

calculated, it is not really sound business to make larger gifts than those indicated above. All gifts should be made at a reasonable value and properly recorded for tax purposes.

STEPS FOR THE BEGINNING FARMER

1. **Wages**—Once a young man has decided to farm, he possibly should consider working for wages for a period of 2 years. This can be considered an initial trial period where neither party has made a definite commitment. During this time the following questions can be answered.

(1) Can both parties work together in an agreeable manner?

(2) Will the farm now support two families, and if not could the necessary adjustments be made to bring the farm to support two families?

(3) Is the junior member still convinced that farming is for him?

2. **Partnership**—If the above questions are answered in the affirmative, then it is time to consider a more formal working agreement. We may then proceed to an income sharing agreement which may be a partnership. Although at this stage the son owns no real estate or farm personal property and only contributes his labour to the farm business, he will still get a percentage of net farm income each year. Now the son ceases to be an employee and becomes a partner in the farm business. If the farm does well, he stands to gain or if on the other hand, it does poorly, he will also lose. The following illustration shows a method of determining the percentage of net farm income which would go to the son.

TABLE 3
INCOME SHARING AGREEMENT

Contributions to the farm business					
	Amount	Rate	Father	Son	Total
Real Estate	82,000	7%	5775	0	5775
Livestock, Machinery, supplies etc.	36,600	8%	2928	0	2928
Labour and Manage- ment . . .	12 Mos.	—	4800	4000	8800
Totals . . .	—	—	13,503	4000	17,503
Percentages			77	23	100

This example shows that inputs to the farm are being contributed 77% by the father and 23% by the son. Therefore, net farm profit can be divided at year's end in the same proportions. These earnings for the son could be withdrawn by him or left in the farm business. With use of annual gifts, it would be possible

over a relatively short period of time to bring the illustration to a 50-50 partnership.

Incorporation

Until now the number of family farm businesses in Ontario which have been operated as Private Limited Companies, have been relatively few in number. However, the indications are that we will see an increase in the number of farm incorporations in the years ahead. Some of the reasons for this predicted increase are:

1. With the rapid increase in land values, incorporation can be used as a means to freeze land values.

2. A gifting program can be more easily handled because now the farmer can gift shares whose exact value is known.

It enables a farmer to reduce his estate by transfer of shares but yet maintain control of the farm business.

3. As the farm increases in size and value, more flexibility is provided for owner when operated as company as compared to single proprietorship or partnership.

However, although we will see more farm incorporations, this is not the right approach for all farms. Corporations are costly to set up, likely in the neighbourhood of \$700 to \$1000. They also require the keeping of better records which may increase the annual cost of operation.

WILLS, INSURANCE AND TRUSTS

Wills

A will should be the basis of every estate plan and is particularly important if there are minor children. Wills should be made by both husband and wife.

Insurance

Life insurance is often an important part of any estate plan. Term insurance can provide protection at a low cost for the beginning farmer. However, for the established farmer ordinary life insurance is often better suited particularly if the farmer wants ready cash on his death to meet death taxes.

Trusts

Trusts may also be used to keep taxes to a minimum by avoiding double taxation. When a corporation is formed a trust may also be used to hold the common shares for the children who are under age.

Summary

Estate planning is a complex field of law and taxation. Since each farm is a different situation and must be treated as such, it is impossible to outline a standard plan. Usually the services of one or all of the following profes-