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# MINNESOTA farm business NOTES



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## Land Contract Has Grown in Popularity

R. V. Elfson and Philip M. Raup

The contract for deed, or land contract, has grown in popularity with Minnesota farmers in recent years. In 1946 land contracts were used to finance an estimated 20 percent of all farm sales. This had increased to 38 percent of all sales in 1957, as shown by the annual farm land market survey conducted by the Department of Agricultural Economics, University of Minnesota.

A land contract differs from a mortgage primarily in the fact that legal title to the land remains with the seller until payments on the contract have been completed. Under a mortgage, title passes at the time of sale. If the buyer defaults on the mortgage, a foreclosure is required to gain repossession of the land.

This usually requires a year or more to carry through. Under the land contract, Minnesota law permits the seller to repossess his land by a simple eviction procedure, which can be set in motion 30 days after a buyer has defaulted on a payment.

### What Kinds of Farms Are Bought on Contract?

Land contract buyers as a group bought a higher percentage of farms having "good" land than did mortgage or cash buyers. Contract buyers were also more likely to buy farms with buildings on them, and the buildings were, in general, in better condition than was the case with cash or mortgage-financed sales. Moreover, contract buyers were more interested in obtaining a complete farm unit as opposed to a parcel or tract to be added to an existing farm. Many more of them intended to operate the farm themselves.

Table 1. Classification of 1,563 Farm Sales by Method of Financing and Characteristics of Land and Buildings, Minnesota, 1957

Type of financing	Percent of total sales reported	Quality of buildings				Quality of land			Use of land		Type of buyer	
		Good	Ave.	Poor	None	Good	Ave.	Poor	For Farm expansion	As a complete unit	Operator	Investor
Contract	38	32	38	20	10	41	44	15	24	76	88	12
Cash	26	20	29	25	26	34	44*	22	34	66	65	35
Mortgage	34	26	40*	23*	11*	39*	48*	13*	34	66	86*	14*
Other	2											
Total	100	27	36*	22*	15	39*	45*	16*	30	70	81	19

\* Percentages which are not significantly different, at the five percent probability level, from the percentages for contract financed purchases.

These differences are shown in table 1. It will be noted that 41 percent of the contract sales involved land that was rated "good," while only 34 percent of the cash sales and 39 percent of the mortgage sales involved good land. An even more pronounced difference appears with regard to buildings. Only 20 percent of the farms bought for cash had buildings rated "good." For mortgage sales this percentage was 26, while 32 percent of the contract sales involved good buildings.

Only 1 out of 10 of the contract and mortgage-financed sales involved bare land with no buildings. On the other hand, 26 percent of the cash sales involved farm land with no buildings.

Thirty-four percent of all cash and mortgage purchases were for the purpose of expanding existing farms. In contrast, only 24 percent of those using land contracts bought for this purpose.

Thirty-five percent of the cash buyers bought their farms as an investment and did not intend to operate them. Only 12 percent of the contract buyers and 14 percent of the mortgage buyers bought farms as an investment.

The contract for deed is a method of low equity financing, with down-payments averaging about 20 percent of the purchase price. This means that the seller should have considerable confidence in the character and integrity of the buyer.

On these grounds, it would not have been surprising to find many land contract sales taking place between relatives. This was, in fact, not the case. The proportion of land contract sales involving father-son transfers (or other relatives) was not significantly different from cash or mortgage sales. In all types of financing, the proportion of total sales involving related buyers and sellers is quite low, averaging about 5 to 6 percent.

These data make it clear that land contracts in Minnesota have gained a wide acceptance among farm buyers, especially among those who buy complete farm units for owner operation. It is also clear that the land contract is not being used to finance the sale of the poorer farms or those with run-down buildings. On the contrary, the over-all quality of the farms bought with land contracts is equal to or above the average of those farms bought for cash or financed with mortgages.

### Farmers' Experience with Land Contracts

Studies made in 11 Minnesota counties during 1954-55-56 show that, in general, farmers' experiences with land contracts have been good.

These studies involved interviews with a total of 350 farmers who had

(Continued on page 3)

This article is a progress report on one Minnesota segment of North Central Regional Research Study NC-15 "How Young Families Get Established in Farming."

# A Sales Tax for Minnesota?

Philip M. Raup

One of the major sources of new public revenue repeatedly discussed in Minnesota is the sales tax. Since Minnesota has both a personal and a corporate income tax, with the proceeds earmarked almost exclusively for the income tax school fund and distributed to local school districts, it is important to compare these alternative sources of revenue.

In doing so, several key points should be kept in mind. The income tax is based on net income and falls relatively lightly on the farmer. A sales tax is based on the volume of purchases made and falls relatively heavily on the farmer. These differences have increased in recent years.

Farmers are buying more and more of their production needs from other firms. In addition, agricultural production involves a slow rate of turnover and a high capital investment per dollar of income earned. There are also peculiarities of the farm household that are significant in this regard. Farmers are heavy purchasers of consumer durable goods—including stoves, refrigerators, deep freezes, other electrical appliances, building equipment and supplies, automobiles, and trucks.

Sample studies, for example, have shown that approximately 40 percent of Minnesota farm families own deep freezes. The comparable figure for city families is 20 percent. Many farm families have recently installed central heating, plumbing, and hot water equipment. These items of equipment are often larger than would be found in the typical city home since they perform services for the farm household as well as the farm business (for example, the dairy enterprise). Almost one out of every four farm families in Minnesota has two cars, or a car and a pick-up truck.

With these thoughts in mind, it is interesting to look at the tax burden in some neighboring states where sales taxes now prevail. In Illinois and Iowa, a 2½ percent sales tax is in effect. The data that are available can be summarized as follows.

## Estimated Sales Tax Burdens on Illinois Farmers

A recent report from the University of Illinois estimates that sales taxes on purchases for the farm household in

1955 were equivalent to approximately 35 cents per acre of farm land. Sales taxes on farm machinery purchases averaged an additional 15 cents per acre, making a total of about 50 cents per acre. With an average size of farm of 173 acres in Illinois, the sales tax burden averaged \$87 per farm, or slightly over \$24 per farm person. For the non-farm population, sales taxes averaged about \$20 per person.

Since the above calculations cover only farm machinery purchases and **not** building equipment and supplies, fencing, wells and water supplies, dairy equipment, etc., they almost certainly understate the per capita sales tax burden on Illinois farm families.

## Iowa Sales Taxes, Per Person

Data supplied by the Iowa Tax Commission report that sales tax collections in that state in 1954 averaged approximately \$28 per person for farm families and only \$19 per person for city and town families. Note that the sales taxes were approximately 50 percent higher for farm people than for non-farm people.

## Income and Sales Taxes Compared for Minnesota

In comparing present income tax burdens on Minnesota farmers with prospective sales tax burdens, some key figures should be kept in mind:

- a) In 1956, farm people were 18.7 percent of the Minnesota population.
- b) Income taxes paid by Minnesota farmers averaged \$20.39 per farm in 1953 and \$17.55 in 1955 (the latest year for which complete data are available).
- c) State income taxes paid by farmers were 6.01 percent of total personal income taxes paid in Minnesota in 1953 and 3.45 percent in 1955.

With about 18 percent of the population, Minnesota farmers paid 6 percent of total income taxes in 1953 and only 3½ percent in 1955. Minnesota state income tax payments **per farm** in 1955 were below Illinois sales tax payments **per farm person** in 1955, and were only about two-thirds as high as Iowa sales tax payments **per farm person** in 1954.

With these data we can make the following comparisons. Assume that an additional \$10 million of public revenue is needed in Minnesota:

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NOTES

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a) If it had been raised by the personal income tax in 1955, Minnesota farmers would have paid about 3½ percent of the total, or about \$350,000.

b) If a sales tax had been used, on the Illinois model, and per person collections were similar to those experienced in Illinois in 1955, then farmers would have paid about 19 percent of the total, or about \$1,900,000 of the \$10 million.

c) If the Iowa sales tax payment relationships had prevailed (50 percent higher on farm families, per person, than on non-farm families) then Minnesota farmers would have paid approximately 25 percent of the total or about \$2,477,000 out of \$10 million.

If the Illinois and Iowa data on sales tax burdens can be taken as a guide, the use of a sales tax in Minnesota would place a heavy portion of the total tax burden on farmers. Although exact measurement is impossible, the above data suggest that the burden of a 2½ percent sales tax on Minnesota farmers would be three to five times greater than would be the case if the same amount of revenue was raised by the existing income tax.

## Sales Taxes and Personal Property Taxes

What can be said about the possibility of substituting a sales tax for the tax on personal property? This has been suggested as one way to relieve the burden on the property tax.

A major trend of the past two decades has been the increasing importance of the tax on personal property. This tax amounted to only 11 percent of total property tax revenues for Minnesota in 1942; by 1954 it had doubled, to 22 percent.

To gain some idea of the relative amounts of money involved, the following table shows total Minnesota state and local government revenues from various tax sources in 1956:

**Minnesota State and Local Government Tax Receipts (fiscal 1957)**

Tax	Yield (in millions)
General Property	
Real estate .....	\$252.0
Personal property .....	67.9
Other (utilities, grain, special assessments et al) .....	16.0
Total property taxes .....	\$335.9
Sales and gross receipts taxes .....	108.3
Licenses and privilege taxes .....	45.1
Income tax collections	
Corporation .....	21.7
Individuals .....	64.4
Other (occupation, gift, inheritance royalty) .....	38.4
Total income and other .....	\$124.5
Total tax collections .....	\$613.8

To replace the personal property tax with a sales tax would require more total revenue than is raised by the personal income tax in Minnesota. To accomplish this would require at least

a 2 percent sales tax and more likely a 2½ percent one, depending, of course, on coverage and exemptions.

Approximately one-half of all personal property tax levies were made in three counties—Hennepin, Ramsey, and St. Louis—the three counties that also contain roughly one-half of the state's population.

Two large elements in the personal property tax base are business and manufacturing equipment and supplies, on the one hand, and farm machinery, equipment, and livestock on the other hand. For this reason and as noted above, the personal property tax burden is now distributed throughout the counties of the state in approximately the same proportion as is the state's population.

It is estimated that a reduction of \$10,000,000 in personal property taxes would reduce the levy on the major classes of farm personal property by \$1,900,000 with \$8,100,000 going to non-farm classes (excluding the household

goods levy). Estimating from the Illinois experience with the sales tax, farmers would neither gain nor lose. Based on the Iowa experience, they would lose \$577,000 net in a substitution of \$10 million in sales taxes for \$10 million in personal property taxes.

However, most property tax revenues are levied and spent by local government. A sales tax is ordinarily centrally (state) administered which requires a mechanism for distributing the revenues back to the local units.

Even if the tax position of farmers was no worse from replacing personal property taxes with sales taxes, a balanced judgment between the two taxes requires that there should be no reduction in the level of government services in the farm area and that other local levies be held constant in the comparison. Otherwise the relief of the personal property tax burden could simply result in an increase in real estate taxes, while sales tax revenues were being siphoned out of rural areas.

**Land Contract—**

(Continued from page 1)

financed the purchase of their farms with land contracts. While most of these farmers had bought their farms recently, some had bought as early as the 1920's and several had bought during the 1930's.

Eighty-four percent of these farmers had never missed a payment on their contracts. About 14 percent said that they had missed payments. The remaining 2 percent did not answer this question.

A total of 33 farmers had missed payments. Fifty-three percent of these had missed only one payment, 19 percent had missed two payments, 19 percent

had missed three payments, and 9 percent had missed four or more payments.

These farmers were asked the average length of time that their contract was in default. Their answers are summarized in table 2.

Of those farmers who had missed payments, 82 percent had been in default for more than one month, and 61 percent had been in default for one year or longer. Among the 33 sellers who could have served notice of intention to terminate the contract, only one actually did serve notice—even though some of the buyers were in default for as long as three or four years. In light of the 30-day cancellation period, this indicates a lenient attitude on the part of those who sell farms on contracts.

It should be pointed out here that these results are somewhat biased. Only those who had "weathered the storm" had the opportunity to answer the questions. Nevertheless, repeated attempts were made during this study to find people who had lost farms through the involuntary termination of a land contract. The failure to find any cases of this kind indicates that this happens infrequently.

One practice that minimizes the disadvantage of the 30-day cancellation period to the buyer is to include a provision in the contract allowing the buyer to exchange the contract for a mortgage. These provisions usually state that after a specified period of time, or after a certain part of the principal has been paid, the buyer can

receive the deed to the farm in return for a purchase money mortgage.

A question concerning this provision was answered by 225 of the respondents. Twenty-seven percent stated that their contracts contained a clause that explicitly allowed them to exchange the contract for a mortgage. Sixty-eight percent did not have this provision. The remaining 5 percent did not know.

While only about one out of four had an explicit right to exchange his contract for a mortgage, a much higher proportion implicitly had this same privilege. Seventy-four percent of all the buyers interviewed had the privilege of paying in advance on the principal in any amount they desired. Thus, when a farmer had built up sufficient equity to permit mortgage financing, he would be free to borrow from any lender and pay off the remainder of the principal on the contract without penalty.

Only 16 percent of the respondents were not permitted by their contracts to make any payments in advance. Eight percent could pay in advance, but only specified amounts, and two percent did not know whether or not they had a privilege of prepayment.

The contract for deed provides a method which has been used to buy farm units that in quality compare favorably with other farms. This method of financing farm purchases in Minnesota seems to have served well in helping farmers obtain the ownership of the land they operate.

**Table 2. Distribution of Farmers Who at Some Time Had Been in Default on Contracts for Deed, by Length of Time in Default, 11 Minnesota Counties, 1954, 1955, and 1956**

Length of time in default	Number of cases	Cumulative percent
5 years .....	1	3.0
4 years .....	1	6.1
3 years .....	4	18.2
2 years .....	2	24.2
12 months .....	12	60.6
8 months .....	1	63.6
6 months .....	2	69.7
3 months .....	2	75.8
2 months .....	2	81.8
1 month .....	4	93.9
No answer .....	2	100.0
Total .....	33	

# Minnesota Farm Prices *The Outlook Corner* — CROP PRODUCTION

## Jan. and Feb. 1957

Prepared by Larry Denison

**Average Farm Prices for Minnesota  
January 1958, February 1958, 1957, 1956\***

	Jan. 1958	Feb. 1958	Feb. 1957	Feb. 1956
Wheat .....	\$ 2.02	\$ 2.04	\$ 2.10	\$ 2.09
Corn .....	.66	.68	1.04	1.13
Oats .....	.53	.52	.65	.55
Barley .....	.85	.89	.93	.88
Rye .....	.96	.97	1.09	.91
Flax .....	3.02	2.92	3.00	3.13
Potatoes .....	1.08	1.35	.54	1.40
Hay .....	15.20	14.90	16.70	15.30
Soybeans† .....	1.94	1.94	2.17	2.18
Hogs .....	18.60	19.80	16.70	11.80
Cattle .....	19.20	19.80	13.80	13.40
Calves .....	22.30	24.30	18.90	17.80
Sheep-lambs .....	21.59	21.63	17.93	17.20
Chickens .....	.132	.129	.105	.188
Eggs .....	.280	.280	.240	.320
Butterfat .....	.63	.65	.63	.62
Milk .....	3.15	3.15	3.15	3.05
Wool† .....	.45	.39	.48	.38

\* Average prices reported by the USDA.

† Not included in the Minnesota farm price indexes.

Prices received by Minnesota farmers were 2.8 percent higher than in January and were 18.6 percent higher than a year ago. As measured by the ratio of prices received to prices paid by farmers the purchasing power of Minnesota farm products is 16 percent higher than in February 1957.

The hog-corn ratio set a new record of 29.1. The beef-corn, egg-feed, and butterfat-feed ratios remained about the same as in January.

**Comparison of January and February Prices**

Commodity class	Average February prices as a percentage of average January prices
Crops .....	106.7
Livestock .....	104.9
Livestock products .....	103.5
All commodities .....	104.7

**Indexes for Minnesota Agriculture\***

	Average Feb. 1935-39	Feb. 1958	Feb. 1957	Feb. 1956
U. S. farm price index .....	100	230.8	214.3	207.0
Minnesota farm price index .....	100	223.4	188.4	180.9
Minnesota crop price index .....	100	171.7	153.5	189.7
Minnesota livestock price index .....	100	272.8	211.9	178.3
Minnesota livestock products price index .....	100	187.9	175.8	180.1
Purchasing power of farm products				
United States .....	100	95.7	91.2	92.5
Minnesota .....	100	92.6	79.6	80.9
U. S. hog-corn ratio .....	13.5	20.6	13.7	10.2
Minnesota hog-corn ratio .....	15.9	29.1	15.6	10.4
Minnesota beef-corn ratio .....	14.0	29.1	13.3	11.9
Minnesota egg-grain ratio .....	20.7	12.8	9.4	12.6
Minnesota butterfat-farm-grain ratio .....	40.4	41.2	32.1	34.0

\* 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.

The trend of crop acreage in Minnesota is toward more corn and soybeans and less small grains. Yields except for flax and barley have increased markedly. Corn acreage in 1956-57 was 8 percent above the 1946-55 average in spite of acreage controls. Soybeans have doubled.

Half of the increase came in southern Minnesota; half in northwestern Minnesota. Profits from corn and beans have been high relative to most other crops. Better tillage and fertilizer practices, chemical weed control, and increased mechanization have permitted more intensive cropping. Improved varieties have moved the growing areas northward.

These improved practices have also improved yields of corn and soybeans more than for small grains. Corn production has increased 34 percent while acreage increased only 7 percent. Bean production more than doubled. The favorable profit position of these crops has improved. Further improvement of yields and expansion of acreages is expected.

Wheat acreage declined sharply in northwestern Minnesota due to acreage allotments and almost disappeared elsewhere. Increased yields have held production steady. There is some renewed interest in wheat in southern counties; partly to replace acres diverted from corn and partly to replace oats and barley in the rotation. With continuation of price supports on wheat and the 15 acre minimum, a slight increase in acreage in southern Minnesota is expected. Further reductions in northwestern Minnesota are expected.

Oats acreage dropped 20 percent but production declined only 11 percent

**Crop Production—Minnesota\***

Crop	Harvested acreage Average		Production Average	
	1946-55	1956-57	1946-55	1956-57
	(million acres)		(million bushels)	
Corn .....	5.4	5.7	245.6	328.5
Soybeans .....	1.2	2.5	22.7	53.7
All wheat .....	1.0	.7	17.6	17.5
Oats .....	5.0	4.2	188.8	167.7
Barley .....	1.1	.9	29.2	24.4
Flax .....	1.2	.8	12.0	6.8
			(million tons)	
All hay .....	3.9	3.7	6.3	7.5
All crops .....	19.5	19.1		

\* Crop Production, 1957 Annual Summary, Agricultural Marketing Service. USDA, CrPr 2-1 (57).

due to improved yields. Acreage held up in north-central and northeastern Minnesota but fell in other areas. These trends are expected to continue.

Both barley production and acreage is down.

Flax dropped sharply in 1957, due to unfavorable weather and a serious aster yellows infestation. Trends toward smaller acreage and production are expected to continue.

Hay tonnage increased 19 percent on 5 percent less acreage. Acreage in the eastern part of the state has been steady. All reductions came in the western part of the state. No great changes are expected in the next few years.

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