeastern Minnesota farmers to accept off-farm employment.

There are disadvantages in working for an employer. The worker has no control over his job. He may be laid off at the will of the employer. He must accept the regimentation that goes with industrial employment.

He usually does not plan and determine his own work program. The independence which has always been considered an important part of a farmers mode of life must be largely sacrificed by the part-time farmer. Because he works with others more, he must adjust himself to this situation.

There was a very wide variation in the size of farming operations among the part-time farmers. Some of them did very little farming while others operated farms equal in size to the larger full-time farms in the community.

The part-time operators who fall in the one-third of the farms with the smallest size farming operations averaged only $394 in net income from farming. About 20 percent of them operated at a loss. However, these same operators averaged $2,745 from wages received from their off-farm jobs.

Those that fall in the one-third of the farms with the largest farming operations made $1,269 from farming. These men averaged $2,224 from wages so that the total income, farm and nonfarm, of the small and large part-time operators was nearly the same.

The part-time farm operator has some special labor limitations in his farming operation. He is decidedly limited in the amount of time he can contribute in addition to a full-time off-farm job of 40 or 48 hours per week. He may have to depend heavily on family labor, hired labor, and custom work in order to carry on much farming. He may increase this time by working fewer hours at off-farm jobs, by working during seasons while farming is slack, or by working on jobs with rotating shifts as in the iron mines.

On many farms the farmer's wife plays an important role in part-time farming. In the northeast, the wife took part in farming activities on about 60 percent of the farms. On a quarter of the farms she spent about an hour a day, but on another quarter she reported an average of over 4 hours per day. About 40 percent of the farms reported help from other family members.

The balance between farming and off-farm employment is finally made on the basis of obtaining the highest possible income for the family and on furthering the interests or desires of the family as to where and how they want to live.

[1] Agricultural Research Service—U. S. Department of Agriculture.

Table 3. Percentage of Asset Value Held in Fee Simple and Joint Tenancy, by Type of Asset

Occupation of deceased	Urban realty		Rural realty		Working capital		Cash assets		Investment		Mortgages and sales contract	
	Fee	Joint	Fee	Joint	Fee	Joint	Fee	Joint	Fee	Joint	Fee	Joint
	percent											
Farmer	49	51	85	15	98	2	60	40	45	55	69	31
Retired farmer	36	64	89	11	97	3	59	41	29	71	67	33
Nonfarmer	61	39	89	11	98	2	73	27	58	42	75	25

estates of active farmers were split up, compared with only 28 percent of the estates held by nonfarmers.

It is clear from table 4 that ownership subdivision is occurring in a significant number of cases as a result of death without a will. With the current emphasis on larger, more efficient farm operating units, it is possible that current inheritance laws and customs may be working against the best interests of technological development and farming efficiency.

Table 4. Estate Subdivision Through Inheritance*

Occupation of deceased	Number of estates	Number of deaths without wills	Number of subdivisions	Percent of subdivision†
Farmer	75	45	31	41
Retired farmer	96	39	32	33
Nonfarmer	95	52	27	28
Total	266	136	90	34

* The remaining 38 estates were in joint tenancy or inter vivos transfers. † Estates involving physical subdivisions of land as a percent of all intestate deaths.

Minnesota Farm Prices, July and August, 1957

Prepared by R. A. Andrews

Average Farm Prices for Minnesota July 1957, August 1955, 1956, 1957*

	July 1957	Aug. 1957	Aug. 1956	Aug. 1955
Wheat	$ 2.05	$ 2.00	$ 2.09	$ 2.08
Corn	1.11	1.10	1.38	1.21
Oats	.59	.52	.64	.48
Barley	.83	.81	.95	.88
Rye	1.03	1.02	1.10	.77
Flax	2.75	2.92	3.03	2.85
Potatoes	1.35	1.38	1.62	.80
Hay	14.00	14.30	16.00	14.10
Soybeans†	2.16	2.16	2.37	2.10
Hogs	18.90	19.60	16.50	15.70
Cattle	19.00	18.60	16.40	16.30
Calves	20.30	20.90	19.00	18.00
Sheep-lambs	19.03	19.56	17.38	17.15
Chickens	.100	.110	.139	.156
Eggs	.260	.320	.310	.340
Butterfat	.630	.640	.630	.610
Milk	3.15	3.20	3.25	3.15
Wool†	.52	.51	.38	.39

* Average prices as reported by the USDA.
† Not included in Minnesota farm price indexes.

The Minnesota livestock price index increased 15 percent from August 1956 to August 1957 to reach its highest August level since 1953. Favorable livestock feed ratios developed from the higher livestock prices and low feed prices. The Minnesota hog-corn ratio reached its highest August level since 1942 and the Minnesota beef-corn ratio reached its highest August level since 1951.

Comparison of July and August Prices

Commodity class	Average August prices as a percentage of average July prices
Crops	98
Livestock	101
Livestock products	105
All commodities	101

The Outlook Corner— Declining Beef Supplies

Cattle numbers are in the downward phase of the cycle. By the end of this year, cow and heifer inventories will be two million head below their peak of January 1955. Similarly, all classes have declined from their 1956 peak numbers (as shown in the following table).

U.S. Cattle on the Farm, January 1

Class	1955	1956	1957	1958 (est.)
		million head		
Beef cows and heifers	32.1	31.7	30.7	30.0
Beef calves	18.8	18.9	18.7	18.0
Steers	8.4	9.5	9.2	9.0
All cattle and calves*	96.5	96.8	95.1	93.2

* Includes dairy inventories which show a steady downward trend.

As a result cattle slaughter and beef output have turned downward. For 1957 beef output is estimated to be 14.2 billion pounds compared to 14.5 in 1956.

Relatively heavy slaughter this year coupled with a two percent smaller calf crop and smaller carry-over of stocker cattle will reduce January 1958 inventories by about two million head. Drought-forced selling is not expected to be as large as the past several years. These trends will continue and will lead to smaller beef supplies for several years.

For farmers this means that cattle prices will trend higher. Profit prospects in cattle feeding are favorable for the next 3-4 years. Best prospects are for light weight, long fed cattle especially in view of plentiful feed supplies. During the years that more heifers and calves are withheld to expand breeding herds, slaughter will decrease and prices will be appreciably higher.

The downswing in cattle numbers is part of a cycle and should not last as long or be as great as previous ones. The following table shows the length and extent of the down phase of previous cycles.

Length and Extent of Down-phase of Cattle Cycle

Period	Length	Decline in numbers
	years	percent
1918-28	10	Down 35
1934-38	4	Down 16
1945-49	4	Down 7
1957 (estimated)	4	Down 5

Population increase, rising consumer incomes, and shifting demand from pork to beef will help prevent a large downswing. More plentiful feed supplies will also help. The low point could come in 1959 or 1960.

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Indexes for Minnesota Agriculture*

	Average Aug. 1935-39	Aug. 1957	Aug. 1956	Aug. 1955
U. S. farm price index	100	234.8	224.4	220.6
Minnesota farm price index	100	211.0	211.4	200.2
Minnesota crop price index	100	198.9	218.1	198.1
Minnesota livestock price index	100	243.7	211.1	205.2
Minnesota livestock products price index	100	201.2	200.0	199.2
Purchasing power of farm products				
United States	100	99.5	97.4	98.9
Minnesota	100	89.4	91.8	89.7
U. S. hog-corn ratio	12.3	16.3	11.2	12.1
Minnesota hog-corn ratio	14.6	17.8	12.0	13.0
Minnesota beef-corn ratio	12.0	16.9	11.9	13.5
Minnesota egg-grain ratio	15.9	13.1	11.2	13.4
Minnesota butterfat-farm-grain ratio	33.5	37.1	29.8	34.9

* Minnesota index weights are the average of sales of the five corresponding months of 1935-1939. U. S. index weights are the average sales for 60 months of 1935-1939.

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