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Problems and implications of intra-family farm property transfers in Grundy county, Iowa

Buel Franklin Lanpher Jr.

Iowa State College

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PROBLEMS AND IMPLICATIONS OF INTRA-FAMILY FARM PROPERTY TRANSFERS IN GRUNDY COUNTY, IOWA

by

Buel Franklin Lanpher, Jr.

A Dissertation Submitted to the Graduate Faculty in Partial Fulfillment of The Requirements for the Degree of DOCTOR OF PHILOSOPHY

Major Subject: Agricultural Economics

Approved:

Signature was redacted for privacy.

In Charge of Major Work

Signature was redacted for privacy.

Head of Major Department

Signature was redacted for privacy.

/Dean of Graduate College

Iowa State College

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INTRODUCTION

The inevitability of death and the continuity of ownership rights in farm property lead to the necessary transfer of these rights at least once each generation. This study is concerned with that increasing segment of these transfers which takes place within families. Approximately one-half of all Iowa farm owners have experienced family assistance in acquiring ownership of farm property. These transfers have come about either inter vivos, at death of property owners, or through a combination of the two.

With few exceptions, these transfers may be planned by property owners in keeping with their family objectives, property resources, and family composition. In case valid transfer plans have not been developed prior to the owner's death, the property is distributed by state laws of descent and distribution. Many problems and uncertainties arise in the planning for intra-family farm property transfers. This study is concerned with the identification and analysis of these problems and with the discovery and development of possible solutions.

1 Farm property is defined as farm land and buildings, livestock, feed, and machinery used in the business of farming. However, the transfer of ownership rights in all assets owned by farm property owners is included in the study of transferring farm property within families since the nature of such transfers is affected by ownership of other types of property.

2 For studying the transfer of property within families an individual's family was considered as including three groups of persons: the first group included his spouse and children, the second group included those relatives who would receive the individual's property according to the law of descent and distribution (see Code of Iowa, 1954:636), and the third included any other relatives by blood or marriage from whom the interviewees of this study indicated they had received property.
Importance of Intra-family Farm Property Transfers

Some indication of the importance of farm property transfers within families on a national and regional basis is shown by the frequency that farm owners depend on such transfers. In the Northern Cornbelt a common statement is that land in a given locality is so tightly held within families that it is almost impossible for a non-related person to buy land in that community. Although no data were found to verify such statements, it appears that intra-family farm property transfers are important to a large number of individual farm persons in acquiring control and ownership of farm property. The importance of the intra-family transfer process in assisting farm people to acquire ownership of land is indicated by data reported by Timmons and O'Bryne. They found that 41.7 per cent of the men owners and 71.1 per cent of the women owners in Iowa had received some type of family assistance in acquiring ownership control of their land. The magnitude of family help varied from slight assistance to gifts of full farm ownership and operating capital.

An earlier study by Timmons and Barlowe in the North Central Region found that in recent years there has been an increase in the frequency of

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2 The types of family help referred to in this study by Timmons and O'Bryne did not include such forms of assistance as furnishing credit or renting land to children to get them started in farming. The parents may grant more favorable credit and renting terms to their children than would non-related persons.

3 The states included were Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas, and Kentucky.
cases in which all or part of the land owned was received by gift or inheritance. They found that the proportion of landlords who received all of their farm land through gift or inheritance increased from 11 per cent in 1920 to 17 per cent in 1946 in the thirteen states of the North Central Region. The percentage increased from 33 to 38 for landlords who received all or part of their land in this manner. Although these data refer only to landlords receiving land and not to all farm owners or other forms of assistance, they may be indicative of an increase in the frequency and importance of family assistance.

The intra-family transfer process is becoming more important in helping many young persons gain control of land and other resources in the process of getting started in farming. The beginning farmer may obtain control of land through renting arrangements which necessitate an initial equity in livestock, machinery, and other working capital. The young farmer must obtain this equity, and the intra-family transfer of property is one means of obtaining such capital. In this respect, the farm operator's capital needs for assets other than land have increased considerably in recent years.


2 The total value of physical assets other than real estate owned by farmers in 1954 was 329 per cent of the value in 1940, according to figures from The Balance Sheet of Agriculture 1954, Agricultural Research Service, U.S. Department of Agriculture, p. 2. The investment required for physical assets per farm has increased even more when it is considered that the number of farms decreased by 14 per cent during the same period, according to data from the Farm Income Situation, 1955 Outlook Issue, U.S. Department of Agriculture, Washington, D. C., p. 25.
The transfer and control of farm property within families have important implications for farm tenancy, particularly in respect to which individuals receive opportunity to rent land. The North Central Regional study discovered that 20 per cent of all landlords had related tenants; in Iowa this percentage was 27. In a high tenancy area of Wisconsin where half the farms were tenant operated, Salter found that almost 50 per cent of the tenants were related to the landlord.

Such data seem to indicate that there is an increasing necessity to depend upon relatives for help in gaining access to farm resources. This is indicated also by this quotation from the North Central Regional study:

As the farm economy of the North Central Region becomes more stable and as the days of settlement and homesteading become more remote, it seems plausible to expect an even greater reliance upon gift, inheritance and other intra-family transfer arrangements in the passing of land from one generation to the next.

The transfer of property by farm people has become more important in recent years in terms of value of farm property. The total net worth of all U.S. farm property owned by farm people in 1954 was an estimated

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1 Timmons and Barlowe, *op. cit.*, p. 924.
3 Timmons and Barlowe, *op. cit.*, p. 888.
325 per cent of the total value in 1940. During this same period, the number of farm people decreased by about 14 per cent, which indicates an even larger increase in value per owner. The increased value of property owned has enlarged the problems of transferring property especially in respect to estate and inheritance taxes.

The way in which property is transferred within families has effects upon society in general. The manner in which property is subsequently used in production may be affected so that the total amount of goods and services produced may be either increased or decreased. Society has decided that the transfer of property within families is important to its general welfare, and consequently, certain restrictions have been enacted into law. Restrictions on the distribution of property within families in Iowa prevent the property owner from depriving a surviving spouse of a share of his property. Another restriction in the Iowa law, which stems from the Ordinance of 1787, limits the extent that property can be entailed into future generations. Society has also restricted the accumulative concentration of

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1Balance Sheet of Agriculture 1954, op. cit., p. 2. The total value of all assets owned by farmers on January 1, 1954, was 159.8 billion dollars or 296 per cent of the total value on January 1, 1940. These assets may be classed as real estate, non-real estate, and financial assets which were 260, 325, and 438 per cent of the respective values in 1940. The total liabilities of all farmers on January 1, 1954, was 17.1 billion dollars or 170 per cent of the total liabilities on January 1, 1940.


3Code of Iowa, 1954:636. 5.

4Code of Iowa, 1954:558. 68.
property within succeeding generations of families. This restriction is pursued by use of several kinds of progressive taxes which include gift, inheritance, estate, and income taxes. On the other hand, society in the United States has sought to encourage the widespread distribution of land ownership by farm people, since it was believed that this was an important condition for democracy and freedom. Numerous statutes such as the Preemption Act of 1841 and Homestead Act of 1862 has attempted to provide opportunities for all farm people to own land. More recently, financial assistance has been given by such acts as the Farm Credit Act of 1916 and the Bankhead Jones Act of 1937. Although there are many important societal aspects of property transfers, this study is limited to the intra-family segment of farm property transfers.

Problems

Farm people are frequently dissatisfied, confused, or uncertain about planning the transfer of property within families. Each member of the family has certain objectives he would like to achieve in the intra-family transfer process. The desires of any one family member may conflict with the objectives of other family members. For example, one of the children may desire to buy the parents' farm, while the parents may not want to relinquish title until their death. Even if one family member's objectives do not conflict with those of the rest of the family or if he were free to do as he pleased regardless of the other members' conflicting objectives, there still may be conflicts among the objectives of this particular person. For instance, the owner of a farm may desire to help his son who
has no capital own a farm at an early age. But the parent is unable financially to assist the son, and he wants to retain title of his farm in order to provide for his wife and himself during old age. Therefore, a choice must be made between conflicting objectives. This choice-making process may often prevent owners from making any transfer plans. For example, only 17 per cent of the farm owners surveyed in the North Central Region in 1946 had made wills; in Iowa the percentage was 31. However, the number of farm owners who have made wills may not disclose all the farm owners who have made effective transfer plans. Conceivably a farm owner may choose to let his property pass according to state intestate laws.

The norm to be achieved in the intra-family transfer process would appear to be that of the farm family reaching an optimum attainment of its various and often competing objectives. From the standpoint of society in general, this norm is only one of the many ends-in-view which in turn are used as means for achieving the ultimate societal goal of maximizing total welfare. The norm of the farm family may well conflict with society's ultimate goal, and thus society must make choices between the conflicting ends-in-view. However, this study does not attempt to explore the nature of the conflicts between these goals of society.

1 Timmons and Barlowe, op. cit., p. 920.

2 Norm is defined as an end or goal which one desires to achieve. John F. Timmons, Philosophy and methods of inquiry into land problems, unpublished manuscript, p. 11, in discussing the role of "ends" says that they "...set the norm from which may be determined the problematic situation as the gap between the norm and the present situation."
Achievement of the norm of the intra-family transfer process requires that after choices have been made between conflicting objectives the family resources be used to obtain the chosen objectives to the fullest extent possible. However, sometimes farm people are uncertain, first, about how to make these choices and, second, about the best techniques to use in achieving their objectives. Numerous farm people who were uncertain about what to do in arriving at their objectives and means for achieving them have asked for help on this subject. In recent years the Extension Service of Iowa State College has had an increasing demand for information about the transferring of property within families. Consequently, an educational program is being developed to give such assistance to farm people.

The extent that farm people fail to achieve the norm, an optimum of their objectives, indicates the area or gap wherein problems exist in the intra-family transfer process. Neither the resources nor time were available for a study of all the problems associated with failure to achieve this norm for the farm family. Therefore, this study was limited to those problems faced by persons owning farm land. The problems experienced by these landowners result from the extent by which they fail to achieve an optimum of their individual objectives. This optimum specifies the norm that has been used in this study and which has served as a guide for determining the problems, their causes, and remedial actions. Each objective of the landowner has been considered as an end-in-view which in turn serves as a means for reaching the norm of an overall optimum achievement of his objectives.
Intra-family transfer problems facing landowners appear to come from two directions. First, owners may be uncertain and confused about what their objectives are and how to choose between conflicting objectives. They may not realize that achieving a particular objective may have undesirable consequences on a conflicting objective. Such problems seem to be due to a lack of knowledge. Second, they fail to use the best known means in achieving objectives and fail to realize that undesirable results may be obtained from use of a particular transfer method. Problems of this second type stem from lack of planning for the transfer of property or from uninformed planning.

What are some of the more specific problems of farm landowners in achieving their objectives in the transfer of their property within families? How to treat the children equitably is one of the problems which may disturb farm parents. They may have financed the higher education of some of the children while other children stayed home and worked on the parent's farm without wages. In other cases, one of the children may have operated the parents' farm and made considerable improvements at his own expense. In these situations, the parents may not know just how to treat the children equitably.

Another specific problem landowners may have in transferring property within their families is that of trying to minimize the costs of such transfers. Transfer plans using such methods as lifetime gifts may reduce the taxes and various estate settlement costs as compared to letting all the property be transferred at death. However, the landowner may feel that he must retain all or part of his property until death in order to
provide security for himself and his spouse in their remaining years. Even though the property is retained, he may make a transfer plan to take effect at death which will reduce death and inheritance taxes. The landowner has a problem of discovering the best plan for minimizing his taxes, but such a plan may result in so little property going to his surviving spouse that she will have an inadequate income. The landowner then has to make another choice between conflicting objectives.

Failure to draw up a transfer plan which will minimize taxes and other estate settlement costs may necessitate selling part of the property in order to pay these expenses. This may result in a breakup of the going concern business of the farm. With proper planning it may be possible for the landowner to make provisions which will reduce costs and taxes, and also protect the going concern value of the farm. Absence of a concrete transfer plan may contribute to friction between the children, causing the farm to be sold out of the family contrary to the desires of the owner.

Another problem may result from the situation where a farm owner has only one farm and several children who want to farm. Thus, he has the problem of preventing his farm from being divided into uneconomic units. If one heir does buy out the other heirs a heavy debt load may be incurred which the purchasing heir is unable to carry and which results in the farm being sold out of the family. Consequently, if the landowner had the objective of keeping his farm in the family it would not be achieved.

Thus, the making of transfer plans becomes a key factor in the problems faced by farm owners in achieving their various objectives. When farm property is transferred according to state interstate laws, the
owner's objectives may not be achieved. Therefore, problems arise when no transfer plans are made. Where transfer plans have been made, problems may still arise when the plans fall short of achieving the landowner's objectives.

Objectives of This Study

This study inquires into the nature and extent of these problems that owners of farm land may experience in transferring property within their families. The overall purpose of this study is to provide solutions or to lay the foundation for eventual solutions to these problems. In this partial inquiry, the analyses of some problems were not carried beyond the conceptual stage, and resources did not permit testing proposed solutions to other problems.

Within the broad objective of this study are the following more specific objectives:

1. To delimit problems which landowners face in achieving their objectives in the intra-family transfer process.
2. To determine the obstacles which underlie these problems.
3. To discover and develop alternative ways and means for overcoming these obstacles.
4. To reformulate problems and hypotheses in the light of information obtained in this study for the purpose of assisting future inquiries of this nature.
General Procedures in Obtaining and Analyzing Data

Hypotheses involving the problems of landowners in the intra-family transfer process were developed to serve as guides for conducting this study. A number of hypotheses were formulated for each of the various objectives which landowners appeared likely to possess. Hypotheses were developed pertaining to: (1) specific problems of the landowner in achieving his objectives, (2) obstacles or reasons causing these problems, and (3) possible remedial actions or techniques. Discussion of these hypotheses occurs in the next section.

The available resources did not permit making a statewide study of the intra-family transfer problems of landowners. Therefore, a decision to make an intensive study within a single county was made. Grundy County was chosen as the county in which to confine the study.

The kinds of data needed for testing the hypotheses were specified by the hypotheses themselves. These data were obtained from two main sources. The probate records in the county clerk's office contained much relevant information about each deceased person's estate. The second source of information was personal interviews with landowners. Considerable detailed information was secured from these landowners by personal interview. Data were obtained in regard to property transfer objectives, nature and extent of property, family composition, and nature and consequences of transfer plans of the persons interviewed; in some cases this information was secured about the deceased parents or spouses of interviewees.
The analysis of data sought to determine the extent that hypothesized problems actually existed, if the hypothesized causes of these problems were present, and the extent that remedial hypotheses were verified. Statistical tests and methods were used to determine the significance of and relationships within the data. For use in guiding possible future studies of this nature, an attempt was made to point out what appeared to be important problems and hypotheses. The procedures of this study are developed further in the following section.
Hypotheses

The problems of intra-family property transfer outlined in the previous section served as the foundation for the hypotheses which guided this study. Salter emphasizes the necessity of using experienced problems for the formulation of hypotheses in social inquiry in these words:

From the tentative formulation of a problem in experience, it is possible to construct a hypothesis that will be practically useful - that is, one that will direct the work of inquiry.¹

In regard to the function of a hypothesis in inquiry, Dewey says:

No generalization can emerge as a warranted conclusion unless a generalization in the form of a hypothesis has previously exercised control of the operations of discriminative selection and (synthetic) ordering of material to form the facts of and for a problem.²

A hypothesis is a supposition about the relationship between sets of conditions such as the outcome which results from use of a specified means. Salter defines a hypothesis as a "...tentative proposed statement of what actions result in postulated consequences..."³ and he holds "...it is tentative because it is continuously revised in the process of inquiry."⁴


³Salter, op. cit., p. 69.

⁴Ibid., p. 63.
As additional knowledge relevant to the problem is disclosed in the progress of inquiry it may make possible the reformulation of improved hypotheses.

Hypotheses may consist of three general types. Timmons describes these three types as delimiting, diagnostic, and remedial hypotheses.\(^1\) The delimiting hypotheses specify the problem being studied and the portion of the problem to be investigated. In discussing the nature and function of delimiting hypotheses Timmons says:

\(\ldots\) it frequently becomes necessary to delimit a segment of a problematic situation for study. The problem delimiting process has two major functions. First, it sets forth the precise problem to be studied. Second, it places limitations on the nature of the results that may come from a segmental inquiry by indicating the part of the whole to be studied.\(^2\)

When a specific problem has been set off by the delimiting hypothesis, the diagnostic hypothesis postulates why this problem exists. Timmons says "Diagnostic hypotheses advance possible reasons and explanations for the development and persistence of the problem previously delimited"\(^3\) and "\ldots the purpose of the diagnostic hypotheses is to lay the foundation for formulation of remedial hypotheses."\(^4\)

The remedial hypotheses specify courses of action for solving the problems or overcoming the obstacles which prevent the achievement of

\(^1\) Timmons, \textit{op. cit.}, p. 21.

\(^2\) Ibid., p. 21.

\(^3\) Ibid., p. 22.

\(^4\) Ibid., p. 23.
norms or ends-in-view. Regarding the purpose of remedial hypotheses and their relationship to the other types of hypotheses, Timmons says:

Following tests of delimiting and diagnostic hypotheses as part of the same study or earlier ones, remedial hypotheses may be formulated. The purpose of remedial hypotheses sometimes termed "constructs of action" is to propose specific possibilities of remedying the problem as a necessary basis for action.¹

The hypotheses which were developed in this study concerning intra-family transfer problems have reference to ends-in-view which would be realized by solutions to respective problems. These ends-in-view which are the goals or objectives which farm owners want to achieve in the transfer process. The norm of this study was defined previously as that of the landowner reaching an optimum achievement of all of his transfer objectives or ends-in-view. This optimum condition conceivably provides the landowner with the highest possible amount of satisfaction.

The optimum level for any particular landowner depends on the amount of his resources and the relationships between his objectives. At any given time the landowner has a given quantity of resources, i.e., his property which he can use for attaining his transfer objectives. Competitiveness, complementary, or supplementary relationships may exist between the various objectives. Each landowner must take cognizance of these relationships in order to maximize satisfaction.

Maximum achievement of any particular end-in-view or objective with a given quantity of resources requires that the most efficient technique be used. However, the landowner often will not want to use all of his

¹Ibid., p. 23.
resources on any one objective because he has other ends-in-view which compete for use of his resources. For example, two competing objectives might involve the desire to insure an income or security of the parents in later years on the one hand while there is also the desire to provide immediate help to his children. The more property given to the children early in the life of the children the less property the parents will have available to use for themselves.

A farm owner may have objectives which are frequently complementary and are seldom competitive. For instance, a landowner may make a transfer plan which will minimize the costs and taxes of settling his estate. Such action also will tend to decrease the possibility that an overburdensome debt will be acquired by the heir who purchases the farm. If none of the owner's ends-in-view were competitive for the use of resources, then he would attempt to achieve all his objectives to the limit of his resources. However, he often will have objectives which do compete for use of resources. A competitive situation requires a choice making process on the part of the landowner.

In striving to achieve his norm, the landowner must make a choice between alternative proportions of his resources which he will use in attaining each objective. The owner will attempt to apportion his resources so as to give him the greatest amount of satisfaction. In making this decision the owner considers the efficiency of alternative techniques in achieving his objectives. He not only must attempt to discover the most efficient techniques but also must become familiar with their possible consequences on his whole set of objectives. These problems
must be solved if the landowner is to reach the norm, or attain the optimum of his objectives. In the previous chapter, some of the specific problems were examined which indicate that the norm has not been achieved by some landowners.

The hypotheses of this study were formulated on the basis of these problems. For each transfer objective, hypotheses were developed concerning the problems of achieving that objective and the problems caused by conflict with other objectives. Eight common objectives of landowners in the intra-family transfer process are listed below. Under each objective with subheadings a, b, and c are listed the delimiting, diagnostic, and remedial hypotheses respectively which directed this inquiry.

1. Adequate retirement income for the owner and his spouse.
   a. Farm parents sometimes have an unsatisfactory income after having retired from active farm operation. A surviving spouse often has insufficient income from her share of the estate of the deceased spouse.
   b. The capital accumulation of a retired landowner often is insufficient to provide him with what he considers a desirable standard of living. A surviving spouse does not have what she considers to be an adequate income because

1The surviving spouse obviously may be either male or female, but they are more often female than male because as was mentioned in the previous chapter men tend to marry women who are younger and women have a longer life expectancy. Therefore, the surviving spouse will be referred to as "she" although there are male surviving spouses. In Iowa a surviving husband has exactly the same legal rights in the wife's property as a surviving wife has in the husband's property. See Code of Iowa. 1954;636. 6.
is insufficient in both testate and intestate situations. Parents frequently are reluctant to consume part of their capital since future security would be reduced.

c. In some cases, retired farm parents and surviving spouses can have an adequate standard of living only by using some of their capital assets. An annuity type plan can be used in some situations to provide a minimum level of income to both parents or a surviving parent and also provide an early opportunity for one of the children to own his farm. By contract arrangement the child operating the farm can be assured at an early age that he will be able to receive the farm in settlement of the owner's estate. If the surviving spouse received a larger share of the assets of the deceased spouse through a will or by change of the law on intestate division there would be a larger base for income to the surviving spouse.

2. Treating children equitably (For purposes of analyzing empirical data "equitable" is used in the monetary sense of treating children equally in sum total through both lifetime transfers and transfers which take effect at death).  

1The term equitable might be defined so as to mean whatever each individual owner wanted it to mean according to his own value system. He may feel that he wants to provide a larger share to one of his children because of a personal preference, some intangible service of the child, or because the child is handicapped in some way. Since there is considerable difficulty in obtaining such information, this study will deal only with equitableness to the extent that a monetary evaluation can be made. The assumption is that a large majority of landowners desire to be equitable in the monetary assistance given to their children.
a. Farm owners do not treat their children equitably in many cases. Consideration is not given to such things as extra years of labor at home by some children, improvements made by a child who operates the farm as a tenant, or extra educational assistance received by some of the children.

b. Farmers tend to provide for equal treatment of their children in their wills; this is not equitable if some of the children have given service to parents or received extra benefits during the farm owner's lifetime. Regardless of the inequality of lifetime assistance given the children, if an owner dies without a will then the children are treated equally by the law. In many cases, parents are not aware that their children will not be given equitable treatment either by their will or by the law. Children who rent from their parents may refrain from making needed improvements or repairs because of no assurance of compensation for their investment.

c. Educational programs will help farm owners understand that their children may not be treated equitably either by testate or intestate distribution and the steps they can take to remedy these situations. Changes could be made in the property and inheritance laws so as to provide compensation for improvements made by renting children, and for differentials in past services received from children or differentials in assistance given to children.
3. Economic assistance to children early in their lives.¹

a. Farm parents are not able to help their children get started in farming or in other pursuits as early in the lives of the children as both the parents and children would prefer. Many times the children do not get control of the farm land or receive other economic assistance until late in their productive lives when much incentive to produce is gone.

b. The objective of early assistance to children often conflicts in several ways with the parents' desire to retain control of their farm land and other capital assets. Farm parents' desire to protect their security in later life makes them reluctant to transfer their property to their children before death. Many farm owners do not want to retire; nor do they desire to move off the farm in many cases. The increasing mechanization of farming is making it easier for older persons to continue to operate their farms, and the comforts of modern farm homes are making the farm a more desirable place to live. The parents are fearful that any plan for an early transfer of the farm to one of the children may be considered unfair by the other children.

¹Assistance to children early in their lives may include items such as early moral training. However, no attempt was made to determine if any such intangible elements were considered by landowners as sufficient assistance to children. Assistance to children was considered only in terms of economic assistance which was used in the context of goods and services of monetary value or provision of economic opportunities.
c. Educational programs will help farm people: (1) understand means by which some early opportunities can be afforded their children and still protect their security; and (2) make choices between their objectives, realizing the advantages and disadvantages of each alternative and thus becoming aware of the compromises which may be required.

4. To transfer property with least amount of direct costs, such as lawyer fees, administrator fees, and court costs, and taxes, such as estate and inheritance taxes.

a. The costs of transferring property within families especially through transfers at death are not reduced to the minimum possible. Inheritance and estate taxes, lawyer fees, and other costs of administering an estate often absorb a larger share of the deceased's assets than would be necessary.

b. The unwillingness of farm people to transfer property to any large extent before death results in increased transfer costs since transfers before death generally result in less cost. Often, transfer plans to take effect at death do not take full advantage of possibilities to minimize taxes because: (1) of failure to use those legal means which will do so, and (2) the desired distribution of property prevents them from minimizing these taxes. The division of property by law very seldom will give the distribution which would minimize taxes. When property is transferred either testate or intestate the various legal costs may be increased if friction
develops between heirs in settling the estate.

c. Educational programs can give farm people information as to the various taxes and other costs involved under different transfer methods. Then they will be better able to make their decision on a transfer method in view of the other objectives they may desire.

5. To prevent breakup of the going concern.

a. When property is transferred at death the farm often stops as a going concern. The production of physical goods in terms of livestock and crops may be halted or reduced for a period of time while the deceased's estate is being settled.

b. The transfer plan of a landowner frequently does not prescribe any method for the continuance of the farm business during the settlement of his estate. As a result, friction develops over who is to operate the farm or how operation of the farm is to be carried on, and consequently, the going business stops until an agreement is made. Sometimes it is decided to sell the estate's assets at public sale. Therefore, the personal property may be sold to numerous persons resulting in the breakup of the going concern. Although in some cases the parents may realize the danger of breaking up the going concern, they feel that they should let the children decide among themselves how the farm is to be operated. At times the personal property must be sold to people other than the heir or heirs taking over the farm in order to pay the
costs of estate settlement.

c. A farm owner can make provision for the operation of his farm at his death while minimizing the feeling of inequality among the children. The owner can specify that at his death the heir who has been operating the farm be given first option to purchase the farm and personal property at fair market value. Sources of liquid funds that can be used to pay the costs of estate settlement can be provided through insurance or other savings and thus prevent a breakup of the going concern. Transfer of the farm and going concern before death will prevent such breakups.

6. To prevent debt loads from overburdening the heir who takes over the farm.

a. The heir who buys out the shares of the other heirs in the estate settlement may be burdened with a heavy debt load which results in any one or several of the following: (1) losing the farm eventually, (2) losing part of the farm, (3) forced to severely reduce his standard of living, or (4) operate his farm inefficiently due to lack of working capital.

b. Equal sharing among children in both testate and intestate cases may result in a heavy capital requirement for any one of the children to buy the farm from the estate when there is only one farm and several children. Consequently, this results in a heavy debt load which may be more than can be
carried especially when low prices or crop failures occur. The heir may be forced to exploit his farm and reduce his standard of living to meet his debts. When there is a surviving spouse, each child has even less equity in the estate and the purchasing heir must take on an even higher debt. Many times the other heirs will want to turn their shares of the estate into liquid funds as soon as possible. Therefore, it is necessary to secure financing outside the family where leniency is less likely to be given at distressed times. The large debt which is taken on may also restrict the amount of capital available for acquiring the working assets (such as livestock, machinery, fertilizer, etc.) needed for efficient operation. Landowners may realize this possibility of overburdensome debt but do not know what to do about it, or they are afraid any means they might use to remedy it would be construed as extra assistance to one of the heirs.

c. The landowner can make provisions in his will to greatly lessen the risk in the large debt which one of the heirs may assume by requiring the other heirs to finance the operating heir and prescribing the terms, so that much flexibility is provided at times of low income. Such a plan can be made which will still allow the landowner to treat the children equitably. The various public and private credit agencies can develop credit plans which have considerable flexibility
according to economic conditions of the borrower. Educational programs can inform both landowners and credit agencies of these alternative means.

7. To prevent a farm which is operating as a unit from being divided into several less efficient¹ units in the estate settlement

a. The deceased's farm land sometimes is divided into a larger number of operating units in the settlement of the estate. This division may result in less efficient use of land, labor, and capital.

b. When children of a deceased owner are entitled to equal shares of his estate, several of the children may want all or part of the farm land. This may result in a division of ownership and operation into several units. Friction between the children over the disposition of the land may lead to a division of the land into several ownership tracts. The lack of capital or financing arrangements may make it impossible for any one of the heirs to buy the whole farm, or if one of them does so he may have to sell some of the land due to the heavy debt load. Assuming a farm unit is approaching an efficient unit before the owner's death, any division of it would tend to result in less efficient units in combining land, labor, and capital.

¹Efficient is used in the sense of combining factors of production to produce goods and services so as to minimize average costs. Total satisfaction could conceivably be increased through such division of ownership by satisfying a desire to own land on the part of several of the children.
c. Educational programs can make farm owners aware of transfer plans which will tend to insure that their land is not subdivided. Stipulations which would not conflict with the objective of equitable treatment can be made for one heir to take over the farm. Legal restrictions could be made prescribing the extent that subdivision of tracts of land would be permitted.

8. Objective of keeping the farm in the family

a. Sometimes, contrary to the deceased owner's desires, the farm land must be sold out of the family as part of the settlement of the estate or sold at some later date.

b. Where there is a large number of heirs it may be necessary for the administrator or executor to sell the farm land to non-related persons because of lack of capital or credit to enable one of the heirs to buy the land. If one of the heirs does buy the farm by assuming a heavy debt load, he may lose the farm should his economic circumstances become distressed. None of the deceased owner's children may want to farm or even want to retain the farm as an investment. In some cases, all of the children might consider the farm too small to furnish them an adequate opportunity, so they go into pursuits outside of farming. They may pursue other occupations if they are uncertain as to when they might get control of the farm.
c. The remedial hypotheses given under the objective of preventing overburdensome debt by use of flexible credit plans are also applicable here. Where children are uncertain about the opportunity to obtain control of the farm, the landowner may reduce some of the uncertainty by informing the children exactly what his transfer plans are. Further, where children do not want to farm, the owner can discuss with his children his desire to keep the farm in the family; this may result in a willingness of the children to retain the farm under specified conditions.

Selection of Grundy County as the Area of Study

Because of the limitation of financial resources and time, the geographical area used to obtain empirical information for this study was limited to a single county. The county chosen was Grundy County which is located slightly northeast of the central part of the state. Grundy County was selected for a number of reasons. First, Grundy County appears to be comparatively free of urban influences. Grundy Center with a population of only 2,135 according to the 1950 Census figures is the largest town in the county. No towns within five miles of Grundy County are larger than Grundy Center. Thus, the demand for land outside of town limits probably is influenced very little by factors other than its use for farming. With this situation, the transfer objectives of farm people are little affected by any alternative use of land other than for agricultural uses. Because

of this tendency towards homogeneity in respect to non-rural influences the empirical data obtained were more easily and clearly analyzed.

Second, Grundy County was chosen because of a belief that a study of this county would yield empirical information which might be comparable to other localities in the North Central Region of the United States, although it is not intended to infer that definite generalizations for other areas can be made. The findings of this study would appear to have some significance in situations where farm owners have approximately the same objectives, resources of similar nature and amount, and similar family composition. Various soil characteristics and economic data for Grundy County are above the average for the state of Iowa. The soil types in the county are largely of the Tama-Muscatine association. These soil types are some of the most productive soil types for corn production in the state.¹

There are no large streams in the county, and it has very little untillable land. Census data show that of all land in farms in 1954, 85.3 per cent was cropland while the percentage was only 76.3 for the whole state.²

The average value of farm land per acre according to the 1954 census was $283.13 for Grundy County as compared to $198.77 for the whole state.³

Thus, Grundy County appears to be largely made up of the more


³Ibid.
fertile farm land in the state.

A third reason for selecting Grundy County was the known cooperation that would be given by county officials and local persons. Preliminary inquiries had established that there would be a friendly willingness to permit use of the various county records. Also, a local law firm gave advance assurance that they would cooperate in permitting use of their abstract file covering all land in the county.

Sources of Intra-family Transfer Data

Two basic sources of data were used in Grundy County to obtain needed information to test the hypotheses concerning the transfer of property within families. One source was the probate records in the county clerk's office. These records contained much relevant information about the settlement of each deceased person's estate, such as amount of property, various costs involved, and information about how the property was distributed among the beneficiaries. However, there was considerable variation in the completeness and amount of detail given in different individual records. These data from probate records were supplemented by information from the local law firm's abstract record.

The second source of information was personal interviews with landowners. Study of transfer problems was desired only for those situations where tracts of land were large enough to be commonly considered as farms. Therefore, selection of interviewees was arbitrarily limited to persons who owned some interest in over forty acres of land. This working restriction permitted further elimination of urban influences, especially where
small acreages might be owned near the edge of towns. Ownership of an interest in land was defined to include the following ownership interests: full owners, joint tenancy, tenancy in common, and owners of a remainder interest. Life interests were excluded because there are no rights remaining which can be transferred at the death of a life tenant.

In view of the large amount of information needed from each landowner, it was decided to limit the number of persons interviewed to approximately seventy-five. These seventy-five landowners were selected by random sample from all persons who owned an interest in over forty acres of land. However, absentee owners (out of state) of over forty acres were excluded from the possibility of being selected as one of the seventy-five. Resources were too limited to interview landowners who lived outside of the state. Another exception was necessary for land that was involved in unsettled estates at the time field work was being conducted. The ownership interests of the various beneficiaries are often unclarified until the estate is closed.

The county assessor's office provided a file of all owners of personal and real estate property. This file was used for drawing the sample of landowners to be interviewed. Within this file, different colored cards were used for different types of property. White cards were used to list all owners of farm property. A number of white cards listed farm property other than farm land as well as farm land of less than forty acres. Therefore, it was necessary to draw at random well over seventy-five white cards. As is shown in Table 1, a total of 282 white cards were drawn. Exactly one-half of these cards listed over
Table 1. Procedure in drawing a random sample of 76 farm owners from the records of the county assessor in Grundy County

<table>
<thead>
<tr>
<th>Results of random drawing of white cards involving agriculture property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cards listing over 40 acres of land</td>
</tr>
<tr>
<td>Cards listing only personal property</td>
</tr>
<tr>
<td>Cards listing only previous owners of personal property</td>
</tr>
<tr>
<td>Cards listing only previous owners of land</td>
</tr>
<tr>
<td>Cards listing less than 40 acres of land</td>
</tr>
<tr>
<td>Cards listing only mortgages or previous mortgages</td>
</tr>
<tr>
<td>Total cards involving agricultural property</td>
</tr>
</tbody>
</table>

Adjusting for owners with names on more than one white card

| Cards listing over 40 acres of land                              | 141 |
| Cards eliminated because of plural possibility of being drawn    | 6   |
| Total random observations of owners of over 40 acres             | 135 |

Reduction for the owners unable to contact

| Total random observations of owners of over 40 acres             | 135 |
| Number of owners living outside of the state                     | 10  |
| Number of cards involving land in open estates                   | 7   |
| Total clarified owners living within Iowa                        | 118 |

Second random drawing from clarified owners for interview

| Total clarified owners living within the state                    | 118 |
| Number of owners eliminated in the second selection              | 35  |
| Total number of persons chosen in second selection               | 83  |
| Number of owners refusing interview                              | 7   |
| Total number of persons interviewed                              | 76  |
forty acres of land. The other one-half listed the various items indicated in Table 1. But of the 141 cards showing ownership of over 40 acres, the same owner was listed occasionally on two or three cards. Therefore, an additional six of the 141 were eliminated by a chance selection. When a person's name was on two cards, a selection was made whereby he had a fifty per cent chance of remaining in the sample. This left 135 randomly drawn names.

It was impossible to interview ten of the 135 people because they lived outside of Iowa. Another seven of these cards listed property involved in unclosed estates. From the remaining 118 cases another random selection was made by drawing names as they were needed for interviews. A total of 83 names were drawn. Seven persons refused to grant an interview, leaving a total of 76 persons interviewed.

Two schedules, or questionnaires, were prepared for use in the field interviews. The first schedule pertained to the landowner, his objectives, his property, and his family, and was referred to as the ex ante schedule. The information on the ex ante schedule was secured from all persons interviewed. The second schedule referred to as the ex post schedule was used to obtain information about deceased relatives of the respondent and the transfer of their property. The ex post schedule was used when the

1 The term ex ante was used since a large share of the property transfers by the person interviewed had not yet occurred.

2 The term ex post was used since this schedule was used to obtain information about persons who had completed the transfer of their property.
person being interviewed had received some inheritance from parents or a spouse and when the probate records of the deceased parents or spouse were available in the county clerk's office. A total of 45 ex post questionnaires was secured from the 76 persons interviewed.

Prior to the time the field interviews were made, a description of land owned by each person drawn in the second random drawing was taken off the assessor's records, including any city or business property. The abstract record in a local law firm was checked to obtain the names of each of the persons from whom all real estate had been transferred. Dates of transfer and kind of ownership interest also were recorded. Inquiry was made among local people about family relationships between the transferor of the property and the person to be interviewed. The purpose of such preliminary investigation was to determine whether there were any deceased parents or spouses of the person to be interviewed. If there were such deceased persons the probate records were then used to secure as much information as possible about the settlement of the estates of these deceased persons. Such information greatly facilitated the taking of the ex post schedule in the field. In some cases, there was no advance knowledge of a deceased parent or spouse before the interview. Where both ex ante and ex post schedules were to be secured from the same respondent two visits were arranged as often as possible in order to

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1 The term "inheritance" as used in this dissertation is defined to include transfers of property at death or in contemplation of death. Inter vivos property transfers which were not made in contemplation of death are not included in this definition of inheritance.
shorten the time of any single period of interrogation.

The *ex post* sample covering the estates of 45 deceased persons was not considered to be a random sample of all persons owning land at death. As indicated, the *ex post* schedule was taken only when the person interviewed had received some inheritance from deceased parents or spouse and probate records were on file in the Grundy County courthouse. These deceased relatives may never have owned farm land. On the other hand, some deceased persons who owned farm land may have been excluded from any possibility of being included in the sample. This possibility exists if in the settlement of the deceased person's estate or at some date after estate settlement the land passed out of the family. In these cases, the deceased landowner would have less chance of coming into the sample since the children or spouse could only come into the sample if they had acquired land from some other source.

Those situations where land has passed out of the family may reflect a higher incidence of failure elements. Small farms may have to be sold out of the family to pay costs of estate settlement. In other cases, the large number of heirs may have prevented any one heir from having enough equity to enable him to purchase the farm. One heir may have acquired the farm by taking on a larger debt which he could not manage, causing him to subsequently lose the farm.

In addition, *ex post* schedules could not be obtained for cases where living persons may have already transferred all of their land to their

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1 Failure elements refers to the non-achievement of the landowners' transfer objectives.
children. The extent of the bias due to this factor is not known; how­
ever, in 1946, Timmons and Barlowe found that only 3.4 per cent of farm owners in the North Central Region had already transferred a part of their land.¹ Therefore, the 45 cases of deceased persons which were obtained through the ex post schedules are considered as only a random sample of deceased relatives from whom landowners² in Grundy County received some form of inheritance.

The probate records of the deceased persons included in the ex post sample furnished important information on the direct costs and taxes of estate settlement. However, the number of probate records settled in recent years which were drawn in the study was rather small. Out of the 45 ex post schedules obtained, only 18 involved cases where death occurred after 1943. Therefore, in order to have a more definite indication of these costs and taxes for recent years, the probate records were used as a source for obtaining further information. Data were obtained from the probate records for all persons who died between January 1, 1948, and July 1, 1954, and who owned farm land at death. A total of 172 individual probate records were found for persons who died owning land during this period. However, full probate histories, such as were obtained for the 45 deceased relatives, were not secured for these 172 cases. Information was tabulated in regard to property owned at death, costs of estate settlement, age, testacy, date of will, and miscellaneous other information.

¹ Timmons and Barlowe, op. cit., p. 945.
² Landowners here refers to those landowners at the time of taking the interviews which extended from October, 1953, to April, 1954.
Selection and Analysis of Data

In directing an inquiry, hypotheses perform the function of selecting the relevant facts for study. Cohen and Nagel indicate this specific role of hypotheses as follows: "In directing an inquiry, a hypothesis must of necessity regard some facts as significant and others as not." The hypotheses also suggest the connections or relationships between these significant facts. Therefore, hypotheses implicitly indicate what statistical methods should be used in testing these relationships within the data.

In this study, the hypotheses were the basis for drawing up the field schedules. The schedules then were tested in a pilot study during September of 1953 and those used for personal interview were found to be extremely long requiring excessive amount of interview time. The schedules were reduced in length as much as could possibly be done and still attempt to test most of the hypotheses which had been formulated. The revised \textit{ex ante} and \textit{ex post} schedules were used for field interviews from October of 1953 until April of 1954. The related courthouse information was obtained intermittently with the field interviews. The courthouse information for the additional 172 cases was obtained in November and December of 1954, after tabulations from the earlier schedules revealed the desirability of

\footnote{\cite{cohen} Morris R. Cohen and Ernest Nagel. Logic and the scientific method. New York, Harcourt, Brace and Company. 1934. p. 201.}

\footnote{The various schedules used for field interviews and for obtaining courthouse information are on file at the Department of Economics and Sociology, Iowa State College, Ames, Iowa.}
obtaining more information on costs of estate settlement.

The information sought in the *ex post* schedule concerned the intra-family transfer of property by deceased parents or deceased spouses of the person interviewed. In some cases, the relative had died a number of years earlier. In remembering details about these deceased relatives, the interviewee had increased difficulty the longer the time since their death. Therefore, where the deceased died before 1940, it was decided to obtain only information concerning transfers between the deceased and the person being interviewed. For deaths from 1940 on, the *ex post* schedule was used to obtain information about all the intra-family transfers made by the deceased. Out of the 45 *ex post* schedules obtained, 19 involved persons who died before 1940.

Statistical tests where they were applicable were used to verify and indicate relationships within the empirical data. The statistical methods used included the "t" test to examine differences in means of measurement data. For differences in the proportions of groups possessing a particular attribute, the chi-square method was employed. The method of linear regression was used to indicate relationships between two measurement variables in the section on costs and taxes. Covariance analysis was used to test differences in regression relationships.

In making tests of significance the five per cent level was used as the point of significance or non-significance unless otherwise indicated. Occasionally a significant difference at the one or two per cent level was indicated. Differences were sometimes significant only by use of
a single tail test which assumes that the direction of the difference was anticipated. However, in most cases a two tail test was used and in those instances where a single tail test was employed the reasons for anticipating the direction of the difference were given.
The transfer of farm property within families takes place in an ever-changing situation. The dynamic elements of this situation are: first, the composition of the family including members to whom property may be transferred; second, the nature and amount of property available to be transferred; and third, the objectives that the property owner wants to achieve in transferring his property to his family. The nature of intra-family farm property transfers is influenced by the character of these basic elements which at any given moment in time are fixed. In making transfer plans, which may include a decision to do nothing, the landowner considers the makeup and anticipated future changes of these three basic elements.

At some time subsequent to the making of the transfer plan, the objectives, property, and family composition of the landowner may undergo changes. These changes in the basic elements of the transfer situation may or may not be what the landowner had anticipated earlier when he made his transfer plan. As a result of such changes, the landowner may or may not change his transfer plan. He may feel that he should change the plan but does not know what change to make, or he may just procrastinate.

In the ex ante phase of this study, an attempt was made to determine the objectives, nature and amount of property owned, family composition, and the transfer plan of the landowner at the time of interview. The ex post phase of the study sought to obtain information on these same basic
elements in the transfer situation existing at the time of death of the deceased relatives. There was no attempt to determine what future changes these deceased persons had anticipated in the family composition and in their property.

This chapter contains data on these basic elements of the transfer situation. In order to get some view of the overall composite transfer framework, these data are presented prior to the use of specific parts of the data in analysis of particular problems.

Objectives of Property Transfers Within Families

Frequency of different objectives

In order to study the problems of landowners in the intra-family transfer process, it is necessary to have some indication of what the owners want to achieve. Thus, an effort was made to determine what the interviewees thought were their objectives. In first trying to discover the objectives, during the interview, it was attempted to eliminate as far as possible anything that would suggest to the landowner what his objectives might be. Therefore, the schedule was organized so that the owner's objectives were discussed near the beginning of the interview. A list of possible objectives was included in the schedule; but when first asked about his objectives, the respondent was not permitted to see the list, nor was he made aware that the list was present. As the owner indicated each of his objectives, a corresponding check was made on the
prepared list by the interrogator.¹

Table 2 shows the responses of the landowners when asked what their objectives were. For example, retirement income or security in later years was the most frequently mentioned objective since 27 owners, or 36 per cent, mentioned this objective. Some owners had difficulty in indicating their objectives while others could not point out any objective at the time of interview. Table 3 shows the number of owners who were able to indicate a given number of objectives. Twenty-eight owners, or 36 per cent of those interviewed, were not able to tell what any of their objectives were when first asked. The average number of objectives given per person was .88. An average of 5.29 objectives were given per owner. The particular objectives mentioned most frequently before the list was seen tended also to be most frequently mentioned after the list was seen (Table 2). The main exception appears to be the objective of minimizing transfer costs. Only five per cent gave this objective prior to seeing the list and 95 per cent afterwards.

Two reasons seemed to largely explain the inability of the respondent to give any or only a few of the objectives which they were able to

¹In speaking of his objectives the respondent may not have given very specific answers. For example, if he indicated a concern over whether some children might feel they were not treated fairly, then the objective of equitable treatment was checked. If the owner specified that he would like to have a certain son or grandson own the farm after his death, then keeping the farm in the family was the objective checked. All objectives given by the 75 respondents could be fitted into the preconceived objectives on the prepared list. These are the same objectives as previously given in the section under hypotheses of this study.
Table 2. Frequency of landowners' transfer objectives before and after being shown a list of possible objectives; the percent of owners having each objective; and the rating of their importance to the owner according to first, second, and third ordinal levels

<table>
<thead>
<tr>
<th>Intra-family transfer objectives of farm owners</th>
<th>Before seeing list of objectives</th>
<th>After seeing list of objectives</th>
<th>Rated as first importance</th>
<th>Rated as second importance</th>
<th>Rated as third importance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>Retirement income</td>
<td>27</td>
<td>36</td>
<td>75a</td>
<td>100</td>
<td>60</td>
</tr>
<tr>
<td>Equitable treatment of children</td>
<td>17</td>
<td>33</td>
<td>51b</td>
<td>100</td>
<td>7</td>
</tr>
<tr>
<td>Early assistance to children</td>
<td>12</td>
<td>18</td>
<td>61c</td>
<td>95</td>
<td>2</td>
</tr>
<tr>
<td>Minimize transfer costs and taxes</td>
<td>4</td>
<td>5</td>
<td>71</td>
<td>95</td>
<td>3</td>
</tr>
<tr>
<td>Keep farm in family</td>
<td>4</td>
<td>5</td>
<td>43</td>
<td>64</td>
<td>1</td>
</tr>
<tr>
<td>Maintain economic unit</td>
<td>0</td>
<td>0</td>
<td>32</td>
<td>43</td>
<td>0</td>
</tr>
<tr>
<td>Prevent overburdensome debt</td>
<td>1</td>
<td>1</td>
<td>30</td>
<td>40</td>
<td>2</td>
</tr>
<tr>
<td>Protect going concern</td>
<td>1</td>
<td>1</td>
<td>28</td>
<td>37</td>
<td>0</td>
</tr>
</tbody>
</table>

*If the 76 owners interviewed the objectives of one owner were not obtained.

*If the 75 persons who expressed their objectives only 51 had more than one child. Therefore, 51 owners were considered as 100% in calculating the percentages of owners having the objective of equitable treatment.

*Eleven of the 75 persons had no children. Therefore, 64 owners were considered as 100% in calculating the percentages of owners having the objective of equitable treatment.
Table 3. The number of landowners who indicated a given number of transfer objectives before being shown a prepared list of possible objectives

<table>
<thead>
<tr>
<th>Number of objectives given by each owner</th>
<th>None</th>
<th>One</th>
<th>Two</th>
<th>Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of owners</td>
<td>27</td>
<td>32</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>Per cent of respondents</td>
<td>36</td>
<td>42</td>
<td>19</td>
<td>3</td>
</tr>
</tbody>
</table>

give after seeing the list. The owners appeared to be unable to understand the concept of the question which was: "What are the main things you are trying to achieve, or what are your family objectives in these plans which you have mentioned?". In addition, it seemed probable that this was the first occasion that some of them had been required to think about their transfer objectives to any extent. Therefore, if they had been given a day or two to think about their objectives they may have been able to give a more fluent description of them.

In addition to trying to discover transfer objectives in the ex ante part of the study, an effort was made in the ex post schedule to determine the objectives of the deceased persons involved. The last page of the ex post schedule contained the same list of objectives as had been previously shown to the respondent in the ex ante schedule.
Each respondent was asked to indicate which objectives on this list he thought had been objectives of his deceased parent or spouse.¹ The results of tabulating these supposed objectives are shown in Table 4. In every case, the respondent felt that the deceased had had the obvious objective of attaining adequate retirement income, but only 24 of the 45 respondents felt the deceased had had the objectives of minimizing transfer costs, maintaining economic sized units, and prevention of overburden-some debt.

The data in Table 4 make possible a comparison between the percentage of respondents having each objective and the percentage of the deceased persons believed to have had each objective. Some similarity can be seen in the frequency with which respondents and deceased persons had the same objective. The largest difference between the two groups appeared with the objective of minimizing costs and taxes. The respondents felt that 53 per cent of the deceased persons had had this objective while 95 per cent of the respondents themselves said they desired to minimize costs and taxes. For some of the other objectives, the difference between the percentage of deceased persons and the percentage of respondents having the objective was significant if this difference were hypothesized before collecting the data. These differences will be discussed in detail in later sections.

¹ There is no way of knowing how well these observations by the respondent indicate the true objective of the deceased persons. Since the respondents were either children or spouses of the deceased persons, they would appear to be the best source of such information for most cases.
Table 4. Frequency of intra-family transfer objectives of deceased relatives and respondent landowners

<table>
<thead>
<tr>
<th>Intra-family transfer objectives</th>
<th>Deceased relatives</th>
<th>Respondent owners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Retirement income</td>
<td>45</td>
<td>100</td>
</tr>
<tr>
<td>Equitable treatment of children</td>
<td>39</td>
<td>95&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Early assistance to children</td>
<td>36</td>
<td>82&lt;sup&gt;b&lt;/sup&gt; **</td>
</tr>
<tr>
<td>Minimize transfer costs and taxes</td>
<td>24</td>
<td>53***</td>
</tr>
<tr>
<td>Keep farm in family</td>
<td>37</td>
<td>82**</td>
</tr>
<tr>
<td>Maintain economic unit</td>
<td>24</td>
<td>53</td>
</tr>
<tr>
<td>Prevent overburdensome debt</td>
<td>24</td>
<td>53</td>
</tr>
<tr>
<td>Protect going concern</td>
<td>25</td>
<td>56&lt;sup&gt;*&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

* Denotes significant difference at 5 per cent level only by use of a single tail test.

** Denotes a significant difference at five per cent level using a two tail test.

*** Denotes significant difference at 1 per cent level by use of a two tail test.

<sup>a</sup>This percentage is calculated on the basis of 41 being equal to 100 per cent since only 41 of the 45 deceased relatives had more than one child.

<sup>b</sup>This percentage is calculated on the basis of 44 being equal to 100 per cent since one of the 45 deceased relatives had no children.
The average number of objectives believed to have been held by the deceased persons was 5.67 which is slightly higher than the average of 5.29 held by respondents. In conducting the interviews, the interrogator felt that there may have been an upward bias in the number of objectives given by the respondents and also in the number which the respondents reported as objectives of the deceased persons. As previously mentioned, the respondents were allowed to see a prepared list of objectives when they named their own objectives and also when giving those of the deceased persons. Some respondents appeared to affirm any objective which seemed reasonable to them or which involved some action which they felt other people would think they ought to do.

**Ordinal rating of objectives**

The relative importance of transfer objectives to each landowner is associated with the particular problems he faces and is a key factor where objectives conflict. Therefore, the interviewee was asked to indicate which of his objectives he considered to be first, second, and third in importance to him. The results of this question are shown in Table 2. The objective of having adequate retirement income was ranked highest in importance by 60 respondents, or 80 per cent. On the other hand, none of them indicated the objectives of maintaining an economic unit and protection of the going concern as first in importance to them.

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1 See Table 7.
The data in the last two columns of Table 2 show the frequency and percentage of the respondents who rated each objective as either first, second, or third in importance. When the importance of objectives is examined in this manner, the data in Table 2 seem to indicate four levels of importance between pairs of objectives. These four levels and the corresponding pairs of objectives are as follows: first, the objectives of retirement income and equitable treatment of children, with 96 per cent of the respondents placing each of these objectives as one of their three most important; second, the objectives of early assistance to children and minimization of transfer costs and taxes, each with a percentage of 44; third, the objectives of preventing overburdensome debt and keeping the farm in the family, with 15 and 11 per cent respectively; and fourth, the objectives of protecting the going concern and maintaining an economic unit, with only three and one per cent respectively.

When a respondent rated one objective above or below another objective in importance to him, it was only an ordinal rating and there was no attempt to quantify the difference between objectives. In some instances the respondent appeared to have difficulty deciding between objectives, especially as to which ones he considered second or third in importance. If two such ordinally rated objectives are in conflict, the owner decides subjectively how they will influence his transfer plan. When the owner subjectively feels that two conflicting objectives are almost equal in importance the lower order objective may influence his transfer plan far more than would be the case if he felt that one of the objectives was overwhelmingly more important.
While the ratings of objectives tabulated in Table 2 are limited to ordinal comparisons they do provide some information about how these different objectives may influence the transfer plans of the group of owners interviewed. For the owners as a group the data in Table 2 suggest that the objective of retirement income probably will shape the nature of transfer plans more than any other objective. With 67 per cent of the owners placing the objective of equitable treatment of children as second in importance and with 96 per cent placing it as one of the three most important, this objective would seem to be second most influential in shaping the transfer plans of these owners.

Achievement of expressed objectives

After each respondent had indicated to the interrogator what his transfer objectives were, he was asked if he thought he had achieved them or would be able to achieve them with his present transfer plan. The answers to this question are summarized in Table 5 in terms of the frequency of affirmative answers by those respondents who had previously given the corresponding objectives. The data in the last two columns of Table 5 give similar information on the deceased persons connected with the ex post schedule. In tabulating the frequency which persons felt objectives had been achieved, only unqualified "yes" answers were considered as affirmative answers. Therefore, qualified "yes", "don't know", and "no" answers were excluded from the count of affirmative answers.
Table 5. Frequency\textsuperscript{a} of achievement\textsuperscript{b} of desired intra-family transfer objectives by respondents and deceased relatives

<table>
<thead>
<tr>
<th>Objective</th>
<th>Respondents who said objective would be achieved</th>
<th>Deceased relatives who achieved objective according to respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Retirement income</td>
<td>68</td>
<td>91</td>
</tr>
<tr>
<td>Equitable treatment of children</td>
<td>50</td>
<td>98\textsuperscript{**}</td>
</tr>
<tr>
<td>Early assistance to children</td>
<td>47</td>
<td>77</td>
</tr>
<tr>
<td>Minimize transfer costs and taxes</td>
<td>43</td>
<td>60</td>
</tr>
<tr>
<td>Keep farm in family</td>
<td>36</td>
<td>75</td>
</tr>
<tr>
<td>Maintain economic unit</td>
<td>24</td>
<td>75</td>
</tr>
<tr>
<td>Prevent overburdensome debt</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>Protect going concern</td>
<td>13</td>
<td>46\textsuperscript{**}</td>
</tr>
<tr>
<td>All objectives</td>
<td>294</td>
<td>74\textsuperscript{**}</td>
</tr>
</tbody>
</table>

\textsuperscript{**} Denotes a statistical difference at the 2 per cent level.

\textsuperscript{a} Some respondents and deceased relatives did not have some of the objectives. These cases were omitted in calculating the percentage of achievement.

\textsuperscript{b} The respondent was considered as having signified achievement of objective only when unqualified "yes" answer was given.
Deceased persons achieved 82 per cent of all of their objectives, which is higher than the 74 per cent achieved by the respondents at the time of the interviews (Table 5).¹ This difference leads to the question of whether the respondents as a group will be able to achieve more of their objectives by the time of their death. In some cases, the younger respondents could logically be expected to make some progress towards achieving such objectives as insuring an adequate retirement income and giving early assistance to children. A question as to whether the respondents should be able to achieve more of their objectives before death than did their deceased relatives may also be raised if one makes the assumptions of similar objectives but increased levels of education of the respondents.

Some of the respondents' affirmative answers in regard to attainment of objectives might have been negative in both the ex ante and ex post situations had they had more time to consider the question. In addition, answers may have been different with knowledge of other transfer techniques, and in the ex post cases the fact that respondents were closely related to the deceased person may have influenced their answers. They may have been reluctant to admit that a deceased relative had failed to achieve an objective. However, later discussion suggests that the respondents may have also been reluctant to say that they had not achieved

¹The difference is statistically significant at the 2 per cent level. However, as mentioned previously, the sample of deceased persons connected with the ex post schedules is only a random sample of deceased relatives from whom the landowners in Grundy County received some inheritance and whose probate records were available in the Grundy County courthouse.
Transfer Plans

Extent of and factors associated with transfer planning

The intra-family transfer of property is carried out through various methods. The property owner in trying to attain his objectives may do extensive planning in the process of deciding on and organizing the means of transferring his property. On the other hand, the owner may do little or no planning which results in his property being transferred through the method provided by statute. If the owner is not satisfied with this method of transfer provided by law and makes some other definite plan, he must use some legal document to make it effective. A will is the legal document most commonly used for property transfers which take effect at death. Making of a will implies that the owner has decided on some kind of transfer plan and has taken steps to make the plan legally effective. However, in some cases, the owner may possibly have decided that the best plan for him would be to let his property be transferred according to intestate laws.

Although some landowners have made wills or have definite plans in mind for transferring their property they may still fall short of achieving their objectives. However, the landowner's incentive for making these plans was for the purpose of reaching some desired goals. The amount of planning will vary a great deal between owners, but in any event these plans are the result of deliberate action. Therefore, the assumption is made that although some owners indicated satisfaction with the
law these owners have not planned for the transfer of their property to the same degree as persons who have made transfer plans other than that which is provided by law. Permitting property to be transferred according to intestate law does not necessarily require any action on the part of the owner, and it would be incidental if such transfers enabled an optimum achievement of objectives.

The extent that respondents had made transfer plans and put them into effect is as follows:

42 persons had a will,
9 persons had no will but had a definite plan which they intended to put into a written document,
10 persons had no will and had no definite plan in mind but were not satisfied with the distribution provided by law, and
15 persons said they were satisfied with the division of their property provided for by law.

Only 10 of the 76 owners, or approximately 14 per cent, had no definite plans of any kind for the transfer of their property. These ten persons were not satisfied with the distribution required by intestate law, and they indicated intention to make written plans of their own. Therefore, only 15, or about 20 per cent, of the owners were satisfied with the law and did not have a will or intend to eventually have some written transfer plan.

The mere intention to have a will or written document which embodies an owner's transfer plan will be of no avail for those persons who die before taking such action. Forty-two, or 55 per cent, of the 76 respondents interviewed already had a will as compared to 30, or 67 per cent,
of the 45 deceased relatives having a will at time of death, and 109, or 63 per cent of the 172 landowners who died in the 1948-54 period. As previously mentioned, the 172 cases covered all Grundy County landowners who had died in the recent period of January 1, 1948, through July 1, 1954. Since the sample of respondents is a sample of all farm landowners, then the respective 63 per cent and 55 per cent can be compared to give some indication of the percentage of respondents who are likely to have wills at death.\(^1\) Therefore, if 80 per cent of the respondents expect to make a will or other written plan, it would appear that some of them may die before doing so.

A number of landowners apparently have waited until a short time before death to make a will. Eighteen of the 109 testate deceased landowners in the 1948-54 period had made their last will within six months of death (Table 6). Although these landowners may have made prior wills, it is unlikely that very many of them had done so. One will was made only one day before death, and two other wills were dated eleven days prior to death. Thus, these landowners had taken considerable risk of failing to achieve transfer objectives by waiting until the "last minute", so to speak, to make effective that part of their transfer plan which they put into their will.

These landowners who had waited until just before death to make a will probably had just neglected doing so. This neglect appeared evident on the part of respondents also. Eight of the nine respondents who had

\(^1\) The difference between the two percentages is not statistically significant.
Table 6. Length of time between date of will and death of landowners (1948-54 period)

<table>
<thead>
<tr>
<th>Length of time that will was made before death</th>
<th>Number of cases</th>
<th>Per cent of all cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to six months</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Six to 12 months</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>One to two years</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Two to five years</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Five to ten years</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Ten to twenty years</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Twenty years and over</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>109</td>
<td>100</td>
</tr>
</tbody>
</table>

A definite plan in mind but had not drawn it into a written document said they had intended to do so sooner but had just put it off or were too busy. Similar reasons were given for not having already made a written plan by nine of the ten respondents who did not have a definite plan in mind but who said they intended to make a written plan. Thus, in case of sudden death these transfer plans may never become effective.

The age at which the respondents made their wills is somewhat indicative of the tendency for persons to defer making wills. The average age at which 41 respondents made their wills was 54.3 years. Only four
of these 41 respondents had made prior wills. The earliest age that any respondent had made a will was 35, while on the other hand, 15 of the 41 respondents made their first will when over 60 years of age.

Albeit that some landowners do die testate, the specifications in their wills may be detrimental to the achievement of desired intra-family transfer objectives due to intertemporal changes in the basic elements of the transfer situation. The will made by a testate landowner many years before his death was based on his family composition, resources, and his corresponding objectives at that time. During the period following the making of the will and before death momentous changes in the family makeup and the economic circumstances of the testator and his family may occur from which a different set of transfer objectives may have developed. Thus, the antiquated will may give altogether different results than were desired. Almost one-tenth of the landowners who died in the 1948-54 period had made their wills twenty years or more before death and one-half had made them at least five years before death (Table 6). In addition, 43 per cent of the 42 respondents with wills had made them more than five years previous to the time of the interview. One respondent's will had been made 29 years previously. Changes may not have been too important in this case since there was only one child. However, another respondent whose will was 23 years old had three children and had acquired his land since the will was made. In this 23 years the respondent may have decided that he wanted to keep the farm in the family, maintain the going concern, and that he needed to take some action to reduce death taxes. In such instances the existence of the old will may result in less achievement
of objectives than if the landowner died intestate.

One factor which seemed to have influenced the respondents to make wills was whether or not the deceased relative had died testate. Wills had been made by 20 of 30 respondents whose deceased relatives had died testate. But wills had been made by only five of 15 respondents whose deceased relatives had died intestate.\(^1\) When the deceased relative had had a will, the respondent may have been more inclined to feel that a will was essential. On the other hand, if the respondent was displeased with the settlement of the estate of an intestate deceased relative, he may have been more inclined to make a will specifying how his own property was to be transferred.

Male landowners were found to have made wills more often than female landowners. Of the landowners who died in the 1948-54 period, 85 of 124, or 69 per cent, of the male landowners had died testate whereas only 24 of 48, or 50 per cent, of the female landowners had died testate. An explanation of this difference may lie in the traditional responsibility of male parents to provide for the economic welfare of the family. Such feeling of responsibility may cause males to more often make transfer plans part of which may be embodied in a will.

Relationship of objectives to transfer planning

Transfer plans incorporating various means are the vehicles through which property owners attempt to achieve their transfer objectives.

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\(^1\) The difference between the two groups is significant at the five per cent level.
Therefore, an examination was made of several relationships between the objectives of landowners and the occurrence of transfer planning. The following relationships were studied: (1) to what degree was awareness of transfer objectives related to transfer planning, (2) was the number of transfer objectives related to transfer planning, and (3) was transfer planning associated with the accomplishment of objectives.

The existence of a transfer plan, other than when the landowner is satisfied with intestate law, appears to be related to awareness of transfer objectives. When first questioned, 54 per cent of the respondents without plans could not name any objective while only 27 per cent of those with plans failed to do so (Table 7). This difference of 27 per cent was found to be significant. A significant difference was also found between the average number of objectives which the two groups of respondents were able to give without assistance. The respondents with plans gave an average of 1.06 objectives compared to a .50 average for those without plans (Table 7). Therefore, the respondents who had made some definite plans other than having decided to let the laws of descent distribute their property seemed more aware of what they wanted to accomplish in the transfer process.

Although the respondents with plans appeared more aware of their objectives, practically no difference was found between the two groups in the average number of objectives they indicated after seeing the list of possible objectives. The group with plans had an average of 5.27 objectives compared to 5.33 for the group without plans (Table 7). Furthermore, there was little difference in the average number of
<table>
<thead>
<tr>
<th>Per cent of respondents who could not name any objectives before seeing a list of possible objectives</th>
<th>27*</th>
<th>54*</th>
<th>36</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of objectives given by respondents before seeing a list of possible objectives</td>
<td>1.06*</td>
<td>.50*</td>
<td>.88</td>
</tr>
<tr>
<td>Average number of objectives given by respondents after seeing a list of possible objectives</td>
<td>5.27</td>
<td>5.33</td>
<td>5.29</td>
</tr>
<tr>
<td>Average number of objectives held by deceased relatives as indicated by respondents</td>
<td>5.56</td>
<td>5.80</td>
<td>5.67</td>
</tr>
</tbody>
</table>

* Denotes a significant difference at 5% level.

The respondent was considered to have a transfer plan if he had a will or some other written legal document providing for the disposition of his property at death, or if he had a definite plan which he intended to put into writing. A deceased person was considered to have a transfer plan if he had had a will. According to these criteria there were 51 respondents with plans and 30 deceased relatives with plans, while 24 respondents and 15 deceased relatives did not have plans.
objectives between the deceased relatives with and without plans. Deceased relatives with plans had an average of 5.26 objectives which is slightly less than the 5.80 found for the group without plans (Table 7).

The percentage of respondents and deceased persons that had each of the particular objectives is summarized in Table 8. For several of the objectives the percentage of respondents with and without plans who had each objective was practically the same. This was also true for the deceased relatives. Although the widest difference consisted of 30 percent between the deceased relatives with and those without plans for the objective of protecting the going concern, this difference was not found to be statistically significant. Therefore, there was no apparent difference in the particular objectives of persons who had made transfer plans and those who had not.

The frequency that objectives were considered achieved by the respondents and deceased persons as was shown in Table 5 is further classified by transfer plan in Table 9. A significant difference was found in the frequency of achievement of three objectives according to whether or not a transfer plan existed. The affirmed achievement of the objective of minimizing transfer costs was found to be higher for both the respondents and deceased persons who had transfer plans than those without plans. Also, a higher portion of respondents with plans thought they would be able to keep the farm in the family. On the other hand, the respondents believed that the deceased persons without transfer plans had achieved the objective of equitable treatment more often than the deceased persons with plans. Other than in these three instances, the
<table>
<thead>
<tr>
<th></th>
<th>Respondent landowners</th>
<th>Deceased relatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before seeing prepared list of objectives</td>
<td>After seeing prepared list of objectives</td>
</tr>
<tr>
<td></td>
<td>With plans</td>
<td>Without plans</td>
</tr>
<tr>
<td>Retirement income</td>
<td>45*</td>
<td>17**</td>
</tr>
<tr>
<td>Equitable treatment of children</td>
<td>42*</td>
<td>13**</td>
</tr>
<tr>
<td>Early assistance to children</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Minimize transfer costs and taxes</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Keep farm in family</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Maintain economic unit</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Prevent overburdensome debt</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Protect going concern</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

*Denotes a significant difference at the 5 per cent level using a single tail test.

**Denotes a significant difference at the 5 per cent level using a two tail test.

See footnote a in Table 7 for distinguishing criteria of cases with plans and no plans, and also number of cases in each category.
Table 9. Frequency of achievement of desired intra-family transfer objectives by respondents and deceased relatives according to transfer plan

<table>
<thead>
<tr>
<th></th>
<th>Respondent landowners</th>
<th>Deceased relatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>With plans</td>
<td>Without plans</td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Retirement income</td>
<td>48</td>
<td>94</td>
</tr>
<tr>
<td>Equitable treatment of children</td>
<td>36</td>
<td>100</td>
</tr>
<tr>
<td>Early assistance to children</td>
<td>33</td>
<td>79</td>
</tr>
<tr>
<td>Minimize transfer costs and taxes</td>
<td>34</td>
<td>72***</td>
</tr>
<tr>
<td>Keep farm in family</td>
<td>29</td>
<td>83*</td>
</tr>
<tr>
<td>Maintain economic unit</td>
<td>16</td>
<td>76</td>
</tr>
<tr>
<td>Prevent overburdensome debt</td>
<td>9</td>
<td>50</td>
</tr>
<tr>
<td>Protect going concern</td>
<td>9</td>
<td>47</td>
</tr>
<tr>
<td>All objectives</td>
<td>214</td>
<td>80***</td>
</tr>
</tbody>
</table>

* Denotes a statistical difference at the 5 per cent level.

*** Denotes a statistical difference at the 1 per cent level.
achievement of individual objectives appeared not to be associated with the existence of transfer plans. These differences in connection with individual objectives will be discussed in detail in later sections.

However, a tabulation of the achievement of all objectives shows that the respondents with transfer plans felt they had achieved 80 per cent of their transfer objectives which is significantly higher than the 63 per cent found for the respondents without plans (Table 9). This difference suggests that a definite transfer plan other than intestate distribution probably results in a landowner feeling that a higher proportion of his objectives will be achieved. However, the deceased relatives who had plans achieved no higher proportion of their objectives than those who did not have plans. Some reasons appear as to why no difference was found as was the case with the respondents. An inquiry about the achievement of the deceased relatives' objectives were probably reached although there was no transfer plan which sought to facilitate their achievement. This may easily be the case with such objectives as keeping the farm in the family or maintaining an economic unit if one of the heirs acquired the farm and has continued to operate it. Whereas, the respondents sometimes were uncertain about the attainment of their own objectives and especially so if there is no personally devised transfer plan.

In summary, the two groups of respondents who had and had not made transfer plans appeared to have had much the same specific objectives and the same average number of objectives. But, the respondents without plans were found to be less aware of their objectives and to have achieved a
smaller proportion of their objectives. Thus, the making of transfer plans apparently leads landowners to believe that taking such action facilitates the achievement of objectives.

Value and Nature of Property Owned

Value of property owned

The amount of property owned both in physical terms and in dollar value tends to place limitations on the achievement of a landowner's transfer goals. The most common way of indicating the amount of property owned is by the total dollar value. The average value of all property as well as the value of various kinds of property owned by the respondent landowners is shown in Table 10. Also in this table, similar data are summarized for the deceased landowners of Grundy County who died in the period of January 1, 1948, to July 1, 1954.

The valuation of the respondent's property was obtained by the respondents own estimation of the market value at the time of the interview. These estimates appeared to be slightly conservative to the interrogator. This conservatism seemed to be related to the common tendency of under-valuing property for tax assessors.

The value of property owned by deceased persons was obtained from values listed in the probate records. Appraised values were used if an appraisal had been made. In other cases, property values were obtained from the estimated values placed on the "Preliminary Inheritance Tax Report" filed by the Administrator or executor. After the filing of
Table 10. Average value of various kinds of property owned by respondent landowners and deceased landowners (1948-54) according to transfer plan

<table>
<thead>
<tr>
<th>Average dollar value of:</th>
<th>76 Respondent landowners</th>
<th>(1948-54)</th>
<th>172 Deceased landowners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>With transfer plans (51)</td>
<td>Without transfer plans (25)</td>
<td>All cases (76)</td>
</tr>
<tr>
<td>Farm real estate</td>
<td>$53,239</td>
<td>$42,374</td>
<td>$49,665</td>
</tr>
<tr>
<td>Urban real estate</td>
<td>4,790</td>
<td>3,987</td>
<td>4,526</td>
</tr>
<tr>
<td>Personal property^</td>
<td>12,397</td>
<td>13,187</td>
<td>12,657</td>
</tr>
<tr>
<td>Liquid assets</td>
<td>6,672</td>
<td>5,088</td>
<td>6,151</td>
</tr>
<tr>
<td>Total gross estate</td>
<td>77,098</td>
<td>64,636</td>
<td>72,998</td>
</tr>
<tr>
<td>Indebtedness</td>
<td>2,693</td>
<td>3,544</td>
<td>2,973</td>
</tr>
<tr>
<td>Net estate^</td>
<td>74,405</td>
<td>61,092</td>
<td>70,025</td>
</tr>
<tr>
<td>Insurance to named beneficiary^</td>
<td>1,981</td>
<td>1,320</td>
<td>1,928</td>
</tr>
<tr>
<td>Net estate plus insurance</td>
<td>76,386</td>
<td>63,912</td>
<td>71,953</td>
</tr>
</tbody>
</table>

^Personal property refers to livestock, feed, machinery, and household furnishings.

^Net estate refers to the average net value of property which would be or was transferred through an estate before estate settlement costs and taxes are deducted.

^Thirty-five of the respondents and nine of the deceased persons had some insurance payable to a named beneficiary. The face value of insurance is averaged over all cases with and without insurance.
this report, appraisal of property was subsequently made only if the State Tax Commission deemed it necessary because of possible inheritance tax liability. Therefore, the estimated values on the preliminary report may be suspected of being conservative in order to avoid inheritance taxes. However, a comparison was made between the estimated values and the appraised values for the period of July 1, 1953, to July 1, 1954. For this period the appraised values were found to be below the estimated values as often as they were above, and the dollar variations averaged about the same.

The average gross value was found to be about $73,000 for the respondents and $62,000 for the deceased group (Table 10). The average value of land accounts for the major portion of this average total gross value. The value of land was 68 per cent of the average total gross value for respondents and 70 per cent for the deceased persons.

After allowing for the average indebtedness, the average net value of the estates was around $70,000 for respondents and about $60,000 for the deceased group. Except for estate settlement costs and taxes the net estate value discloses the amount of property that would be transferred through the respondent's estate if he had died at the time of the interview or that was transferred through the estate of a deceased person. Although the net estate value does not include life insurance payable to a named beneficiary, it indicates additional property transferable at death. The average face value of such life insurance of the respondents at the time of interview was $1,928, which is somewhat higher than the average of $167 for the deceased persons.
The individuals with transfer plans were expected to have a larger average gross value of property than those without transfer plans (Table 10). This relationship was hypothesized on the belief that as individuals accumulate more property they become more interested in the eventual transfer of all of their property. Although both the respondents and deceased persons with transfer plans were found to have property with a higher average gross value and a higher average value of land than those without plans (Table 10), there was not a statistically significant difference in either case.

**Average size of land holdings**

It has been pointed out that land made up the largest share of the total value of the property which landowners owned. Since this study deals primarily with the problems of landowning farmers, the extent of landownership in physical terms is briefly examined. Frequency of owners and average acres owned in various size classes for the respondents and for two groups of deceased persons are summarized in Table 11. All acres were included which would be included for inheritance and estate tax purposes, or which were included in the estates of deceased persons. If land were owned as a tenant in common or if a fractional remainder interest were owned, then only the proportionate share of acres was tabulated in Table 11, since transfer of ownership affects only this share of the land. However, all acres owned in joint tenancy were included because all of such property is included in taxable estates, and a transfer by a joint tenant owner will affect the ownership of all of
Table 11. Frequency and average acres of land owned\(^a\) by respondent landowners and two groups of deceased landowners size classes of acres owned

<table>
<thead>
<tr>
<th>Classes of acres owned</th>
<th>Respondent landowners</th>
<th>Deceased landowners (1948-54)</th>
<th>Deceased relatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>Ave. acre size</td>
</tr>
<tr>
<td>Up to 80 acres</td>
<td>18</td>
<td>24</td>
<td>59</td>
</tr>
<tr>
<td>80 to 120 acres</td>
<td>13</td>
<td>17</td>
<td>108</td>
</tr>
<tr>
<td>120 to 160 acres</td>
<td>20</td>
<td>26</td>
<td>151</td>
</tr>
<tr>
<td>160 to 240 acres</td>
<td>13</td>
<td>17</td>
<td>198</td>
</tr>
<tr>
<td>240 acres and over</td>
<td>12</td>
<td>16</td>
<td>386</td>
</tr>
<tr>
<td>Overall total and average</td>
<td>76</td>
<td>100</td>
<td>167</td>
</tr>
</tbody>
</table>

Average acreages owned in Grundy County

<table>
<thead>
<tr>
<th></th>
<th>No.</th>
<th>%</th>
<th>Ave. acre size</th>
</tr>
</thead>
<tbody>
<tr>
<td>(76)</td>
<td>76</td>
<td>-</td>
<td>140</td>
</tr>
</tbody>
</table>

Average acres owned outside of Grundy County\(^c\)

<table>
<thead>
<tr>
<th></th>
<th>No.</th>
<th>%</th>
<th>Ave. acre size</th>
</tr>
</thead>
<tbody>
<tr>
<td>(172)</td>
<td>27</td>
<td>-</td>
<td>19</td>
</tr>
</tbody>
</table>

\(^a\)Includes only the proportionate share of acres owned as remainder interest and tenant in common, but all acres owned in joint tenancy.

\(^b\)In four of the 45 cases associated with the ex post schedule no land was owned at death.

\(^c\)Ten of the respondents owned land outside Grundy County for an average of 205 acres. Twenty-four of the deceased persons owned outside land with an average of 137 acres.
the property rather than just a portion of it.

The average amount of land owned by the respondent landowners and the recently deceased landowners was approximately the same at 167 and 175 acres respectively. However, twice as much land was owned on the average by the deceased relatives (Table 11). The larger holdings by the latter group appear to reinforce the previous speculation that this sample of deceased relatives tended to exclude owners of small tracts who failed to keep land in the family. A total of 20 out of 41, or 49 per cent, of the deceased relatives owned 240 acres and over for an average of 539 acres. On the other hand, only 17 per cent of the more recently deceased owners and 16 per cent of the respondents owned 240 acres and over. The average in these two cases was 419 and 386 acres, respectively.

The sample of recently deceased owners does not exclude any group of deceased landowners, since it includes all owners of land who died in the 1948-54 period. Therefore, comparison was made between this group of deceased landowners and the respondent landowners. Such comparison reveals that the percentage of owners and the average acreage owned between the two groups is quite similar in each of the size classes (Table 11).

**Types of ownership interests in land**

In addition to the value and the physical quantity of their land, landowners must consider the types of legal interest which they own when they transfer land. They are only free to transfer whatever rights they may own which extend beyond the lifetime of the owner. Such types of
ownership interests in land which were found in this study are tabulated in Table 12.

The most common ownership interest was found to be a fee simple interest which was owned by as many as 38 of 41 deceased relatives at death. A remainder interest in land was owned by 11 of 76 respondents, while only one case of such ownership was found in both groups of deceased persons. The explanation for this difference would seem to lie in the younger average age of the respondents which is pointed out in the next section. A number of the deceased persons probably owned a remainder interest prior to succeeding to a fee simple interest at the expiration of a life estate interest.

The frequency of joint tenancy ownership interests by the respondents was found to be significantly higher than for the group of 172 deceased landowners (Table 12). This difference appears to signify that joint tenancy ownership of land has been more commonly used in recent years. The respondents probably have obtained their land in most cases more recently than did the deceased groups and this difference might indicate an increasing tendency for farm owners and their spouses to place title of land in joint tenancy. Thus joint tenancy ownership may become more often used as a method of transferring property within families.

Within Grundy County the average total acreage in which respondents have some type of ownership interest was 140 (Table 11). This is somewhat smaller than the average farm size of 179.5 acres reported for
Table 12. Frequency of owners and average acres owned in various types of ownership interests by respondent landowners and two groups of deceased landowners

<table>
<thead>
<tr>
<th>Ownership Interest</th>
<th>76 Respondent Landowners</th>
<th>172 Deceased Landowners (1948-54)</th>
<th>41 Deceased Relatives (ex post schedules)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>Ave. acres</td>
</tr>
<tr>
<td>Individual fee simple owner</td>
<td>46</td>
<td>61</td>
<td>184</td>
</tr>
<tr>
<td>Tenant in common</td>
<td>17</td>
<td>22</td>
<td>68</td>
</tr>
<tr>
<td>Joint tenant</td>
<td>15</td>
<td>20***</td>
<td>147</td>
</tr>
<tr>
<td>Remainder interest</td>
<td>11</td>
<td>14</td>
<td>77</td>
</tr>
<tr>
<td>Totals(^a)</td>
<td>89</td>
<td>117</td>
<td>-</td>
</tr>
</tbody>
</table>

\(^a\) Denotes a statistically significant difference at the 1 per cent level.

\(^a\) Some landowners owned land in more than one type of ownership interest.
Grundy County by the 1954 U. S. Census.\footnote{U. S. Bureau of the Census. Census of Agriculture-Preliminary, 1954. Farms, farm characteristics, and farm products. Grundy County, Iowa. 1955.} Thus the frequency of cases where more than one person has an ownership interest in one operating unit outnumbers the instances where one person owns several operating units. In such situations of plural ownership interests, the landowner faces additional restrictions in achieving his transfer objectives. The degree of cooperation and similarity in objectives by the other owners in the operating unit will limit the achievement of such objectives as keeping the farm in the family and maintenance of the going concern. The various problems in connection with ownership interests will be further developed in later sections.

Characteristics of Landowners' Families

In most cases the makeup of the landowner's family probably determines to a large extent the ends which he wants to achieve in the transfer process. For example, if a landowner had less than two children he would not be concerned about equitable treatment of his children. As a landowner becomes older, he may become more or less concerned with the objective of insuring an adequate retirement income depending on the amount of property he has accumulated. Therefore, a part of the data compiled in this study concerning the makeup of the landowners' families and their ages are presented in this section.

The ages of the respondents and of the two groups of deceased persons are summarized in Table 13 by their frequency in various age classes and...
Table 13. Frequency of respondent landowners and two groups of deceased persons in various age classes by the proportion of men and women

<table>
<thead>
<tr>
<th>Age classes</th>
<th>76 Respondents</th>
<th>129 Deceased persons (1948-54)</th>
<th>40 Deceased relatives (ex post schedules)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of all cases</td>
<td>% men</td>
<td>% women</td>
</tr>
<tr>
<td>Below 50</td>
<td>25</td>
<td>79</td>
<td>21</td>
</tr>
<tr>
<td>50 to 60</td>
<td>30</td>
<td>78</td>
<td>22</td>
</tr>
<tr>
<td>60 to 70</td>
<td>25</td>
<td>68</td>
<td>32</td>
</tr>
<tr>
<td>70 to 80</td>
<td>19</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>80 and over</td>
<td>1</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>72</td>
<td>28</td>
</tr>
</tbody>
</table>

Average age 57.8 56.6 61.0 72.7 72.1 74.3 69.1 70.1 57.0

a In the probate records the age of the deceased person was sometimes recorded only as legal. There were 43 such cases among the 172 recently deceased persons (1948-54) and five such instances among the 45 deceased relatives.

b In determining the proportion of men and women in total all 172 and 45 cases respectively were used for the two groups of deceased persons.

c The ages of only three women are included in this average.
by the proportions of men and women in each class. The average age of
the respondent landowners at the time of interview was found to be 57.8
years. Since this is a random sample of all Grundy County farm land-
owners, this average would appear to indicate some concentration of land
ownership among older groups of persons. The recently deceased persons
had an average age of 72.7 years at time of death which is 15 years older
than the average of the respondent. However, the respondents had an
average age only 11 years younger than the average age of their deceased
relatives at time of death.

The average age of female respondents and the female portion of the
recently deceased persons was found to be 61.0 and 74.3 years, respecti-
vately, which is higher in both instances than for the male portions
(Table 13). Higher ages for the women would be expected, since women
tend to live longer than men.1 Furthermore, since women tend to be
younger than their husbands2, some women first become landowners only
after their husbands die. The higher average age of women landowners
is also indicated in the increasing portion of women going from the younger
to older age classes. For example, only 21 per cent of the respondent
landowners under 50 years old were women while 57 per cent in the 70 to
80 age bracket were women (Table 13).

1The average life expectancy in the U. S. of white males at birth
in 1952 was 66.6 years and of white females was 72.7 years. U. S. depart-
ment of Health, Education, and Welfare. National office of vital statis-

2The median age in U. S. at first marriage for males in the period
1950 to April 1953 was 23.6 years and 20.5 years for females. U. S.
The existence of a living spouse probably will influence the transfer objectives of an individual landowner and thus his transfer plan. The respondents had living spouses in 60 of the 76 cases, or 79 per cent. The average age of these spouses was 52.1. There was a surviving spouse in 34 out of 45, or 76 per cent, of the cases of deceased relatives. The average age of these surviving spouses was 58.7 at the death of the other spouse.

In earlier sections of this study, problems in achieving intra-family transfer objectives were conceived which concerned the children of the landowner. The respondents were found to have an average of 5.0 children (Table 14). Since a few of the female respondents and female spouses of respondents were still of child bearing age, the average number of these respondents' children may not have reached its maximum. However, the respondents are not likely to ever have as many children as their deceased relatives had on an average. Census data for the year 1950 indicate that the average number of live children born of rural farm women (age 15-59) in Iowa was 2.6.

Therefore, the average of five children for the deceased persons may be somewhat above the average number of children of all landowners who died in the same period. Thompson uses data which are based on

1 None of the female respondents were under 40 years of age and only three were below 45. Only nine of the female spouses were below 40 years old and only 17 were below 45.

Table 14. Frequency of respondents and deceased relatives who have various numbers of children

<table>
<thead>
<tr>
<th>Number of children</th>
<th>Respondents</th>
<th>Deceased relatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of cases</td>
<td>%</td>
</tr>
<tr>
<td>None</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>One</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td>Two</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>Three</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Four</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Five</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Six</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Seven and over</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76</td>
<td>100</td>
</tr>
</tbody>
</table>

Average number of children: 2.3
Average number with transfer plans: 2.4
Average number without transfer plans: 2.2

Average number of children: 5.0
Average number with transfer plans: 4.5
Average number without transfer plans: 6.1
Census information to indicate that less than an average of five children were born to women in the United States who completed their families between 1880 and 1899, and that there has been a constant downward trend to 1940 when the average was less than three children per woman.\(^1\) Thus the large number of children of deceased persons tends to give support to the previously discussed idea that some deceased landowners were excluded from any possibility of being drawn in the sample of deceased relatives because of their having had a relatively small number of children.

About two-fifths of the deceased relatives had six or more children compared to only 6 per cent of the respondents (Table 14). On the other hand, only two per cent and seven per cent of the deceased relatives, respectively, had no children or only one child compared to 14 and 18 per cent for the respondents. Thus, the reduced number of children of many of the respondents might be the basis for some difference between the transfer objectives of the respondents and their deceased relatives. Obviously, respondents without children would not be concerned with the goal of early assistance to children, and they might logically be less concerned about minimizing transfer costs and taxes than persons with children.

EVALUATION OF INTRA-FAMILY TRANSFER PROBLEMS

Hypotheses have been stated in a previous section concerning possible intra-family transfer problems, their causes, and possible solutions. In this section an attempt has been made to test these hypotheses by use of the empirical data obtained. However, such analysis was limited by the extent that empirical data were obtained. Problems connected with the achievement of each transfer objective are examined in this section except for the objective of minimizing transfer costs which is largely reserved to a later section.

Achieving Satisfactory Retirement Income

An adequate retirement income for self and spouse was an unanimous goal of the respondent landowners and their deceased relatives (Tables 4 and 8). However, the achievement of this common goal was not frequently viewed as a problem by the respondents since 91 per cent felt that they already had sufficient retirement income or will have sufficient income when they retire (Table 5). The deceased relatives were believed to have achieved this goal in 93 per cent of the cases. The basis for this frequent satisfaction will be further examined and inquiry made into potential problems of achieving adequate retirement income.

Retirement income of respondent and spouse

The sources of funds which retired farmers use for living purposes may be returns on or use of accumulated capital, consumption of part of
accumulated capital, social security and annuity insurance, and whatever employment the retired person may undertake. In some cases, the accumulation of property may be partly undertaken for the satisfaction of owning property, but accumulated property is one of the main sources of retirement income. The extent that landowners may attain satisfactory retirement income without consumption of accumulated property will receive first attention in this analysis, since the consumption of capital would limit the extent that other transfer objectives may be achieved.

In estimating the amount of retirement income which the respondents might have from their accumulated net worth, two assumptions are made. First, the assumption is made that those persons not already retired would retire with approximately the net worth they possessed at the time of the interview. Second, it is assumed that these persons in retirement will be able to realize the equivalent of 5 per cent return on their net worth either in kind or in monetary return. With these assumptions, nearly one-fourth of the respondents, each of whom had less than a $40,000 net worth, would have had less than a $2,000 income¹ if the 5 per cent return on net worth were the only source of income (Table 15).

The net worth of the respondents ranged downward to $20,560. Using the above calculations and assumptions, the retirement income would only be slightly over $1,000 for the respondents with the lower amounts of net worth. Twenty-four per cent of the respondents would have only a retirement income of between $1,000 and $2,000 (Table 15).

¹The term "income" will refer to annual income unless otherwise noted.
Table 15. Frequency of, and average net worth of respondents and spouses, and extent of achievement of retirement income objective by classes of net worth

<table>
<thead>
<tr>
<th>Total dollars of net worth</th>
<th>Below 40,000</th>
<th>40,000 to 60,000</th>
<th>60,000 to 80,000</th>
<th>80,000 and over</th>
<th>All cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>All respondents:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of cases</td>
<td>18</td>
<td>17</td>
<td>20</td>
<td>21</td>
<td>76</td>
</tr>
<tr>
<td>Per cent of all cases</td>
<td>24</td>
<td>22</td>
<td>26</td>
<td>28</td>
<td>100</td>
</tr>
<tr>
<td>Average net worth</td>
<td>32,141</td>
<td>51,140</td>
<td>69,492</td>
<td>118,283</td>
<td>70,025</td>
</tr>
<tr>
<td>Per cent who affirmed objec­tive of retirement income</td>
<td>83</td>
<td>94</td>
<td>90</td>
<td>95</td>
<td>91</td>
</tr>
<tr>
<td>Respondents who had spouses that owned property:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of cases</td>
<td>7</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>23</td>
</tr>
<tr>
<td>Per cent of respondents with property owning spouses</td>
<td>39</td>
<td>29</td>
<td>25</td>
<td>29</td>
<td>30</td>
</tr>
<tr>
<td>Average net worth of spouse classified by respondent's net worth</td>
<td>19,139</td>
<td>28,578</td>
<td>32,150</td>
<td>29,810</td>
<td>25,507</td>
</tr>
<tr>
<td>Net worth of respondent or the combined net worth of respondent and spouse falls in above value brackets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of cases</td>
<td>13</td>
<td>17</td>
<td>20</td>
<td>26</td>
<td>76</td>
</tr>
<tr>
<td>Per cent of all cases</td>
<td>17</td>
<td>22</td>
<td>26</td>
<td>34</td>
<td>100</td>
</tr>
<tr>
<td>Number retired from farm operation</td>
<td>2</td>
<td>8</td>
<td>5</td>
<td>17</td>
<td>32</td>
</tr>
<tr>
<td>Number of retired respondents under 65 years of age</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>11</td>
</tr>
</tbody>
</table>
However, in certain cases the spouse of the respondent was also found to own property. Twenty-three, or 30 per cent, of the respondents had property owning spouses with an average net worth of $25,500 (Table 15). In terms of the net worth of the respondent or the combined net worth of spouse and respondent, only 13, or 17 per cent, of the 76 cases had a net worth below $40,000. Thus, with the previous assumptions these 13 respondents and their spouses\(^1\) would have less than $2,000 of retirement income. The majority of these respondents, or 11 out of 13, apparently were satisfied with their prospects for retirement income since they affirmed achievement of that objective (Table 15).

The projected retirement income of $2,000 or less might be considered as below a minimum satisfactory level, if the maximum of $4,200 of income permitted for social security\(^2\) taxes is used as a guide. Through legislation of social security, society appears to have recognized that up to $4,200 is not an excessive level of income for obtaining the needs of life. Therefore, the amount of $4,000 of projected retirement income was used in further analysis, and the net worth values were tabulated according to cases above or below $80,000. By again using a rate of 5 per cent the persons with over $80,000 net worth will have a projected retirement income somewhere above $4,000 if their only source of income were the return on accumulated property.

\(^1\)Includes respondents whose spouses had no property and respondents who did not have spouses. Only two of these 13 respondents had a spouse who owned property.

\(^2\)"Social security" refers to the federally sponsored "Old Age and Survivor's Insurance Program" which was extended to farm people in January, 1955.
Twenty-one respondents, or 28 per cent, had a net worth of over $80,000. But, the combined net worth of respondent and spouse exceeded $80,000 in 26, or 34 per cent, of the cases (Table 15). Thus, only one-third of the respondents along with their spouses would have had at least $4,000$ of projected retirement income which approximates a satisfactory income level according to social security criteria. On the other hand, nearly two-thirds of the respondents with their spouses would not reach this $4,000 retirement income level.

In this group that might receive less than $4,000 of combined projected income, 45 out of 50, or 90 per cent, gave an affirmative answer as having achieved the retirement income objective. But, the percentage only increased to 92 for those cases with a projected income of over $4,000.

Some of the respondents may possibly have felt that they could have an adequate income with less than $80,000 of accumulated capital. A recent study made in the North Central Cash Grain Area of Iowa found that farm operators believed they should accumulate an average of $50,400 in order to live in retirement off of the earnings of their capital.$^2$

However, the study also found that the amount of farm property needed for retirement tended to be associated with the amount of farm capital currently

$^1$However, a respondent's income would fall below $4,000 in the event his property owning spouse dies and he fails to receive all of the spouse's property.

managed. Thus, the high proportion of "yes" answers by respondents in the present study may indicate some of this same tendency to be satisfied with what they have.

There was no attempt to determine just what sources of retirement income respondents had in mind when they indicated that their retirement income objective was achieved. Some of the respondents with less than $30,000 of net worth may have felt they would be able to accumulate more property before retiring since only 15 of 50 such respondents were retired. Furthermore, younger respondents had a smaller average net worth. The nineteen respondents under 50 years of age had an average net worth of $55,529 while the 57 respondents over 49 years had an average net worth of $74,857. Only one member of this group of younger respondents was retired from farm operation and his net worth was $133,000. Thus, these respondents may well expect to accumulate more capital before they retire.

A portion of the respondents apparently expected to continue receiving income by operating their farms indefinitely. Ten respondents, or 13 per cent, said they did not intend to retire. Nine of these ten respondents said they would continue to farm as long as they were able to work; one respondent said he would retire if his only child, a daughter, happened to marry a farmer. Some evidence of farm operators not planning to retire has been found in other areas. A Wisconsin study

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1 The difference is statistically significant at the five per cent level.
found that over 30 per cent of the farm operators of age 65 did not expect to retire.\(^1\) A similar study in Connecticut found 52 per cent of the commercial farm operators not expecting to retire.\(^2\) A third such study in Texas disclosed that 61 per cent of the farm operators did not expect to retire.\(^3\) Thus, a substantial portion of farm people may tend to feel that they will have no problem with retirement income because they do not plan to cease active farm operation.

Some of the 15 respondents who had under $80,000 net worth and who were retired may expect to obtain income from part-time employment. Such income might enable them to keep their capital intact and thus may be a reason why they felt that they had achieved the retirement income objective. However, consumption of capital savings may be planned by the retired as well as the non-retired respondents. Various methods of augmenting income through consumption of capital will be discussed in a later section.

At the time these farm owners were interviewed, the social security program did not include farm operators. However, in the future, the earnings from a smaller amount of accumulated property will enable retired farmers to have a satisfactory income since farmers are now covered by the


social security program. This program may induce some farmers who had previously decided not to retire to do so. The maximum benefits to the insured person when he has reached age 65 amount to $1,302 per year, which means that he would only need about $54,000 of net worth to obtain $4,000 of retirement income with the previously discussed assumptions. If both the insured worker and his spouse were age 65 then the maximum yearly payments come to $1,953.60 which is approximately one-half of the aforementioned $4,000 income level. If life expectancy continues to increase as in the past greater importance will be attached to social security as a source of retirement income since people will tend to live an increasing number of years after age 65.

Eleven of the 32 retired respondents were under age 65, and thus would have a period of retirement in which no social security payments would be received if social security for farmers already had been in effect (Table 15). However, only five of these eleven retired respondents had less than $80,000 of net worth. Thus, in only five of 32 cases would the retired respondents have failed to receive social security payments and also have less than $4,000 of projected income. The portion of farmers retiring before age 65 may become smaller in the future if farmers wait until an older age to retire due to such things as mechan-


ization. Thus, there may be a decreasing portion of retired landowners having unsatisfactory retirement incomes since social security payments will supplement the returns on their accumulated property.

The use of some form of annuity or endowment insurance in addition to possible social security payments would also serve to supplement earnings from accumulated property after retirement. However, only six respondents appeared to have such insurance. Other respondents may eventually decide to use annuity or endowment insurance, but further discussion will be reserved to the section on consumption of capital for retirement purposes.

**Income of surviving spouse**

Providing adequate income for a surviving spouse is part of the objective which has been discussed as that of achieving satisfactory retirement income. Although the landowner may outlive his spouse there is most generally the question of a source of income in case the spouse does survive. As previously indicated, there was a surviving spouse in 76 per cent of the deceased relative cases and 79 per cent of the respondents had a spouse at time of the interview. Obviously there will be a surviving spouse in each instance when the first member of a married couple dies.

Of the 59 respondents who had a spouse and were asked if they had achieved or would be able to achieve the objective of adequate retirement

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The respondents were asked about the type of their insurance. But no attempt was made to examine their policies in order to more accurately determine the type.
income for themselves and spouse, there were 53 affirmative answers or 90 per cent. Also, this objective was achieved by a large majority of the deceased relatives who had a surviving spouse in the opinion of the respondents. Affirmative answers were given in 31 out of 34 instances, which is 91 per cent. Furthermore, there was indication that 94 per cent of the surviving spouses had had an income which was at least equal to what they had been accustomed. In only two cases was there a belief that the surviving spouse did not have enough income to permit her to live as she had been accustomed and in both cases the depression period was blamed for the lack of income.

One of these two respondents who was also the surviving spouse felt that her income might have been slightly better if the deceased husband had used a will and given her all of the property. However, in order to have increased her income, consumption of the property would have been necessary since she was made guardian of her minor children and was allowed to use the income from their share of the property in caring for the children. Besides the fact that the deceased person in this case could have used a will to give all his property to his spouse, such a disposition also would have relieved her of the red tape of guardianship.

Apparently the paucity of property limited the income of this surviving spouse which would have been insufficient even though the surviving spouse had received all of it in fee simple. Thus, life insurance on the deceased person's life would have been the main alternative method by which the deceased person could have enabled his surviving spouse to maintain her accustomed level of living without consuming her property.
However, there was no life insurance, and during the depression the existence of any insurance premiums would probably have required a reduction in level of living.

This surviving spouse was under 35 years old when her spouse died and thus could not have planned any regular consumption of her capital without considerable uncertainty. Therefore, this surviving spouse was forced to use her own labor to supplement her income.¹

Including the above mentioned case there were eight respondents who were also the surviving spouses of the deceased persons covered by the ex post schedule. Six of these eight survivors were women. These female surviving spouses may have had a deficiency of income which might have prevented them from living as accustomed in situations where the deceased husband had been receiving a substantial income from his labor up to the time of his death. This appeared to be the situation in the above discussed case since the husband was still actively farming at the time of his death. However, this survivor was the only one of the eight surviving respondent spouses interviewed who felt that her deceased spouse had not achieved the retirement income objective.

Regardless of the sex of the surviving spouse, one of the sources of income for each of these survivors is the amount of property transferred to them by the deceased person. The hypothesis was set out in an earlier

¹The deceased person in this case did not own any land at time of his death. The surviving spouse with court permission purchased a farm using in part the funds from her husband's estate including the share belonging to her children over which she was trustee. She obtained her income through operation of this farm.
section that surviving spouses have inadequate income because they do not receive a sufficient share of the deceased spouses property. In an attempt to examine this hypothesis the share of the property received or which would be received by the surviving spouse was tabulated into 3 classifications as shown in Table 16. In 59 per cent of the cases the deceased relatives had given the surviving spouse either a fee simple and/or a life interest in all property owned at death. The respondents have similarly provided for their spouses in 58 per cent of the cases.1 Thus, slightly more than two out of five of both the surviving spouses and of the respondents' spouses failed to or would fail to receive all of their deceased spouse's or all of the respondents property.

Only 7 per cent of the respondents and 9 per cent of the deceased relatives had a transfer plan which gave their spouses either a fee simple or life interest in less than all their property (Table 16). On the other hand, the spouses of intestate persons receive only a statutory share which with few exceptions is less than all of the property.2 One-third of the deceased relatives died intestate, and about one-third of the respondents did not have a will or other definite transfer plan in mind at the time of the interview.

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1Even though the spouse receives an interest in all the property she may elect to take only a distributive share. See Code of Iowa. 1954: 636, 21, 22.

2Code of Iowa. 1954:636. When there are descendents of the intestate deceased person the surviving spouse will receive one-third of the personal property and a dower or one-third interest in the real property free of debt. If there are no descendents, the surviving spouse receives $15,000 plus one-half of the remaining property. The surviving spouse will receive all of the property if no other heirs of the deceased can be found.
Table 16. Frequency of various methods of transferring property to a surviving spouse and extent that retirement income objective was believed to be achieved

<table>
<thead>
<tr>
<th>Method</th>
<th>Number of cases</th>
<th>Per cent of all cases</th>
<th>Achieved by Joint Spouse of all retirement tenancy</th>
<th>Between Beneficiaries</th>
<th>Spouse was Achieved by Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent landowners who had a living spouse:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Written transfer plan which gave spouse either a fee simple or life interest in all property(^a)</td>
<td>35(^b)</td>
<td>58</td>
<td>91</td>
<td>77</td>
<td>49</td>
</tr>
<tr>
<td>Written transfer plan which did not give spouse a fee simple or life interest in all property</td>
<td>4</td>
<td>7</td>
<td>100</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>No written transfer plan (spouse receives statutory share at death)</td>
<td>21</td>
<td>35</td>
<td>90</td>
<td>71</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
<td>91</td>
<td>73(^###)</td>
<td>47</td>
</tr>
<tr>
<td>Deceased relatives, where a spouse survived:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Written transfer plan which gave spouse either a fee simple or life interest in all property(^a)</td>
<td>20</td>
<td>59</td>
<td>90</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>Written transfer plan which did not give spouse a fee simple or life interest in all property</td>
<td>3</td>
<td>9</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>No written transfer plan (spouse receives statutory share at death)</td>
<td>11</td>
<td>32</td>
<td>90</td>
<td>18(^###)</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td>91</td>
<td>15(^###)</td>
<td>24</td>
</tr>
</tbody>
</table>

\(^\#\#\#\) Denotes a significant difference at the 1 per cent level.

\(^a\) Written transfer plan here refers to a plan which takes effect at death. The plan involved the use of a will in all cases except one respondent who planned to have all property in joint tenancy.

\(^b\) Includes eight cases where the respondents had a definite plan in mind which they intended to put into writing.
Whether or not the transfer plan provided for the spouse to receive all of the property appeared to make no difference in the frequency that achievement of the retirement income objective was affirmed (Table 16). The attitude of positive achievement of the retirement income objective where the surviving spouse receives only a portion of the deceased spouse's property could have been related to other sources of income. The income or property received by the survivor through a written plan taking effect at death might be supplemented by life insurance or through property which was held in joint tenancy ownership with the deceased spouse. However, in those instances where the spouse received less than all the property there was no higher frequency of spouses receiving joint tenancy property or life insurance (Table 16).

Another possible source of income for the surviving spouse is that of her own property. Thirty-one per cent of the respondents who were planning to transfer all their property to their spouse had a property owning spouse compared to 48 per cent where the respondents spouse would not receive all of his property. However, this does not give a statistically significant difference. Thus, there appears to be little evidence that the respondents tended to feel that their retirement income objective was achieved because of the property owned by their spouses.

1The frequency that respondents owned property as a joint tenant with their spouses was significantly higher than was the case with their deceased relatives. This difference appears to fortify the previous observation that perhaps the joint tenancy form of ownership has been increasing in recent years (see Table 12). However, a number of the joint tenancy ownership interests of the respondents involved U.S. Government Bonds.
In view of this limited analysis of empirical data there seems to be no verification of the hypothesis that surviving spouses receive inadequate income because they fail to receive all of the deceased spouse's property. In fact, the frequency of dissatisfaction or uncertainty in regard to a lack of such income was found to be very small. As was mentioned in the last section, this tendency to affirm the retirement income objective may be a reflection of the respondents and the surviving spouses being satisfied with what they have except in extreme cases.

Although inadequate income of surviving spouses was not found to be considered a problem very often, further examination is made of the income which might be expected. In projecting expected income, the assumptions made in the last section are made again. The assumption was made that financial returns or returns in kind would be equal to 5 per cent of the net worth. That respondents and spouses had at the time of the interview. Also, the spouse's income will be projected on the basis that no capital will be consumed. Oftentimes the surviving spouse would not be free to consume capital when she receives only a life interest in the property with no powers of appointment.

As with the respondents, a yearly income of $4,000 is again used as a possible basis for a satisfactory income to the spouse if she were to survive the respondent. In order to obtain this $4,000 of projected income from accumulated capital, the surviving spouse would have to have a net worth of $80,000 considering "her" own property plus what she would inherit from the respondent. Out of the thirty-five cases where the respondent planned to give all of his property to his spouse (Table 16),
only 14 had a combined net worth of respondent and spouse of over $80,000. This was also found to be true for eight of the other 25 cases where the spouse would not receive all of the respondent's property. However, since these eight spouses would not receive all the respondent's property the spouses in only five of these eight cases would have use of over $80,000 of net worth if the respondents died first. Thus, only 19 out of 60, or less than one-third, of the respondents' spouses had the prospect of being able to have a surviving income at least equivalent to $4,000 without consuming their capital. In only three additional instances could the respondent have assured his spouse of this income level by drawing up a transfer plan which would have given the spouse a larger share of his property. Some other source of income must be tapped for the remaining 38 spouses, or 63 per cent, to reach the equivalent of this $4,000 of projected income.

One important method of implementing the surviving spouse's income involves some manner of capital consumption. However, the spouse must have a legal interest in the property which permits such consumption. The property owner may develop a transfer plan to take effect at death wherein he provides for his spouse to receive only a life interest in some share of his property. In addition to the life interest the spouse may be given a power to appoint some portion of the corpus to the spouse's enjoyment. The frequency which the transfer plan provided for the spouse to receive a life interest in property both with and without a power of appointment is summarized in Table 17 along with provisions for
Table 17. Frequency of various types of provisions for a surviving spouse in written transfer plans which take effect at death

<table>
<thead>
<tr>
<th>Interest in and share of property provided for spouse</th>
<th>Respondent landowners who had a spouse</th>
<th>Deceased relatives who had surviving spouses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of cases</td>
<td>% cases</td>
</tr>
<tr>
<td>Life interest in all property with no power of appointment</td>
<td>18</td>
<td>46</td>
</tr>
<tr>
<td>Life interest in all property with power of appointment</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Combination of a life interest and fee simple in all property</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Fee simple in all property</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Life interest in part of property</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Combination of a life interest and fee simple in part of property</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Fee simple in part of property</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

\*The written plan involved the use of a will in all cases except for one respondent who planned to transfer all his property through having it in joint tenancy ownership.
fee simple interest. In those instances where the spouse is given a life interest without power of appointment there would be no opportunity to consume the capital value of the property transferred. Such a disposition was given by 20 of 39, or 51 per cent, of the respondents who had spouses and a transfer plan. Eighteen of these respondents planned to let their spouses have a life interest in all of the property which the respondent might possess at death while two respondents planned to give a life interest in only a part of the property. Thus the respondents' spouses in 19 of 39 cases would inherit some consumable property through the written transfer plan. However, the 20 spouses receiving only a non-consumable life interest would not be left in a completely inflexible position by the respondents if the respondents were to die first. In 19 of these 20 cases these spouses would receive some property through being a joint tenant owner with the respondent and/or a named beneficiary of life insurance on the respondent. Furthermore, eight of these 20 spouses had consumable property in their own name.

Ten out of 23, or 43 per cent, of the deceased relatives chose to give their surviving spouses only a life interest without power of appointment (Table 17). Half of these surviving spouses also were recipients of joint tenancy property or of life insurance. However, the surviving spouses of both the testate and intestate deceased relatives had not consumed their property or did not expect to except in two out of 33 cases. Of the two exceptions, one surviving spouse had to sell some property because of heavy medical expenses, and the other surviving spouse made sales just to "live better" according to the respondent who was her son.
In summary, the vast majority of the potential surviving spouses of the respondents would either have property or receive property which they might consume if necessary. However, consumption of some property was forbidden in about half of the cases where the respondent had a transfer plan. On the other hand, the surviving spouses of the deceased relatives seldom found it necessary to consume their property. Thus, the assurance of satisfactory income to the surviving spouse was not found to be frequently considered a problem by the respondents, but in those cases where it might develop as a problem there is likely to be property available which might be consumed. However, some individual cases will be examined in detail in the next section.

Example cases of provisions made for surviving spouses

Data are presented in Table 18 from actual cases showing the property which would be available to the spouse if the respondent died first. Data are listed for six different respondents, and each of these six thought he had or would be able to achieve his retirement income objective. However, these cases will be examined to see if there may be a potential income problem for the surviving spouse. All six of these respondents were male.

In each case an estimation has been made of the amount of property which a surviving spouse would receive out of the property owned by the respondent if the respondent had died at the time of interview. An allowance also has been made for the various costs and taxes which might be involved in settlement of the estate. These costs and taxes were
### Table 18
Calculation of potential income using a five per cent cap associated with five per cent gains.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Gross value of respondent's property</th>
<th>Net worth of respondent</th>
<th>Estimated estate settlement expenses and taxes</th>
<th>Value of respondent's property owned in joint tenancy with spouse</th>
<th>Kind of interest and share of property which spouse would receive from estate settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$52,400</td>
<td>$37,200</td>
<td>$3,576</td>
<td>$0</td>
<td>All property in life interest</td>
</tr>
<tr>
<td>A₁</td>
<td>$52,400</td>
<td>37,200</td>
<td>3,576</td>
<td>0</td>
<td>1/3 of property in fee simple</td>
</tr>
<tr>
<td>B</td>
<td>41,880</td>
<td>40,880</td>
<td>3,062</td>
<td>7,000</td>
<td>All property except $2000 life interest</td>
</tr>
<tr>
<td>C</td>
<td>39,280</td>
<td>33,180</td>
<td>2,946</td>
<td>29,500</td>
<td>All property in fee simple</td>
</tr>
<tr>
<td>D</td>
<td>26,540</td>
<td>26,540</td>
<td>2,378</td>
<td>3,500</td>
<td>$15,000 plus 1/2 of remainder in fee simple</td>
</tr>
<tr>
<td>E</td>
<td>38,165</td>
<td>38,165</td>
<td>2,896</td>
<td>0</td>
<td>1/3 of property in fee simple</td>
</tr>
<tr>
<td>F</td>
<td>122,070</td>
<td>116,070</td>
<td>11,680</td>
<td>5,800</td>
<td>All property in life interest</td>
</tr>
<tr>
<td>F₁</td>
<td>122,070</td>
<td>116,070</td>
<td>7,077d</td>
<td>5,800</td>
<td>1/3 of property in fee simple</td>
</tr>
</tbody>
</table>

a The expenses of estate settlement include court costs, lawyer fees, administrator expenses were calculated by a method explained in the next chapter which includes...

b Only a life interest in these amounts would be owned by the spouse.

c Includes estate and inheritance taxes of $5042.

d Includes estate and inheritance taxes of $439.
Table 18

<table>
<thead>
<tr>
<th>est property</th>
<th>Value of spouse's share from respondent's estate</th>
<th>Value of property spouse would receive from insurance</th>
<th>Value of spouse's own property</th>
<th>Total value of property in surviving spouse's hands</th>
<th>Projected income at 5% on all property</th>
<th>Age of spouse</th>
<th>Age of respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>e interest</td>
<td>$33,624$</td>
<td>$2,000$</td>
<td>$0$</td>
<td>$35,624$</td>
<td>$1,781$</td>
<td>42</td>
<td>51</td>
</tr>
<tr>
<td>fee simple</td>
<td>$11,208$</td>
<td>$2,000$</td>
<td>$0$</td>
<td>$13,208$</td>
<td>$660$</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>$2,000 in fee simple</td>
<td>$31,880$</td>
<td>$4,000$</td>
<td>$15,400$</td>
<td>$58,280$</td>
<td>$2,914$</td>
<td>50</td>
<td>51</td>
</tr>
<tr>
<td>: simple</td>
<td>$734$</td>
<td>$9,500$</td>
<td>$0$</td>
<td>$39,734$</td>
<td>$1,987$</td>
<td>49</td>
<td>46</td>
</tr>
<tr>
<td>: remainder</td>
<td>$17,831$</td>
<td>$2,000$</td>
<td>$0$</td>
<td>$23,331$</td>
<td>$1,167$</td>
<td>42</td>
<td>56</td>
</tr>
<tr>
<td>fee simple</td>
<td>$11,756$</td>
<td>$0$</td>
<td>$0$</td>
<td>$11,756$</td>
<td>$588$</td>
<td>36</td>
<td>41</td>
</tr>
<tr>
<td>e interest</td>
<td>$98,601$</td>
<td>$0$</td>
<td>$8,000$</td>
<td>$112,401$</td>
<td>$5,620$</td>
<td>59</td>
<td>65</td>
</tr>
<tr>
<td>fee simple</td>
<td>$34,396$</td>
<td>$0$</td>
<td>$8,000$</td>
<td>$48,196$</td>
<td>$2,892$</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

The estimated total includes a margin above the average expenses which might be expected.
estimated by a method which allowed a safety factor for the various expenses, but not for taxes, and therefore, the amount used for expenses in each case will be somewhat above the average that might be expected. The procedure for estimating costs and taxes will be explained in a later section.

The respondent listed as Case A owned property with a gross value of $52,400 (Table 18). He had a debt of $15,200 leaving him with a net worth of $37,200. This respondent had in mind a definite plan involving the use of a will in which he would give his spouse a life estate in all his property which would be $33,624 after estimated costs and taxes. The respondent and spouse owned no property as joint tenants which meant that the spouse would not receive a fee simple title in any of the respondent's property at his death. The spouse did not own any property at the time of the interview, but was the beneficiary of a $2,000 life insurance policy. Thus, if the respondent had had his will made and were to have died at the time of the interview, the surviving spouse would have received a life interest in property with an estimated value of $33,624 and a fee simple interest in $2,000, or an interest in a total of $35,624. Using the return of 5 per cent, a projected income of $1,781 per year would be received. Such an income might be considered quite inadequate in this case since there were five children under the age of 20. With only $2,000 of fee simple property, there would be little chance to raise the living level by consumption of capital. However, in making his will, Respondent A could give his spouse a power to appoint some portion of the principal or corpus of the life interest to personal use.
If Respondent A were to die before he got around to putting his plan into a will, then the spouse would only receive the statutory prescribed one-third of the intestate's property. Case A in Table 18 shows the results of this possibility. With an intestate distribution, Respondent A's spouse would receive an estimated $11,208 plus the $2,000 of life insurance (Table 18). The projected income would only be $660 per year. If necessary, the spouse would be free to consume her property since a fee simple title would be received.

Case B's spouse would be able to fare considerably better than would A's spouse. Respondent B had a will in which he gave his spouse a life interest in all property except $2,000 which he gave to his two sons. After allowing for debts, costs, and the sons' legacies, the spouse would receive a life interest in $31,880 (Table 18). The spouse would automatically have $7,000 of property which was in joint tenancy ownership with the respondent. In addition, this spouse would receive $4,000 of life insurance, and she already owned a fee simple interest in property valued at $15,400. Thus, this spouse would have a total of $58,280 of property in her hands of which $26,400 would be possessed in fee simple. The projected income would be $2,914 or over $1,100 more than A's spouse would have if A put his plan into legal effect.

The landowner can make a transfer plan which gives his spouse all of his property in fee simple and thus enable the spouse to have complete freedom to devour any or all of the property. Respondent B's transfer

The spouse could conceivably receive more than one-third of the net value. The spouse is entitled to one-third of the real property free of any debts and to one-third of any personal property not needed to pay debts and expenses. There may be insufficient personal property to pay these expenses and debts.
plan illustrates such a freedom giving plan. Respondent C had a will in which he gave his spouse a fee simple interest in all property that he might possess at death. However, the farmland was already in joint tenancy ownership so that there would have been only $734 above the debts and estimated costs for the spouse to take via the will. The spouse owned no property herself, but she would be the beneficiary of $9,500 of life insurance. Thus, this spouse would have a fee simple interest in $39,734 of property, which would give a projected income of $1,987. This income is more than $900 below that which was projected for Respondent B's spouse. Respondent C's spouse might find that she would need the freedom of fee simple ownership so as to be able to devour her property in order to maintain a satisfactory standard of living.

Respondent D whose net worth of $26,540 was the smallest of these six cases desired to make a transfer plan, but at the time of the interview he did not know what kind of plan he wanted. Should he die in the meantime before making a written plan his property would be distributed according to intestate laws. Respondent D had no children, so after deducting expenses and debts his spouse would have received $15,000 plus one-half of all remaining property, which means his spouse would have received $17,831. She would have also retained $3,500 of joint tenancy property and received $2,000 of life insurance. Thus, with a total of $23,331 of property in her hands, there would be a projected income of only $1,167. Even if Respondent D made a will giving all of his property to his spouse, the spouse would have received but $2,831 more property which would raise the projected income to only $1,308.
Respondent E had a net worth of $38,165. He said he would be satisfied with the intestate distribution of his property and did not intend to make any other transfer plans. Since Respondent E had three children, his spouse's share of his property at death would have been one-third at an estimated value of $11,756. There was no life insurance and the spouse had no property of her own. Thus, the projected income of E's spouse would be the extremely low amount of $588 or equal to less than $50 per month. A transfer plan providing the spouse with all of the property would triple this income but it still would amount to only $1,764.

Respondent F had accumulated far more property than any of the other five respondents. This respondent said he intended to write a will specifying that his spouse receive a life interest in all his property which would amount to $98,601 after subtracting debts and estimated expenses. Including $5,800 of joint tenancy property and $8,000 of the spouse's own property, she would have control of a total $112,401. This would result in a projected income of $5,620 which is the only one of six cases where the income would exceed the $4,000 level previously used as one guide of a satisfactory income.

However, Respondent F may procrastinate as he admitted having done in the past and his transfer plan may not be in writing at the time of his death. An intestate distribution would follow, and the results of such a possibility are shown as Case F1 in Table 18. The spouse would have property worth $48,196 giving a projected income of only $2,892 which is also substantially below the $4,000 level.
Thus, in every one of these six cases if the respondent had died leaving the spouse surviving at the time of the interview, the spouse would have failed by at least $1,000 of having a $4,000 projected income. Only Respondent F had sufficient property so that he could have given his spouse enough property to have enabled her to have had at least a $4,000 income if a 5 per cent return were received.

However, if Respondent F puts his plan into effect giving his spouse a life interest in all property, the spouse may still elect to take the share she would receive if F died intestate. The spouse may prefer the freedom to do as she pleases with a fee simple interest in one-third of the property rather than have a life interest in all of the respondent's property. An election by F's spouse to take under the will would have resulted in larger federal estate taxes. The various tax consequences of whatever choice the spouse elects to take are discussed in a later section.

The respondents in five of the six examples may well have anticipated accumulating a large amount of property since they were not retired from active farm operation. Only Respondent F who had the largest net worth was already retired. The ages of these five ranged from 56 for Respondent D to 41 for Respondent E. Thus, each respondent may have several productive years before retiring. However, any one of these persons may die or be killed before much more property can be accumulated.

If the spouses of the five non-retired respondents were left as surviving spouses, there are some possible actions they might take which

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1 See Code of Iowa. 1954;636.21,22.
would improve their incomes besides that of capital consumption. The spouse may decide to operate any land she receives and thus anticipate income from labor and management, or she might perform some other kind of labor. In some cases, the farm could be operated with the help of minor children.

Another possible action which would likely provide some positive improvement in a surviving spouse's level of living is remarriage. At the time of interview the ages of the spouses of the five unretired respondents ranged from 36 to 50. Thus, if any one of them had become a surviving spouse at the time of the interview, there may be considerable probability that they would remarry.

**Improving retirement income through consumption of capital**

The owner of property which is of any value can at least temporarily obtain more of the consumable goods and services which he desires than his current income alone will purchase. The property owner may use some of his property or the funds from its sale to obtain such extra goods and services. Thus, the landowner or a surviving spouse may seek to increase his retirement income or level of living by consuming some portion of his net worth. Very little empirical data were obtained from the respondents concerning any plans they may have had to consume their capital. However, as previously indicated only two of the 34 surviving spouses of the deceased relatives appeared to have consumed any of their property. Of the eight respondents who were also surviving spouses, none planned to sell any property in order to live better because they were satisfied whether
the income they were receiving. No attempt was made to determine whether this reaction may have been due to a reluctance to consume capital. The satisfaction with their income and the affirmative reaction of the majority of the respondents in regards to retirement income may have been partly due to the relatively high incomes people in general had been receiving in the period of years since the advent of World War II as compared to the prior depression period.

Although there was no evidence found of frequent consumption of capital, the respondents or landowners may at some future time decide to consume a portion of the value of the property in which they have a fee simple interest. They may do so at irregular intervals and without advance planning. Retired landowners or surviving spouses may be attempting to live within the incomes they receive from earnings on their capital plus any other source of income. But at some point in time, they may have some heavy medical expense or they may want to obtain some particular consumable good or service such as travel for which their current income is insufficient. In such a situation, they may decide to obtain the extra funds by disposing of some part of their capital goods, and consequently, this would result in a reduction in future income from capital earnings. These irregular subtractions from net worth may become more and more frequent as income from capital earnings becomes smaller. Fear of such a result may tend to cause persons to try to live within their income and be satisfied.

A landowner in providing for his spouse may include in his transfer plan a provision for her to receive a life interest through giving her a
life estate or setting up a life trust for her benefit. In addition to the life estate, the respondent may also give his spouse a power of appointment which enables her to consume the corpus of the life estate under specified conditions.\(^1\) Such conditions may permit unrestricted appropriation of the property to personal use or limit it only to permitting the spouse to appoint property to her own use as needed to maintain a level of living equal to which she had been accustomed. One respondent and two of the deceased persons had wills wherein they granted similar powers of appointment associated with the grant of a life estate (Table 16).

The same power of appointment which grants permission to consume the principal may be given in connection with setting up a life trust with the spouse as beneficiary. The trustee may be directed to turn over portions of the principal of the trust fund to a surviving spouse under specified conditions such as when needed for maintenance of her station in life. The respondent may use the life trust, rather than giving the spouse a life estate, in order to provide for management of his property after his death. However, no such provisions for use of a trust were found in the transfer plans of the respondents or of the deceased persons.

In addition to the possibilities of drawing on capital to supplement retirement income at irregular intervals or in unplanned ways, the land-

owner or other property owner may obtain retirement income through a regular and planned consumption of capital. Such consumption would be through some form of annuity contract. However, annuities may also be purchased by making payments out of income instead of from accumulated new worth. Annuity arrangements for the protection and insurance of retirement income may be made by both retired farmers and non-retired farmers. Surviving spouses may use their capital to purchase annuities which will assure a certain level of income for some period of their life.

Annuity contracts may be made which will start income payments to the annuitant at a given age or start them immediately. Non-retired farm operators who acquire annuities would usually desire an annuity which starts payments at the age at which they expect to retire. These operators probably would pay for their annuities out of income and in effect would consider their annuities as a form of savings or capital accumulation. These persons would then expect to consume this type of savings in the retirement period as they receive the regular payments from their annuities.

Non-retired farmers may also accumulate savings through various forms of life insurance policies such as endowments. Savings through life insurance may be part of a definite plan for retirement income to both the policy owner and his spouse. But unless some annuity feature is tied into the life insurance policy, there is no assurance of regular
income payments.¹ Out of the 76 landowner respondents only four persons owned annuities and two more persons had endowment policies. Only 35, or less than half, of the respondents had some form of insurance with an average face value of $4,186. The cash surrender value was not obtained, but it would be less than face value. Thus, the use of life insurance and annuities did not appear to be a very important factor in the retirement plans for the majority of the respondents.

Although farm people may fail to acquire annuities or life insurance before they retire they may still obtain such contracts after they retire. Retired farmers or surviving spouses may use their capital funds to purchase annuities which will provide them with immediate income payments and continue until some future time. Using the data from some of the examples in the previous section illustrations are presented of possible incomes which may be received. If Respondent B and his spouse wanted to retire they would have a combined net worth of $56,280 besides the $4,000 insurance policy (Table 18). At their ages of 51 and 50 for respondent and spouse, respectively, they might use all of their net worth to purchase an annuity which would provide them $2,145 yearly income for as long as either of them lives.² In such an event, all the combined net worth except the life insurance proceeds would have been consumed through


the annuity payments at the time the last person died. Now assume that Respondent B's spouse were left surviving at the time of the interview. She could have used the $58,280 of fee simple net worth to purchase an annuity which would pay $2,839 annually. If Respondent F died intestate then his spouse at her age of 59 might obtain an annual annuity payment of $2,602 with the use of all of her net worth.

These estimated annuity incomes to the spouses of respondents B and F are approximately the same as they would receive from a 5 per cent return on net worth. The annuity arrangement would consume all of the net worth while the income from earnings would not reduce net worth. However, the annuity income is certain while the earnings income may fluctuate with business conditions. On the other hand, the purchasing power of the fixed annuity income will fluctuate with the price level and may be reduced seriously in inflationary periods. The income from earnings using a five per cent return will involve some risk if the approximate rate of 3 per cent on contemporary government bonds can be considered as the pure interest rate. Thus, a choice to retain capital which is invested in farm assets or other business assets will involve the possibility of loss of a portion of the net worth upon which retirement income is dependent. If such a loss occurs future earnings income is reduced, while no such possibility would exist with a decision to use

an annuity in the first place.

\[1\] i.e., as certain as is the solvency of the company with whom the annuity contract is made.
Many variations of the annuity principle may be used in obtaining and protecting retirement income. For example, if Respondent F's spouse were left surviving she may have used $20,000 to buy an annuity which would have paid $1,080 annually. If she could obtain a 5 per cent return on the remaining $28,196, an additional income of $1,410 yearly income would be received. The combined source of income would give this spouse some fixed income and some income which will vary with business conditions. In addition, there would not be a complete consumption of capital.

Another possible use of the annuity principle is illustrated by Botts, where the farm would be transferred to some younger member of the family in return for income payments during the period of the parents' retirement. Under such an arrangement the son or other family member would receive title to the farm in exchange for a promise to pay the parents an agreed on income for the remainder of their lives. The amount of income would be determined from regular annuity tables, or the son could purchase an annuity from an insurance company for the benefit of the parents. Parsons and Waples found a similar type of annuity arrangement which was known as a "bond of maintenance" in use in Wisconsin. The income provisions in these contracts specified that the parents were to receive numerous items in kind, which would tend to eliminate the

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1 Ralph R. Botts. Use of the annuity principle in transferring the farm from father to son. J. of Farm Economics. 39, No. 2:409-424. 1947.

disadvantage of reduced purchasing power in inflationary periods of the
fixed money income annuity.

In this study, only two instances were found where the respondent had
received a farm under arrangements making use of the annuity principle.
In both cases, a fixed money sum was to be paid the parent for life.
Furthermore, one of the transfers occurred before the inflationary period
associated with World War II and afterwards which means that the pur-
chasing power of the fixed sums is less than what was probably anticipated
by the parent. In this same instance the respondent assumed a substantial
amount of debt in taking over the farm; this appeared to be a factor in
the willingness of the parent to turn over the farm.

Thus, annuities or the annuity principle were found to be very infre-
quently used although they may be adapted to various situations. In addi-
tion, there was infrequent use of any method involving the consumption of
capital to obtain or assure retirement income. There may have been reluc-
tance to use such methods of achieving the retirement income objective
because of conflict with other desired objectives. The landowners were
not asked if such conflicts prevented them from consuming or planning to
consume their capital. However, some conflicts appear to be logically
inevitable for persons with particular combinations of objectives. The
consumption of capital resources reduces the amount of resources avail-
able to give assistance to children either inter vivos or at death. A
smaller amount of capital will also reduce the extent that the objectives
of preventing overburdensome debt, protection of the going concern, and
keeping the farm in the family might be achieved. These conflicts will be
discussed further as each of these objectives are taken up in detail.

Equitable Treatment of Children

Frequency as a transfer objective

The equitable treatment of children was held by almost all persons involved in this study who had more than one child. The respondents were asked if they had the objective of treating their children equal or fairly, and, also, where ex post schedules were taken, if they thought their deceased relatives had had this objective. All of the 51 respondents who had more than one child had this objective (Table 2). Only two respondents out of 41 thought that their deceased relatives had not had this objective (Table 4). In one of these two exceptions, the respondent had a half brother and half sister whom he thought his father had favored. The other respondent said his father was dissatisfied with the religious activities of the respondent and his brother. The respondent thought that the other seven children were given more assistance in getting started on their own.

There was no attempt to determine what each individual considered equal or fair treatment. When the respondents were talking as parents in regard to their own transfer plan they may have considered that they have treated their children equal or fairly even though the combined financial assistance\(^1\) through inter vivos transfers and impending transfers at the

\(^1\)Financial assistance refers to assistance which has financial value and is transferred between parents and children as a gift. This would include assistance to go to college, renting a farm below market rates, loans with below market interest, or labor performed by children where wages were not paid. Other forms of assistance may be of great indirect financial assistance such as the father's management advice or the opportunity to rent a farm, but there would be considerable difficulty in determining their financial value.
respondent's death would be unequal. Justification for this position may be based upon such things as the unfriendliness of a son-in-law, the feeling that a certain child is a spendthrift, or that some children need less assistance since they married into a family with substantial wealth. Furthermore, a parent may tend to forget or overlook the assistance he has given to some of his children or the assistance which some of the children rendered to the parents. On the other hand, when the respondent is talking as a child in regard to the transfer plan of his parent he may be more inclined to consider equal or fair treatment of children in terms of only equal financial assistance. This may be especially true if the respondent is one of the children who received less financial assistance than some of his brothers and sisters, which apparently was the situation in the two exceptions discussed above.

However, when a respondent gave an answer concerning equal or fair treatment of children, it was assumed that his concept of equal and fair depended on his own value system and thus may have included some of the above mentioned subjective factors in addition to financial assistance. This concept of equal and fair treatment may also be considered as equitable treatment. However there was no attempt in this study to determine what subjective factors the respondent may have been including when he gave an affirmative indication to having this objective of equitable treatment.

The almost unanimous possession of the equitable treatment objective may partly result from the feeling that this is what other people would expect them to do. If a respondent speaking as a parent said he did not
want to treat his children in an equal or fair manner, the community probably would be most interested in knowing why not. However, the respondent probably would be inclined not to let anyone know of this negative attitude. And if he were accused of such an attitude he may consider himself innocent in view of his description of what is fair or equitable. However, the proportion of individuals who actually would not want to give equitable treatment to their children regardless of their saying they did is probably quite small. Table 2 shows that 96 per cent of all respondents with two or more children rated this objective as one of the three most important, which is the same rating given to retirement income. Furthermore, 81 per cent of these respondents rated equitable treatment as first or second in importance which would appear to indicate that at least this percentage of the respondents truly has this objective.

In addition to the unanimous desire of wanting to treat their children equitably, the respondents thought that they had achieved or would be able to achieve this goal in every case except one (Table 5). The respondent in this single exception said he did not know if this objective would be achieved. This respondent had not definitely decided on a transfer plan. His family situation was somewhat complicated by the fact that he had a son by a deceased wife and a daughter by his present wife who also owned a farm. Apparently the respondent would have liked to give his farm to his son and his wife's farm to the daughter, but he was not sure this would be fair treatment.

Thirty-one of 39 respondents who said their deceased relatives had had the objective of equitable treatment also said without any qualifica-
tion that the objective had been achieved (Table 5). In the other eight cases doubt or dissatisfaction was expressed by the respondent about the actions of the deceased relative in treating their children equitably. In seven of these cases the respondents first said that the objective had been achieved. But, when asked if they or any of the brothers and sisters had wanted their relatives to achieve any different objectives than what they did achieve, these seven respondents expressed dissatisfaction with some aspect of the way the children were treated. The other one of these eight respondents said his father "just about" achieved the objective of equitable treatment.

The deceased persons died testate in all eight cases where the respondent said the deceased relative did not achieve the equitable treatment objective. Thus out of 24 testate deceased relatives only 16, or 67 per cent, achieved equitable treatment (Table 9) while all 15 intestate deceased relatives achieved this objective according to the respondents. This is a statistically significant difference between the testate and intestate groups. This may indicate that respondents tended to think that their parents achieved equitable treatment when the children were treated equally at death since the children share equally in the intestate situation. Out of the eight negative testate cases the children received unequal shares in the estate in six instances. But only in five cases out of 31 were unequal shares received where the deceased relative was believed to have achieved equitable treatment.

As mentioned above, the testate and intestate deceased relatives as a single group of deceased relatives achieved this objective of equitable
treatment to the respondents' satisfaction in 80 per cent of the cases. On the other hand, 98 per cent, or 50 out of 51 respondents, thought that achieving equitable treatment would be no problem for them (Table 5). The frequency of achievement by the respondents compared to the deceased relatives is significantly higher\(^1\). This significant difference may be a reflection of the difference in viewpoint previously discussed concerning whether the respondent was speaking as a parent or as a child. If children more often than parents are inclined to base equitable treatment only on equal financial shares at death then the proportion of children who think they have been treated equitably would logically be expected to be always smaller than the proportion of parents who think they treated their children equitably.

The large proportion of both respondents and deceased relatives shown as achieving the goal of equitable treatment in Table 5 may again be a reflection of the attitude that this is what people would expect them to do. The hypothesis is that even though some persons feel they have not achieved the equitable treatment goal or they felt that their parents did not achieve it they may be reluctant to say so.

**Provisions for equal sharing at death**

In the second chapter the hypothesis was developed that sometimes children might not be treated equitably in a strictly financial sense because the parent's estate at death is equally divided. The children of a

\(^1\)A significant difference exists at the two per cent level.
deceased person may share equally in the estate property due either to testate provisions or the provisions of the law for intestate cases. If the deceased parent had wanted to treat his children in an equitable manner from strictly a financial standpoint, then equal treatment at death means that the parent thought he had or was attempting to treat his children equal before his death. For further analysis the assumption is made that parents do want to give financial assistance in an equitable manner to their children although as realized earlier this often times may not be the case. Empirical data were not obtained for a thorough and rigorous analysis of the extent of achievement of equitable treatment in regards to financial assistance. To obtain such data accurately would require considerable interview time with respondents and a good knowledge and memory on the part of respondents about the deceased person's relations with his children.

In about three-fourths or 30 out of 41 cases there was equal sharing of the deceased relative's property among the children (Table 19). This means that if there was equitable financial treatment in these 30 cases then the children had to have been treated equally before the parent died. Half of these cases of equal sharing occurred where the relative died intestate. Included in the other 15 cases in which the relative died testate were the two deceased relatives whom the two corresponding respondents said did not want to treat their children equitably. But since the children in these two cases were given equal shares by will the two deceased persons may have thought they were treating their children equally. However, as earlier indicated the two respondents' basis for inequality
Table 19. Various transfer methods which do or do not result in equal sharing of estate property among children

<table>
<thead>
<tr>
<th>Transfer methods</th>
<th>Respondents having more than one child</th>
<th>Deceased relatives who had more than one child</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of cases</td>
<td>% of all cases</td>
</tr>
<tr>
<td>Equal sharing provided in the will (or effect of will is identical treatment)</td>
<td>24&lt;sup&gt;a&lt;/sup&gt;</td>
<td>47</td>
</tr>
<tr>
<td>Option given in will, but equal sharing of dollar value</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Intestate cases (Statutes provide for equal sharing)</td>
<td>22</td>
<td>43</td>
</tr>
<tr>
<td>Sub total (equal sharing cases)</td>
<td>47</td>
<td>92</td>
</tr>
<tr>
<td>Will provides other than equal sharing</td>
<td>4</td>
<td>8&lt;sup&gt;*&lt;/sup&gt;</td>
</tr>
<tr>
<td>Total cases</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

<sup>*</sup> Denotes a significant difference at 5 per cent level.

<sup>a</sup>Includes 7 cases where the respondent had a definite plan in mind which included the use of a will.
stemmed from *inter vivos* treatment and not treatment at death.

All of the eight respondents who thought their parents had not achieved the objective of equitable treatment had a will, but in only two cases were the children given equal shares of property in the will. In both of these cases the respondents also were dissatisfied because of *inter vivos* treatment. Thus, there appears to be some evidence that if children are treated equally at death then there may be instances where inequity would result because the children have received unequal *inter vivos* assistance from their parent.

The frequency that equal sharing at death would occur was found to be even higher for children of the respondents than did occur for the children of the deceased relatives. Twenty-five of the respondents had a transfer plan providing for equal treatment of their children and 22 had no plan other than to let the property be divided equally by intestate law. Thus if the respondents died with the transfer provisions they had in effect at the time of the interview, then the children would have received equal shares in 47 out of 51, or 92 per cent, of the cases. Only four, or 8 per cent, of the respondents had a transfer plan providing for other than equal treatment of children at the respondent's death while 27 per cent of the deceased relatives had made provisions resulting in such inequality (Table 19). This difference which was found to be statistically significant might well be expected for two reasons. First, the deceased relatives had more children per family, as was discussed in a previous chapter. As the number of children increase there would appear to be increasing chances that the parents would want to make special provisions for at least one of
the children in their will. Second, by the time the deceased relatives were nearing the end of their lives they had in most cases associated with their children over a longer period of time than the respondents had associated with their children at the time of the interviews. Thus the deceased relatives would be expected to have decided in a larger proportion of cases to provide for other than equal treatment in their wills.

Although the children of the respondents in many cases may be younger than were the children of the deceased relatives at time of death, the possibility of equal sharing among the respondents' children may result in frequent inequitable treatment. If a respondent has given assistance to older children to get started farming, for example, he may plan on giving similar assistance to younger children at a later time. However, there is always the possibility that the respondent may die before he gives assistance to the younger children and financial inequitability would result if the children shared equally in his estate. Such results would appear to be difficult to avoid especially where some of the children are still minors since there must be a continuing revision of the shares to be received at death if inequitable treatment is to be avoided.

The likelihood of equal inter vivos treatment may become greater as the children grow older and especially at the stage where they are all out of school. Fifty-one respondents had more than one child (Table 14). In 29 of these 51 cases all of the respondents' children had finished school. Within these 29 cases Table 20 shows the frequency that some form of assistance was given to some of the children but not to all of the children. Also Table 20 indicates the frequency that equal sharing would result if
Table 20. Frequency of assistance to only part of the children but not to all of them, where all children were out of school

<table>
<thead>
<tr>
<th>Kinds of assistance</th>
<th>Number of cases where assistance was given to only part of the children</th>
<th>Number of cases where equal sharing would result at death of respondent</th>
<th>Per cent of equal sharing cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rented land</td>
<td>15</td>
<td>13</td>
<td>87</td>
</tr>
<tr>
<td>Rented land below market rates</td>
<td>5</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Cash gifts</td>
<td>3</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Gifts of L.S., feed, machinery, etc.</td>
<td>6</td>
<td>5</td>
<td>83</td>
</tr>
<tr>
<td>Management advice</td>
<td>9</td>
<td>7</td>
<td>78</td>
</tr>
<tr>
<td>Loans</td>
<td>13</td>
<td>9</td>
<td>69</td>
</tr>
<tr>
<td>Educational assistance&lt;sup&gt;a&lt;/sup&gt;</td>
<td>17</td>
<td>13</td>
<td>76</td>
</tr>
<tr>
<td>Worked at home without wages</td>
<td>18</td>
<td>16</td>
<td>89</td>
</tr>
<tr>
<td>Labor assistance from parents</td>
<td>5</td>
<td>4</td>
<td>80</td>
</tr>
</tbody>
</table>

<sup>a</sup>Includes only assistance beyond high school.

The respondent had died with the transfer plan he possessed at the time of the interview. For each type of differential treatment among the respondents' children there would have been an equal sharing of the respondents' property in a majority of cases. However, one type of unequal assistance may be offset by another. For example, a farmer with two children may rent his farm below market rates to one child and send the other child to college so that the assistance to the two children have
about the same financial value. On the other hand the child renting
the farm may receive some gifts of livestock, feed, or machinery when
he gets started and possibly a loan from his father which could not have
been obtained from a bank. The parent may also give some labor assistance
to the farming child as well as management advice. The parent may find
it difficult to assist the other child in similar ways and as a result
does nothing, so that an equal sharing at death would result in inequi-
table treatment.

An actual case story of the situation of one of the respondents who
will be called respondent X will be discussed. Respondent X had seven
children and he had made a will wherein he gave his wife fee simple in-
terest in personal property and a life interest in his farm and a town
lot. The remainder interest in the real estate was to go equally to his
seven children. The inter vivos assistance which he had given his child-
ren up to the time of the interview appeared to be unequal, but he said
he did not plan on giving his children any further assistance unless they
got into trouble. Only children number 4 and 7 had gone to high school.
Child number 7 had gone to college for two years with respondent X paying
about half of the expense, but the respondent refused to give the exact
amount it cost him. In regard to the time the children worked at home
after leaving school the respondent would not give a definite answer but
said they all worked at home about the same length of time except that
child number 7 worked at home very little. The respondent said the
children only received room and board while working at home. Respondent
X had rented his farm to child number 3 for nine years and child number 5
had been renting it for the two years prior to the interview. In both cases, the respondent said he thought he had charged less rent than what the market rates were at the corresponding time. The respondent had also loaned money to children number 3 and 5. He said he thought he had given management advice to all the children except number 1 and 2 who were not farming. The monetary value of management advice would be difficult to estimate, but aside from management advice it would appear that children 3, 5, and 7 received more assistance with monetary value than did the remaining four children. Therefore, respondent X appeared not to be treating his children equitably by providing for equal treatment in his will. This respondent affirmed achievement of the equitable treatment objective in early part of the interview. However, as discussed earlier he may have considered some other factors than his own monetary assistance and in this case the assistance received by some of the children's spouses may have been important.

Making improvements on farms rented to children

Hypothetically, equal sharing at death may often result in unequal treatment of children because some of the children at their own expense may have constructed improvements on farms they rented from the parents. Such improvements as buildings and soil improvements may have required substantial sums of money and time and they may have contributed additional income to the parent as well as having possessed some value at the time the renting arrangement ended. Unless there has been some previous agreement in such a situation to compensate the tenant
child for the unused portion of the improvements there may be inequitable treatment of this child.\textsuperscript{1} If the parents have not given \textit{inter vivos} assistance which offsets failure to compensate for unused portions of the improvements and other forms of benefits given to other children, then equal treatment at death of the parent would be inequitable to the renting child.

The respondents were asked if any of their children to whom they rented land had constructed any improvements at the children's own expense. Twenty-nine children had rented land from the respondents and only one respondent indicated that a child had made improvements at his own expense without compensation from the respondent (Table 21). The actual cost to the tenant child in this case was estimated by the respondent at only $200 plus labor. Thus from the respondents' viewpoint as parents, they did not feel that their tenant children had financed farm improvements out of their own pockets. Consequently, little evidence was found that improvements paid for by the respondents' children was a possible source of inequitable treatment.

However, out of the 24 respondents who had rented land from their deceased parents 12 said they had made some improvements at their own expense for which they were not repaid prior to the death of the parent (Table 21). In seven of the 12 cases there was a complete equal sharing among children in the deceased's estate. In addition, there was approxi-

Table 21. Frequency that children rented land from parents where there was more than one child in the family, and various other aspects of making permanent improvements by children

<table>
<thead>
<tr>
<th></th>
<th>Children rented land from respondents</th>
<th>Respondents rented land from deceased parent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Total cases where land was rented (where respondents had more than one child)</td>
<td>29(^a)</td>
<td>100</td>
</tr>
<tr>
<td>Cases where renter made improvements at his own expense</td>
<td>1</td>
<td>3(^*)</td>
</tr>
<tr>
<td>Cases where renter made improvements at his own expense and where equal sharing at death would have or did result</td>
<td>1</td>
<td>3(^*)</td>
</tr>
<tr>
<td>Cases where the renter desired additional improvements but did not construct them</td>
<td>6</td>
<td>21(^*)</td>
</tr>
<tr>
<td>Cases where the renter desired additional improvements but did not construct them partly because of no assurance of receiving compensation or eventual title to farm</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Cases where there was an agreement made to provide renter compensation for constructing permanent improvements</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

*Denotes a significant difference at the 5 per cent level.

\(^a\)There were 20 different respondents involved. Some of them had rented land to more than one child.
mately equal sharing in three more of the cases and the apparent reason for the divergence from equal sharing was unrelated to the improvements made at the operator's expense. Thus, a significant portion of the respondents who had rented from their deceased parents received no recognition from their parents for the expense they had incurred on improvements unless the parents had equalized treatment between children inter vivos in some way. As earlier indicated such equalization would be unlikely.

In one particular instance the respondent apparently avoided the results of being treated inequitably by doubtful means. The respondent and her husband had constructed numerous improvements on a farm which they rented from the respondent's father for 12 years prior to his death in the late 1940's. The respondent estimated the improvements to have cost $10,000 and no compensation was ever received. The father's will gave the respondent an option to buy the farm based on the appraised price at time of death. Four more of the eight children also had made some improvements on the father's land and were also given similar options. At the time the estate was settled the appraisers were told of the improvements for which the children had paid, so the appraisers did not include these improvements in making their appraisal. The respondent said that the children made the improvements because they trusted their father to

\[^{1}\text{In one case the deceased gave small additional benefits to two children who had worked at home longer than the others. In a second case, one of the three children was left an equal share but with only a life interest because of a mental condition. In the third case the minor grandchildren via a deceased daughter were to receive considerable extra benefits, evidently because of their poor financial condition. The will was broken and the deceased's children all shared equally according to intestate distribution.}\]
treat them fairly and also they were willing to take a chance on the improvements paying out while renting the farms. However, the non-farming children could have insisted on higher appraised prices since there was no agreement between the father and the children to allow for consideration of the remaining value of the improvements. If these other children did not acquiesce to the lower appraised values then some degree of equitability was achieved only by illegal means. Furthermore, in several other cases the respondent indicated he had received some consideration from the appraisers or the administrator for improvements the respondent had constructed.

Thus much more evidence was found that the respondents were more often treated inequitably by their parents because of improvements they financed than the respondents are likely to give inequitable treatment to their own children because of such improvements. This may raise the question of why the respondents were more often willing to construct improvements on farms they rented than were the tenant children of the respondents. The resulting inequitable treatment received by the respondents may have caused them to decide to make an effort to be fair with their children. However, this possible cause was not explored.

There may be other reasons for the higher frequency in which respondents made improvements as compared to the frequency found for the respondents' children. The respondents gave the answers for both situations. What the respondent as the landlord would consider as an improvement which the children have paid for may not be the same as his children might consider as permanent improvement to the farm. Also, in recent years the type of
improvements which renting children might contribute to the farm may have shifted somewhat in the direction of increasing soil fertility and soil conservation measures. Because this type of improvement is harder to visualize the respondents may have failed to appreciate such improvements when made by their children.

Furthermore, the children of the respondents may possibly have felt less need to construct improvements because in the recent years of higher farm incomes the respondents may have built and maintained better improvements than the respondents found on the farms they rented from their parents. This appears to be verified to some extent by a recent study by Timmons where it was found that related tenants would not make as many improvements as non-related tenants said they would if in both cases the tenants owned the farms they were renting.\(^1\) In the present study a significantly smaller proportion of the respondents thought their children desired additional improvements than the proportion of respondents who had wanted additional improvements when they were renting from their parents. Only 21 per cent of the respondent's children wanted some additional improvements which they did not construct while this was true for 50 per cent of the respondents when they were renting (Table 21).

The explanation for the failure to construct desired improvements is relevant to another hypothesis associated with those developed in the second chapter concerning equitable treatment. If the child renting from his parent were aware that he might not receive full benefit of improve-

ments he constructs, he might decline to make these improvements or repairs although such actions would result in inefficient operation and accelerated deterioration. However, a recent Michigan study found only a few indications of such deterioration where children had refused to make improvements. Nevertheless, there was some evidence in this study which tended to support this hypothesis as to why renting children refrained from constructing permanent improvements. Four of the six respondents who said their children wanted additional improvements also said that lack of assurance of compensation or of receiving title to the farm was a factor in preventing the children from making these improvements at their own expense. Six of the 12 respondents gave the same reason for not making improvements while they rented from their parents (Table 21). Thus, 14 per cent of all children who rented from respondents and 25 per cent of all respondents who had rented from deceased parents were influenced to not make improvements for fear of failing to receive the benefits. The lack of capital was also sometimes given as an additional reason or as the sole reason for not making improvements in some instances.

Attaining equitable treatment

Although the respondents had an affirmative belief about the achievement of equitable treatment both in regard to themselves and of their

deceased relatives, there was evidence that some respondent's children may not receive equitable treatment and that it was not received by the children of some deceased relatives. If the parent's goal is to give equal financial assistance considering both inter vivos and death transfers, then these inequitable results apparently stem in part from a lack of appreciation of and lack of consideration of inter vivos treatment of children. To achieve this goal parents must adjust their transfer plans to fully account for such things as children's work at home without wages, cash gifts for any purpose such as going to college, or the improvements constructed on a rented farm. In regard to this responsibility of parents a Virginia study concludes "Thus, equal division among heirs provides no compensation for these contributions and it becomes necessary for the parents to stipulate in writing a more equitable division."¹

Increased knowledge by parents and children in regard to the consequences of methods of transfer and the risks and uncertainties of various actions would appear to have helped avoid inequitable treatment. Knowledge of the importance of keeping dealings on a business basis and putting agreements into writing would assist in achieving equitable treatment. For example, when grown children remain at home and work on the farm the parents and these children may make an agreement in regard to wages which would prevent the children from not receiving consideration for this labor in the overall transfer plan. If a parent made loans

to some of the children without some arrangement for eventual payment of
the going interest rate, then there is the basis for some degree of
inequitability.

The presence of agreements preferably in written form would help
erase the potential source of inequitability where children make improve­
ments on rented farms. Out of the 29 cases where children rented land
from respondents, in only one instance was there an agreement to compen­
sate the renter for making permanent improvements (Table 21). Two such
agreements were found among the 24 respondents who rented land from the
deceased parents. Any such agreement which provides compensation only
after a period of years should be in writing if the renter wants to
minimize the risk of not receiving the agreed on compensation. All three
of the compensation agreements which were found in this study were oral
arrangements, but they were short run in that compensation was to be paid
immediately or to be taken out of the landlord's rent. Thus in no case
was there an agreement to compensate renting children for unused portions
of improvements which they constructed.

Previous mention has been made of evidence which indicated that the
absence of agreements to provide compensation for unused portions of
improvements prevented construction of improvements. Research and exten­
sion programs have been carried on in Iowa with the purpose of providing
information on the problems of making improvements on rented farms as well
as assisting in the drawing up of written agreements. Alternative methods
which farmers have used and might use are reported in a recent Iowa
study. Lease forms have been developed which may be used or serve as a guide for an agreement between renter and landlord on making improvements. The attainment of equitable treatment may be facilitated through changes in property and inheritance laws. Changes in property laws to allow the tenant increased rights in permanent improvements would tend to reduce the extent of inequitable treatment resulting from making such improvements. Such changes might give greater assurance to a renting child of being compensated for unused improvements at any time he is forced to cease renting the farm such as at the death of the landlord parent. Changes in the law of descent and distribution covering the settlement of estates of intestate persons might be made which would give the court or administrator power to make adjustments for discriminatory inter vivos treatment of the children. For example, power might be given to provide allowances for work at home without wages, or where loans to children were "forgotten", power might be given to establish whether there was the intent of a gift and if not to collect the principal with interest. However, further study of the effects and legal ramifications of such statute changes are not pursued in this study.


2These various types of lease forms have been prepared by the Agricultural Extension Service, Ames, Iowa.
Another limitation which might prevent the landowner from obtaining the equitable treatment goal is the possibility of conflicting goals. The landowner may also have goals such as keeping his farm in the family or maintenance of the going concern. If the landowner takes all the steps which he has available to achieve such goals then he may sometimes feel that he has not treated some of his children fairly. However, since there is no apparent conflict with the retirement objective which was rated first in importance by 80 per cent of the respondents and the equitable treatment objective which was rated first or second by 81 per cent of the respondents, there would appear to be few cases where the equitable treatment goal is subordinated to conflicting goals (Table 2). The nature of the conflicts and the analysis of them will be discussed further as each of the conflicting goals are examined in detail.

Early Assistance to Children

**Frequency as a transfer objective**

Parents may give economic assistance to their children at various times in their children's lives. To provide such assistance to their children at an early age was another common objective of the respondents. As many as 18 per cent of the respondents gave this objective voluntarily (Table 2). And, 61 out of 64, or 95 per cent, of the respondents with children signified this objective out of the list of objectives shown them. Two of the three respondents who did not point out early assistance as one of their objectives only had one child. In one case the child had a men-
tal condition, and in the second case the child was a 33 year old wife of a person apparently well established in business. The third respondent had three children all over 40 years old who were established in business. Therefore, these three respondents may have felt that the objective of early assistance was irrelevant to them at the time of the interview. Thus, regardless of these exceptions, the objective of early assistance appeared to be widely held among those landowners of Grundy County who had children.

However, the question may again be raised as to whether the respondents indicated this objective because they would be expected to possess it by the public in general. Only 44 per cent of these respondents considered early assistance as one of the three most important (Table 2). Thus, at least a sizeable portion of the respondents may not have considered the giving of early economic help to their children as too important.

The respondents thought the deceased relatives had had this objective in 36 out of 44, or 82 per cent, of the cases (Table 4). This is a significantly lower percentage than the 95 per cent mentioned above for the respondents. Although the hypotheses were not developed in this much detail, a larger portion of respondents would have been expected to have the early assistance objective because, as was discussed in connection with equitable treatment, the respondents gave both answers first as a parent and second as a child. The respondents as parents might be inclined to consider early assistance as including various things such as guidance or advice in getting established in some business or profession. The extent
that the respondents as parents included such intangible items and the extent that these items were weighed with direct money assistance was not determined. However, the respondents as children of their deceased parents might tend to decide whether their parents had this objective strictly on the basis of the actual monetary assistance or the economic opportunity which their parents gave them. If the respondents' children viewed the respondents' actions in the same light, then this difference which was found may only point out the differences in viewpoint between parents and children.

That the extent of the deceased parents' economic assistance tended to influence the respondents' belief that their parents were not interested in early assistance is evidenced by the comments of three of the eight respondents who did not think their parents had this objective. When these three respondents were asked if they or their brothers and sisters had wanted their parent to achieve other objectives, one respondent said that they had wanted the parent to convey his land before death. A second respondent said that she felt she had not been paid for working at home before getting married, and a third said he felt that his father just let the children make out for themselves.

Out of those persons who had the objective of giving early assistance to children the problem of achieving this objective seemed to have been solved by a substantial majority of respondents and deceased parents. About three-fourths of the respondents said they would be able to give early assistance and the respondents said four-fifths of the deceased parents had done so (Table 5). Furthermore, this objective was achieved
just as frequently when the respondents or deceased persons had transfer plans as when they did not (Table 9). Since transfers which give early assistance are usually inter vivos transfers, there may be no necessary connection between them and the making of transfer plans which primarily involve the transfer of property at death.¹

Some relationship seemed to exist between the respondents feeling that this objective was achieved and whether or not all of the respondents' children were out of school. Fourteen respondents who wanted to give early assistance to their children said either they had not or did not know if they would be able to achieve this goal. Twelve of these 14 respondents had children still in school while this was true for only 15 out of 50 respondents who affirmed this goal. This was found to be a significant difference. Where the respondents' children were all out of school the children probably were older, and the respondent had had more opportunities to give them assistance as compared to respondents whose children were still in school. Also, the respondents may be more inclined to feel that this goal has been achieved when their children have finished school and are started in some business even though no material assistance has been given to them. In an agricultural area such as Grundy County, the respondents probably would regard children who are farming as having gotten a good start on their own. Thirty-eight respondents had all of their children out of school and in 25 cases some of the children were already farming.

¹See footnote ¹ in Table 7 for the classification of persons with and without transfer plans.
Forms of assistance to children

An attempt was made to determine the various forms of assistance which were of monetary value or which consisted of an economic opportunity given to children by parents. A particular effort was made to determine the forms of assistance the respondent had received from relatives (Table 22). However, little success was achieved in obtaining monetary values, since the respondents had considerable difficulty remembering with any degree of accuracy the financial value of various forms of assistance which they received as much as forty years ago. Also, the monetary value of some forms of assistance such as renting a farm from parents could only be estimated.

In addition to assistance received by the respondent, the various forms of aid received by the respondent’s spouse was also obtained. This information was sought because of the possible contribution which the spouse’s assistance may make to total family resources. Since 72 per cent of the respondents were men and every respondent had acquired land from some source, it might be expected that the number of different kinds of assistance received by respondents would be greater than the number received by their spouses. An average of 3.0 and 1.4 different forms of assistance was received by respondents and spouses, respectively, or a combined average of 4.4 per respondent (Table 22). Only five of the 76 respondents had never had a spouse.

After listing the various forms of aid received from relatives by both himself and spouse, the respondent was asked to indicate which single
Table 22. Summary of various forms of assistance that respondent and spouse received from relatives

<table>
<thead>
<tr>
<th>Forms of assistance received from relatives</th>
<th>Received by respondent</th>
<th>Received by spouse</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total cases</td>
<td>Most financial benefit No.</td>
<td>No.</td>
</tr>
<tr>
<td>College assistance</td>
<td>6</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Gifts of livestock and equipment</td>
<td>31</td>
<td>4</td>
<td>22</td>
</tr>
<tr>
<td>Loans given or credit backing provided</td>
<td>29</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Loans of feed, livestock and equipment</td>
<td>1</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Labor and management assistance</td>
<td>18</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Rented land</td>
<td>44</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Subtotal</td>
<td>129</td>
<td>30</td>
<td>64</td>
</tr>
</tbody>
</table>

Forms of assistance which may not be received early in life:

<table>
<thead>
<tr>
<th>Forms of assistance</th>
<th>Received by respondent</th>
<th>Received by spouse</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total cases</td>
<td>Most financial benefit No.</td>
<td>No.</td>
</tr>
<tr>
<td>Gifts of land</td>
<td>6</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Gifts of cash</td>
<td>15</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Gifts of livestock and equipment</td>
<td>10</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Loans of feed, livestock and equipment</td>
<td>29</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>----</td>
<td>----</td>
<td>---</td>
</tr>
<tr>
<td>Labor and management assistance</td>
<td>18</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Rented land</td>
<td>44</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>129</td>
<td>30</td>
<td>64</td>
</tr>
</tbody>
</table>

**Forms of assistance which may not be received early in life:**

| Gifts of land                          | 6  | 3  | 1 | 1 | 7  | 4  | 57 | 5  |
| Gifts of cash                          | 15 | 1  | 8 | 1 | 23 | 2  | 9  | 3  |
| Sale of farm                           | 18 | 5  | 3 | 0 | 21 | 5  | 25 | 6  |
| Inheritance received                   | 59 | 19 | 30| 3 | 89 | 22 | 25 | 28 |
| (Inheritance expected)<sup>c</sup>     | (21)| (0)| (18)| (0)| (39)| (0)| (0)| (0) |
| **Subtotal**                            | 98 | 28 | 42| 5 | 140| 33 | 24 | 42 |

**Total**                                    | 227| 58 | 106| 20|333| 78 | 23 |100 |

**Average per respondent**                   | 3.0| -  | 1.4| - | 4.4| -  | -  | -  |

<sup>a</sup> Relatives meant whoever the respondent wanted it to mean in answering the question. In only a very few cases was aid received from both a parent and some other relative.

<sup>b</sup> The spouses who received a particular form of assistance may or may not be connected with the respondents getting the same form of assistance.

<sup>c</sup> The totals do not include the numbers of persons who expect to inherit property.
form of assistance received by them had “helped him the most financially” (Table 22). A total of 78 answers were received because two of the 76 respondents reported that two different kinds of assistance were equally of first importance.

The transfer of property by inheritance was the form of assistance more often received than any other and more often considered as most important financially by respondents. Fifty-nine of the 76 respondents and 30 of their spouses had received some property through inheritance. This form of assistance was considered most important in 22 cases with 19 due to the respondent's inheritance and only 3 due to the spouse's inheritance. The much smaller proportion of the instances that the spouse's inheritance was considered of most financial value appeared to be related to whether or not some interest in land was inherited. Over one-half of the 59 respondents as compared to three of the 30 spouses who had received an inheritance received some interest in land.

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1. The answers to this question which are tabulated in Table 22 are only estimates by the respondents. In many instances the respondent could only guess at an answer even if more careful attention had been given to this question. A respondent could not definitely say whether a gift of two cows and a team of horses, or a $1,000 loan when he started farming had benefited him more or less than the $10,000 he inherited 20 years later since no measurement of the overall effects on his income could be determined.

2. When some form of aid received from the spouse's relatives was designated as of most value financially, the respondent was rating this assistance over any which he may have received from his own relatives.

3. The frequency with which an interest in land was inherited is not shown in Table 22.
The second most common form of assistance both in frequency of occurrence and as having been of the most financial value was the renting of land from relatives. An economic opportunity is provided through this form of assistance and little or no element of gift is present as in the case with inheritance. Land was rented from the respondents relatives in 44 instances and only in 11 cases from spouse's relatives. This opportunity was designated as of top financial assistance in 19 cases. Seven of the 11 cases where such assistance came from the spouse's side of the family were considered as having been most important financially which compares to the previously mentioned 3 out of 30 cases of spouse's inheritance.

The more frequent top importance attached to land rented from the spouse's relatives suggests the possibility that these respondents had to rely on the assistance coming through the spouse since the respondent's parents either did not have much to assist with or delayed giving assistance.

The data shown in Table 22 do not indicate the proportion of respondents that benefited from any one form of assistance received from both the respondent's and spouse's relatives. The 30 spouses who received inheritance are not necessarily the spouses of 30 of the 59 respondents who received inheritance. Either or both the respondent and spouse already had received property through inheritance in 64 of the 76 cases, or 84 per cent. Some inheritance was expected to be received eventually in seven of the twelve remaining cases. Thus only five of 76, or 7 per cent,

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1In ten of the 55 cases where land was rented from relatives, the respondents said that the rent was below the going rate or customary rate which in effect was a gift.
of the respondents had not benefited or did not expect to benefit from inheritance which tends to indicate that land owners in Grundy County benefit from inheritance to a great extent.¹

The wide extent that these landowners had been helped by family assistance is also shown by the fact that only 8 of the 76 respondents failed to report having received at least one form of assistance from relatives which involved some direct gift with monetary value. However, each of these eight respondents had received assistance in the form of loans or had rented land from either the respondent's or spouse's relatives. Thus, 100 per cent of the respondent landowners had already been the beneficiary of some form of family assistance. In addition, there were 32 cases in which the respondent or his spouse or both expected to receive some inheritance in the future; no attempt was made to determine what other forms of future assistance may have been expected. In summary, the transfer of property within families appears to have been of economic importance to almost all landowners in Grundy County. A Wisconsin study by Waples and Parsons found similar widespread family assistance to owner-operators wherein 64 out of 68 such persons received family aid in acquiring their land.²

¹ Ninety-five per cent confidence limits indicate that between 99 and 88 per cent of all landowners in Grundy County had or expected to receive some inheritance.
² Kenneth H. Parsons and Eliot O. Waples. op. cit., p. 29.
Stage in life children receive assistance

The assistance received by children early in their productive lives may be more beneficial financially than assistance coming at a later stage in life. The respondents in 45 of 78 instances named a form of assistance which tends to be received early in life, as having been the form of assistance which had been of most financial value to them (Table 22). These items are shown in the upper section of Table 22 and do not tend to involve relative large amounts of monetary assistance as compared to the forms of assistance which probably are received later in life such as a gift of land. Thus, the respondents tended to place considerable emphasis on the receipt of assistance at any early stage in life rather than the extent of its monetary value. In fact, 34 out of the 45 cases in which some form of relatively early assistance was named as most important involved receipt of an economic opportunity and did not involve much if any element of gift. Nineteen such instances resulted from renting of land from relatives, 14 from loans or credit backing, and one from the respondent having been loaned items of feed, livestock, or machinery.

However, the forms of assistance shown in the lower section of Table 22 often may be received later in life, but might have been received by some children early in their lives and thus designated as having been of most financial value. In several cases such designation was given to

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1 In this discussion, "early in the life of children" is defined as the period when a person is getting established in an occupation.
inheritance when it was the first or only form of assistance received. Also a large gift or inheritance may have been received very shortly after other less monetarily valuable forms of assistance. For example, one respondent said he received some horses and cows in 1908 which he valued at $300. He rented 200 acres from his father in 1909 and 1910 and acknowledged receipt of management advice, but he considered the 80 acres he inherited in 1910 from his father as having given him the most financial assistance.

On the other hand, a somewhat typical example may be given to illustrate the frequently found tendency to consider a relatively small amount of assistance early in life as more important than a much larger monetary transfer at a later date. This respondent received a gift of livestock and machinery with an estimated value of $500 in 1902 which he indicated as having been the form of assistance which was most valuable to him. The respondent's father died in 1907 leaving him a one-eleventh interest in 1040 acres of land, but he received no material benefit until his mother died in 1920 when he sold his interest for $27,000.

As in the example just discussed, the children of landowners may not receive any substantial monetary assistance through the inheritance route until the surviving spouse also passes away. The data in Table 16 indicated that in almost 60 per cent of the cases both the respondents and deceased relatives had transfer plans which gave the spouse either a life or fee simple interest in all property. This would appear to indicate that a majority of landowners' children could not expect to obtain control of any fee simple ownership interest in land until the end of both of their
parents life expectancies unless inter vivos transfers occurred. Table 13 shows that the average age of the 129 deceased landowners who died between 1948 and 1954 was almost 73 years. Even assuming that there is no surviving spouse, a child 25 years younger would have been 48 years old when he received a fee simple interest in land. If at the age of 48 this child goes ahead and gains control of the shares of any other heirs, many of his most productive years are passed in which as a fee simple owner he might have been interested in improving the farm.

To what extent do landowners make inter vivos transfers of land and thus provide an opportunity for their children to operate it at an early age when they might have more incentive to operate the land intensively and might be interested in making improvements? The respondents or their spouses received land through an outright gift in seven instances and land was purchased from relatives on 21 different occasions (Table 22). Thus in 27 out of 76, or 36 per cent of the cases, either or both the respondent and his spouse had received a fee simple land interest through inter vivos transfer. Thus, it is estimated that more than one third of the landowners in Grundy County had been assisted in becoming landowners through inter vivos transfer.²

For children who want to farm, a major form of assistance would involve the provision of an opportunity to operate land. Children who go

1 In seven of the 21 cases where land was purchased, further assistance was given in the form of a purchase price below the market value of the land at time of purchase.

2 Ninety-five per cent confidence limits are 25 and 47 per cent.
into other professions may be given comparable forms of assistance such as a college education or cash gifts. However, the respondents were primarily farmers by profession since 67 had been or still were active farmers. In order to become a farm operator, control of land must be secured either through ownership or some form of leasing arrangement. Even though title to land is retained by the parent, early assistance to some children might be obtained to a large degree by some leasing arrangement. This was evidenced by 19 out of 76 respondents who said that renting land from relatives was the most valuable form of assistance which they had received.

Therefore, an analysis was made of the plans of the respondents in regard to turning over operation of their farms to their children. Among the 67 respondents who had been or were farm operators 29, or 43 per cent, were retired at the time of the interview. The average age of these respondents at retirement was 57 years (Table 23). Three out of four retired between the ages of 50 and 70. Out of the 38 respondents who were operating their farms, 28 respondents planned to retire, and the average as well as the median age at which they expected to retire was 60. Thus, age 60 was found to be approximately the retirement age of Grundy County landowners.

The children of landowners may also feel that they have a greater economic opportunity when renting land from their parents if the children are given a free hand in management and not restricted by some ideas of the parents. However, only ten of 28 retired respondents had also retired from taking an active hand in the management of their farms (Table
Table 23. Age of retirement of respondent landowners from physical operation and from management of their farms, by age classes

<table>
<thead>
<tr>
<th>Age of retirement by age classes</th>
<th>Respondents retired from physical operation of farm</th>
<th>Respondents retired from active hand in management of farm</th>
<th>Respondents planning to retire from physical operation of farms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per cent</td>
<td>Number</td>
</tr>
<tr>
<td>Under 50</td>
<td>6</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>50 to 60</td>
<td>10</td>
<td>36</td>
<td>4</td>
</tr>
<tr>
<td>60 to 70</td>
<td>11</td>
<td>39</td>
<td>4</td>
</tr>
<tr>
<td>70 and over</td>
<td>1</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>28^a</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>Average age</td>
<td>57</td>
<td></td>
<td>60</td>
</tr>
</tbody>
</table>

^aThere were actually 29 retired respondents but the age of retirement of one respondent was not obtained.

23). These ten retired respondents tended to relinquish management of their farms at the same time or very shortly after they retired from physical operation.

To permit a son or son-in-law to take over was the reason given for retiring from physical operation of the farm in 11 of 28 instances (Table 24). This would indicate that about two out of five Grundy County landowners retire to make an opportunity for their children.\(^1\) Although these

\(^1\)This amounts to a fairly small sample and 95 per cent confidence limits are between 21 and 57 per cent.
Table 24. Frequency of various reasons why the respondent landowners retired from physical operation of their farms and the average age of retirement

<table>
<thead>
<tr>
<th>Reasons given for retiring from physical operation of the farm</th>
<th>Number of cases</th>
<th>Per cent of all cases</th>
<th>Average retirement age of respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Let son or son-in-law take over</td>
<td>11</td>
<td>39</td>
<td>58</td>
</tr>
<tr>
<td>Was not able to continue</td>
<td>11</td>
<td>39</td>
<td>59</td>
</tr>
<tr>
<td>Just wanted to retire</td>
<td>4</td>
<td>14</td>
<td>58</td>
</tr>
<tr>
<td>Other reasons(^a)</td>
<td>3</td>
<td>11</td>
<td>46</td>
</tr>
<tr>
<td>Total or overall average</td>
<td>28(^b)</td>
<td>103</td>
<td>57</td>
</tr>
</tbody>
</table>

\(^a\)The other reasons given as causes for retirement were "wife's health", "to let the hired man operate the farm", and "husband's death".

\(^b\)Answers were given by 28 respondents but the individual categories added to 29 since one respondent said he retired so as to "let his son take over" and also because he "was not able to continue."

Respondents gave this reason for retiring they did not tend to retire at any earlier age than the respondents who gave some other reason for retiring. Where retirement was for the purpose of permitting children to take over farm operation, the respondent's average age was 58 compared to an average of 56 for respondents retiring for other reasons. The respondents who turned the operation of farms over to children may have continued to operate them if there had been no children around who apparently were willing and maybe anxious to take over. The oldest child of res-
pondents who retired for the purpose of turning over operation averaged 31 years of age with a range of 25 to 40 years. Thus, if the oldest children in these cases wanted to farm then they would be well along in life before they would have this opportunity on their parents farm.

There appears to be some indication that parents may be increasingly inclined to wait until an older age to release control of farm operation. A total of 15 out of 28 or over one-half of the retired respondents said that they retired because they were not able physically to continue to operate the farm or because they just wanted to retire (Table 24). If the trend in life expectancy continues to increase and the associated technological advances are made which assist in protecting people's health, then farm operators may be physically able to operate their farms to an older age. The recent trend in mechanization of farms tends to reduce the physical work required to operate farms and thus may also assist in enabling farmers to operate farms to an older age. Most respondents who were retired had operated their farms for a number of years prior to World War II when more physical labor was necessary than on the mechanized farm of recent years. These early years of increased physical labor may have contributed to the inability of respondents to continue operating their farms. This mechanization of farms along with modernization of the farm home may discourage farmers from wanting to retire and move to town so as to have the comforts of city life. A tendency for farmers to continue operating farms to an older age would reduce such opportunities for

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1 Institute of Life Insurance, op. cit. p. ??
children. The frequency of opportunity might be reduced more often on small farms since there is less basis for bringing a child into some kind of partnership arrangement.

Previous discussion indicated that ten respondents out of the 38 who were still farm operators had no plans of ever retiring from physical operation of their farms. Thus, the children of such landowners may not receive any opportunity to operate the parent's land until the parent's death. This decision not to retire appeared not to be related to the absence of children since eight of these respondents had children. A 20 year old child who wants to farm and whose landowning father is 40 years old could not expect to receive a chance to operate the land until he is 51 years old if his father operated the land for the remainder of his life expectancy of 31 years. If the father were 50 years old then the 20 year old child could expect to be 43 years at the end of his father's life expectancy. At this stage in life a child may not consider an opportunity to operate the farm nearly as valuable as he would have 20 years earlier.

The reasons given above indicating that farm people might tend to defer retirement or not retire at all may be somewhat offset by the effects of social security. This would be true particularly where persons are reluctant to retire because of lack of retirement income. Such action would at least tend to increase the opportunities to rent land to children.

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1 Remaining life expectancy for white males was obtained from the U. S. Department of Health, Education, and Welfare. United States Life Table 1949-51. 40, No. 1:16. 1954.
after the landowning parent has reached age 65 which is somewhat older than the common age at which farmers were found to retire in Grundy County. However, this same effect of social security to supplement farmers' retirement incomes may tend to reduce the willingness of some farm owners to sell their farms after retirement. Farm owners who have found that their farms provided insufficient retirement income causing them to sell their farms might have decided to retain ownership if they had had social security income which sufficiently supplemented the rental income.

An actual case of one respondent may be used to illustrate several of the points discussed above. This respondent retired in 1942 at the age of 69 because he was physically unable to continue operation. He went into a stock share renting arrangement with the oldest of his three children, a son who was 40 years old. This unmarried son had remained at home and worked for 26 years without wages whereas the two daughters had not worked at home. The only other assistance the respondent had given his children was to loan some money to one daughter to go to college, yet the respondent said that early assistance to children was one of his objectives. And he gave an affirmative answer in regard to its achievement. However, it is doubtful that the son considered that he received early assistance. If this respondent had been eligible for social security he may have been willing to retire at age 65 instead of 69. On the other hand, if this farmer's situation could be projected into the future, the social security benefits may not have been enough to have influenced him to retire earlier since with the trend in mechanization and with better health expected he might have been physically able
to continue operation for a number of years past age 69. Such results would have even further reduced the opportunity for his son. In addition, this son who had worked 26 years at home could expect no assistance from the respondent in the form of compensation for his labor since the respondent had a will which provided equal shares for the three children.

**Overcoming obstacles to giving early assistance**

The various forms of assistance to children and the stage in the children's lives that these forms of assistance were received were discussed in the last two sections. In order to achieve the objective of early assistance the children must necessarily receive help relatively early in life. The respondents in only a limited number of cases expressed concern over the failure to achieve this objective in either the *ex ante* or *ex post* situations. However, there were found to be some possible problems particularly in giving children assistance in gaining control of land whether as owners or as operators.

What prevents some parents from providing assistance earlier rather than later and to what extent may the obstacles be overcome? Only limited empirical data were obtained in this regard. However, the main obstacles facing landowners logically may be conceived as involving conflicts between the property owner's transfer goals. Previous discussion has already inferred that some landowners may want to retain control of land and associated resources so as to continue to derive satisfaction from being a farm operator. Such use of resources by the owner automatically limits the extent that children can be given assistance. The property rights of
the property owner enable him to do as he pleases in deciding between two such conflicting objectives, and thus, he may decide not to transfer any of his property or transfer the rights to use it until his death.

Much the same type of conflict in goals exists between the desire to retain ownership of resources so as to insure adequate retirement income and to give assistance to children through *inter vivos* transfers. In discussing retirement income it was found that in a large proportion of the instances the resources possessed might be insufficient to provide the respondent and spouse some socially acceptable level of income without any reduction in the amount of property owned through *inter vivos* transfers. However, many respondent landowners indicated that early assistance to children may not require the transfer of any large amount of property. Almost one-third or 24 of the respondents thought the most valuable financial assistance which they received involved one of the following: gifts or loans of livestock, feed and equipment; loans or credit backing, or labor and management assistance (Table 22). Although these forms of assistance may require only relatively small amounts of resources, it is necessary that the receiving child already has obtained control of land in some manner which usually involves the use of a substantial amount of resources. Nevertheless, additional knowledge by landowners of the relative importance of such early forms of assistance may enable them to more fully achieve this objective without seriously impairing retirement income.

For the children who want to farm there are methods whereby the parents might help them to acquire use of the substantial resources involved in a
farm. These means may involve sacrifice of retirement income to various degrees. As has been noted, 19 of the 76 respondents considered renting of land as having been the form of assistance which was most valuable to them (Table 22). The landowner is able to give this form of assistance and still receive the rental income from his land. However, the landowner may not feel that such rental income is in some cases sufficient and thus may feel that he must continue to operate the farm in order to have adequate income. Also, the owner may want to keep an active hand in the operating and management of his land. Various studies have been made concerning possible family arrangements for bringing a son or son-in-law into some kind of father-son operation agreement.¹ In such arrangements it may be possible to expand the volume of business so that both the owner and child have adequate incomes and both of them are considered as operators of the business. These arrangements can be altered to a great degree so as to give the owner varying degrees of control over the farm operation and give him shares of the income.

The owner may want to assist a child to the extent of transferring title of land but still want a minimum assurance of retirement income. Or the landowner may have to consume capital in order to have sufficient income but want one of the children to obtain title to the farm. The owner may accomplish these two objectives by use of some form of the

annuity principle as was discussed in the section on retirement income. Parsons and Waples found in an area of Wisconsin where these two objectives were strongly held by the farm owners that early operator ownership was very successfully and widely achieved. They reported that 53 male owner-operators acquired title to land at the average age of 27 years. These owners were aided in obtaining farm ownership through various forms of family assistance, including use of the "bond of maintenance" idea which involves the annuity principle.

Another means the landowner may use to turn title over to one of the children while still insuring some retirement income is to sell the farm to the child. A straight sale may be made or various kinds of contract arrangements can be made which give desired flexibility in achieving various objectives. The payment provisions of such transfers may be arranged so that the payments will be made at the time and in the amount that retirement income is needed. However, enough flexibility must be incorporated to offset inflationary changes in the price level if the standard of living were maintained which was originally anticipated from the planned monetary income.

For children who want to farm, the provision of assistance in the form of providing or assuring control of land to these children may some-


2 For a discussion of the advantages and disadvantages of the various legal tools and arrangements for transferring property before death see John F. Timmons and John C. O'Bryne. op. cit., pp. 180-197. Also see Jacob H. Beuscher. op. cit., Chapter 12.
times conflict with the goal of equitable treatment. There was no direct attempt to obtain empirical data as to whether landowners were reluctant to turn over control of land to children because they felt that it might result in unequitable treatment. However, in connection with questions concerning failure to make plans in regard to maintenance of the going concern and in regard to keeping the farm in the family some of the respondents voluntarily voiced strong opinions against parents making any plans for a specific child to take over the farm. These respondents tended to feel that if they gave such assistance to one child the others might feel that they were not treated equitably, and they preferred to let the children decide among themselves. A hypothetical reason for this reaction may be connected with the higher incomes received by farmers in recent years. Children who have received the opportunity to farm in recent years have tended to participate in receipt of these higher farm incomes.

Although recordings were made in only six instances of these strongly voiced opinions which were given voluntarily, 22 of the 51, or 43 per cent, respondents who had more than one child preferred to let the children decide among themselves as to who would operate the farm and/or buy the farm after death of the owner. This data may also tend to indicate that landowners are hesitant to give control of land to one of their children before death or it may indicate that they may tend to delay such action.

Educational programs might be developed which could assist landowners in alleviating some of the problems resulting from such conflict of goals. Owners may be made more aware of the means and practices which can be used
and their consequences in terms of achievement of goals. For example, educational agencies may make information more generally available on purchase contracts or various forms of annuities and the extent which they will satisfy the goals of early assistance and retirement income as well as equitable treatment of children. Through such information the landowner becomes better informed of his alternatives. When he makes a choice between alternatives in view of this knowledge, he is aware to a greater extent of the degree that he may be sacrificing some goal such as early assistance in order to achieve another such as a higher degree of retirement income. Similarly an owner may more wisely decide on actions which give early assistance but which conflict with equitable treatment. Increased knowledge may enable the landowner to give the other children forms of assistance which tend to erase the inequity.

Education programs may be needed particularly to provide information on possible forms of assistance to those children who do not go into farming. As was found to be the case with children who go into farming, the parents may be able to give valuable help to them without the transfer of a large amount of resources. For example, parents may become better educated in advising and guiding children into vocations in which they would be proficient such as various kinds of mechanical and electrical work. Furthermore, relatively little monetary assistance may be required to send such children to training school or even to aid in college educations.
Maintenance of the Going Concern

Frequency as a transfer objective

The business of a farm is sometimes forced to slow up or stop its operations just as a factory sometimes has to close down its operations; this results in a period during which output is reduced. In the case of a farm business, production cut backs may be due to an interruption of the going concern which is associated with the intra-family transfer of farm property at death of the landowner.\(^1\) The farm as a going concern may be broken up or partially disrupted if the personal property of feed, livestock, and machinery are not completely taken over by the new operator when transfer of farmland results in a change of operatorship. A change of operatorship may result when land is transferred due to death of the owner or when \textit{inter vivos} transfers are made, particularly when the first owner was operating the farm. Even though the succeeding operator does acquire all the farm personal property there may be a short period of reduced production until the new operator can become familiar with the farm and its operations. Consequently, a disruption of the going concern may result in a loss of income to the farm family or to other persons to whom property may be transferred. A Wisconsin study made in the early 1940's estimated the value to a new operator of taking over a going concern as being worth between $2,000 and $4,000 as compared to having to

\(^1\)The farm business as a going concern may often be interfered with at many other occasions such as when the landowner wants to change tenants. However, only disturbances associated with the intra-family transfer of land resulting from the death of the landowner were inquired into in this study.
completely restock and reequip a farm.\textsuperscript{1} Schultz expresses concern over the possible losses resulting from the disturbance of the going concern in the following statement:

In going from one generation to the next as the farm family completes a cycle, how does it transfer the physical assets to the next generation? Are the going concern values of the farm generally preserved or are the losses very considerable? Little has as yet been done to ascertain the facts on this point. It appears that by and large the losses are very substantial, that the record is a bad one, and that much new ground will have to be broken in terms of education and new institutions in order to improve the performance of the farm family in this sphere.\textsuperscript{2}

Although the maintenance of the going concern through the intra-family transfer process might result in preservation of substantial material benefits to their families, a large share of landowners in Grundy County apparently did not have this objective. Only 28 of 75, or 37 per cent, of the respondent landowners said that maintenance of the going concern was one of their transfer objectives (Table 2). Hypothetically, farm owners who have this objective are farmers who have developed and improved their farms and have considerable pride in the going concern which they have established. However, this hypothesis was not tested except in an indirect manner. A higher portion of the operating respondent landowners had this objective than did the non-operating respondents. Such was the case for 19 out of 38, or 50 per cent of the operating respondents and for only nine out of 37, or 24 per cent, of the non-operating respondents.\textsuperscript{3}

\textsuperscript{1}Kenneth H. Parsons and Eliot O. Waples. \textit{op. cit.}, p. 22.


\textsuperscript{3}A significant difference was found at the 5 per cent level.
The operating respondents may possibly have had more interest in maintaining the going concern on their farms since the existing one was their own and was therefore something in which they may have had much pride. The non-operating respondents are not usually in constant daily contact with the going concern on their farms and some of them were never farm operators; thus, they may have been less interested in maintenance of the going concern on their farms.

Similar to the situation with the respondents, many of the deceased relatives also did not have the going concern objective although it was found that a higher proportion of the deceased persons had the objective than did the respondents. While only 37 per cent of the respondents wanted to maintain the going concern 25 of 45, or 56 per cent, of the deceased relatives had this objective, according to the respondents (Table 4). This difference is significant only if a higher proportion of the deceased relatives were expected to be interested in protecting the going concern.¹ Such a difference can be reasonably expected since a higher proportion of the respondent landowners probably were never farm operators. Land may be increasingly owned by persons who had bought it as an investment and land probably has been increasingly transferred to non-farming children as farm population declines. Persons who were never farm operators probably would not tend to be interested in maintenance of the going concern. Only two of the nine respondents who had never operated

¹However, the difference is almost significant at the five per cent level using a two tail test.
a farm had the going concern objective; and both their farms were being operated by a relative other than a child about whom the respondents expressed some interest in allowing to continue operation of the farm.

The respondents may have been inclined to say that their deceased relatives had the going concern objective if there had been no disruption connected with the intra-family transfer of the farm. The deceased person may not have cared about maintaining the going concern, but the child who was renting the farm at death may have been allowed to continue operation and thus the going concern was maintained. This appears to be the most logical reason why the deceased persons achieved the going concern objective. Only 13 of the 28 respondents, or 46 per cent, gave affirmative answers to achievement of going concern as compared to 21 out of 25, or 84 per cent, affirmative answers given for the deceased persons (Table 5). Therefore, if the going concern on the deceased person's land had not been broken up as a result of estate settlement, the respondent may have been influenced to say both that the deceased person possessed this objective and that he achieved it. This tends to be supported by the fact that the personal farm property was retained on the farm in all but one out of the 21 cases in which the respondent felt that the deceased person had achieved the going concern objective.

On the other hand, the tendency for fewer respondents to indicate achievement of the going concern objective may be due in part to the relatively young ages of the respondent's children. Of the 15 respondents who did not affirm achievement of their going concern objective 12 had some children who were 21 years of age or younger. Thus, the respondents
with relatively young children may feel that their family situation has not crystallized sufficiently to make plans for maintenance of the going concern or they may not have even thought of it yet. Such reasons for not having made plans for the continued operation of their farms are discussed further in the next section.

Sources of disruption

As previously mentioned, the going concern may be disturbed at the death of the landowner if a change in the person who operates the farm occurs and particularly so if the new operator fails to obtain the farm personal property that makes up the going concern. An attempt was made to determine when and why such actions occurred as a result of the death of the deceased relatives. A new operator took over in only four of the 26 cases where the deceased died during 1940 or later. Actually these 26 persons owned land on which there were 51 operating units at their death and on only four units were there possible disruptions of the going concern.

In two of the four instances where a new operator took over the farm during estate settlement the deceased person had previously been operating the farm. In the other two situations the farm land was sold out of the family in the estate settlement. The land was sold in one instance because none of the heirs wanted to buy the land and in the other case the respondent said that "help was hard to get and that none of the heirs wanted to operate this much land". Thus a change in operators appeared to be largely unavoidable on the part of the deceased owner.
In one of these four instances, the change of operators may not have been too serious since the spouse retained the personal farm property and continued operation of the farm. In the two situations where the land was sold out of the family, the new operators already owned farm personal property which they had been using on other farms.

Thus, there was little *ex post* evidence that the transfer of property within families since 1939 has contributed to a disruption of the going concern. There was somewhat more indication that the going concern was interfered with in the transfers that occurred before 1940. Information was not obtained for all operating units which the deceased person owned at death because of the difficulty of obtaining accurate data from the respondents about events happening before 1940. However, the information given by the respondents indicated that there was a change of operators associated with the estate settlement in seven out of 18 cases which compares to four out of 26 for the deceased relatives who died after 1939. In five of the seven instances, the deceased person was operating his land at death and thus a new operator was necessary. In the other instances, the farm was purchased in estate settlement by one of the children who had not been operating the farm and who then operated it. The farm personal property was completely acquired by the new operator in only two of the seven cases where the deceased relatives died before 1940. Although direct comparisons are difficult to make because of the incompleteness of data it does appear that the going concern has not been disturbed as frequently since 1939 as was the case before that time.
The hypothesis was advanced in the second chapter that the going concern might suffer because of friction among the children as to who would take over ownership and operation of the farm. However, not a single case of friction was found in which there was a serious question as to which child acquired the farm in the settlement of the deceased person's estate. There may have been some degree of friction over this potential problem in some cases, but the respondents failed to disclose it when asked if there had ever been serious friction and why. In instances where the children still own the land as tenants in common or as a split remainder interest, the children may not have come to grips with the question of who will own and operate the farm in the future.

The extent that each deceased person had made a deliberate plan providing for the continuous operation of the going concern was not determined except indirectly through the frequency with which the respondent said the deceased person had this objective. However, an attempt was made to obtain more specifically the extent of planning by the respondent or why he had made no plans for maintenance of the going concern. In order to establish what person would most likely be operating the land at his death, the respondent was questioned first about who was operating his farm if he were retired, or who probably would be operating it after he retired. Each of the 51 respondents who had made a definite transfer plan for distribution of his property was then asked if he had made any plans for this operator to continue operating his land after the respondent's death. Only 11, or 22 per cent, of these 51 respondents indicated that their overall transfer plans included such plans for the
protection of the going concern (Table 25). Out of the 11 planned situations, eight of the respondents had provided in their wills for the transfer of the farm to the operator at the time of estate settlement either through direct gift or through an option to buy. The other three cases involved inter vivos transfers two of which were to be sales and one a gift transfer. The plans of these 11 respondents provided considerable insurance against a disruption of the going concern. However, the going concern may still be disturbed, especially in those four cases where the operator had an option if he fails to exercise it at the time of estate settlement.

The 40 remaining respondents who had transfer plans indicated that they had made no plans to enable these persons who probably would be operating their farms at their death to continue operating the farm. Thus, in these cases maintenance of the going concern on the respondents' farms appeared to be jeopardized by the eventual intra-family transfer of these farms. The most common reason given for not having made any such plans involved a conflict with the objective of equitable treatment similar to the conflict between the goals of early assistance and equitable treatment previously discussed. Twelve respondents said they wanted to let the children decide among themselves in the settlement of the estate who would operate the land (Table 25). The conflict with equitable treatment probably was intensified when the respondent had two or more children who were interested in farming or who already were farming. Included in the 12 respondents who wanted to let their children decide, were ten who had at least two children who were already farm operators.
Table 25. Frequency that respondents with transfer plans had made plans to permit the operator of their land to continue operation after respondent's death or reasons why they had not made such provisions

<table>
<thead>
<tr>
<th>Reason</th>
<th>Number</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent had made a plan so as to permit the operator to continue</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>operation after respondent's death</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reasons why the respondent had not made a provision to allow continued</td>
<td></td>
<td></td>
</tr>
<tr>
<td>operation after the respondent's death:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wants to let children decide among themselves</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Had not thought about it</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Children are too young or it is too early in the family stage</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Spouse may want someone else to operate the farm</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Other reasons</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100²</td>
</tr>
</tbody>
</table>

¹Reference is made to the operator who will be or already is operating the farm after retirement of the respondent from farm operation. Twenty-one of the 51 respondents with transfer plans were still operating their farms.

²The individual items will add to over 100 per cent because of rounding to the nearest whole percentage point.
only six of the remaining 39 respondents with transfer plans had more than
two children who were farming.\footnote{The difference between the two groups in the proportion that have
two or more farming children is significant at the one per cent level.} However, more of these 39 respondents
eventually may have more than one child who is a farm operator as evidenced
by seven respondents saying that their children were too young yet or it
was too early in their family stage for them to make plans for the con-
tinuous operation of their farms (Table 25).

Thus, 12 of 51 or almost one-fourth of the respondents who had trans-
fer plans apparently wanted to achieve the objective of equitable treat-
ment to the extent that they would make no plans for preservation of the
going concern. Equitable treatment was of such overriding importance for
nine of the 12 respondents that they did not even list maintenance of the
going concern as an objective. Furthermore, only one of the other three
thought he would achieve the objective of the going concern. In addition
to these 12 cases, other respondents who may eventually have more than one
child go into farming might also fail to take any action protecting the
going concern because they want to let the children decide who the farm's
future operator will be.

The reasons given by the other 21 respondents for not having developed
a plan which would make it possible for the person who is likely to operate
their farm after their death to continue operation are grouped as follows:
nine respondents said they had not thought of it, seven respondents said
the spouse may want someone else to operate the farm, and five respondents
gave miscellaneous reasons including one respondent who said he did not care and another who said he wanted to keep the renter in the dark (Table 25). Only four of these 21 respondents were still operating their farms and earlier discussion indicated that non-operating owners tended to have the going concern objective less frequently. Out of the remaining 17 retired respondents, only four had children who were farm operators. Thus, in addition to being retired, 13 respondents may have had little interest in planning for the maintenance of the going concern since their children were not operating their farms. This appears to be supported by the fact that 12 of these 13 did not list maintenance of the going concern as one of their objectives. The single exception said he did not know how to make such a provision in his transfer plan but that he was much interested in permitting the non-related operator to continue operating the farm.

Thus, only a small number of these 51 respondents had incorporated into their transfer plans some provisions for maintenance of the going concern while in the majority of the cases there was considerable uncertainty about what would happen to the going concern during estate settlement.

The 25 respondents who had no transfer plans were asked only if the person likely to be operating their farm at the respondent's death would be able to continue his operation. Fourteen of the 15 respondents who had indicated they would be satisfied with the intestate division of their property said they did not know. An affirmative answer was given by the single exception because there was only one child. Thus, maintenance of the going concern seemed to be quite uncertain for these persons who did not intend to make
any kind of written transfer plan. Although they failed to mention any such intentions these persons could protect the going concern through an inter vivos transfer of the farm and still die intestate. Out of the 10 respondents who were not satisfied with the intestate division, one respondent indicated that he planned to sell the farm to the operator. Three more of these ten indicated that the going concern may be preserved because the rest of the family would agree to let the operator continue on it. However, the remaining six respondents indicated that they did not know if the operator would be allowed to continue. Since these six intend to make transfer plans they could include provisions for maintenance of the going concern.

In those instances when the landowner fails to use his powers which enable him to make provisions for the maintenance of the going concern, the going concern may suffer because some of the farm personal property has to be sold in order to pay costs and taxes involved in settlement of the estate. However, in the ex post situations that were examined, the going concern apparently suffered very seldom from such a lack of funds. In only one instance was there any indication that farm personal property was sold to pay costs of the estate settlement; and in another case a portion of the farm land was sold for such purposes. The necessity to sell personal property owned at death to pay costs and taxes will more often affect the going concern if the deceased landowner had operated the farm prior to death since the landowner usually would have owned all the personal farm property. But, only seven of the deceased relatives were farm operators just prior to death. In none of these seven cases was the
personal farm property sold out of the family in order to pay costs and taxes of estate settlement. In four of the seven instances, the liquid funds owned at death were not sufficient to cover the costs and taxes which meant that the heirs had to obtain additional funds from some other source. Thus, the insufficiency of liquid funds to meet costs and taxes of estate settlement was a potential threat to maintenance of the going concern.

This threat to the going concern of the respondents who were still farm operators was examined. There were 34 male respondents who were owner operators and who owned all the farm personal property on their farms. If these operator respondents had died at the time of the interview the liquid funds available for paying the estimated costs and taxes would have been sufficient in only three out of the 34 cases. In some instances the liquid funds were all or in part owned in joint tenancy with the wife which means that these funds would not have become property of the respondent's estate. However, even if the wife in each case had permitted the use of the joint tenancy owned funds to pay costs and taxes, only in 11 of the 34 cases would there have been sufficient funds. Thus, the going concerns of a large share of these respondents were potentially in danger due to a lack of liquid funds. Although no tabulation was made of the frequency that non-operating respondents had renting arrangements where they owned part of the farm personal property, the

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1 The costs and taxes were estimated by a procedure which will be explained in a later chapter. The estimation of costs allows some margin above the average that may be expected while the tax computation should approximately coincide with actual results.
going concerns on these farms may also suffer from such a lack of liquidity.

The capital position of the heir who takes over the operation of the farm in estate settlement may also hinder continuance of the going concern. The operator must have a source of funds available for acquiring the personal property of the deceased person as well as enough left for adequate operating expenses. Out of 11 ex post cases where there was a change of farm operators during estate settlement only one oncoming operator failed to buy all the farm personal property of the previous operator due to a lack of capital. No attempt was made to determine if the new operators were left short of operating expenses after acquiring the machinery, feed, and livestock for starting their own going concern. However, the average investment in farm personal property of the 34 male respondent farm operators was found to be $18,200.1 Thus, if the output of the going concern is not to be reduced, a sizeable sum of capital would be required by a new operator to take over these assets and also have sufficient operating capital. In addition, the farm operator may have agreed to buy the other heirs' shares in the land for which he needs capital. Therefore, the increased capital requirements for acquiring farm property which have faced a new farm operator in recent years might reduce the efficiency of the going concern on the respondents' farms although there was little evidence found that this had happened on the deceased relatives' farms.

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1 This value also includes household goods and automobiles as well as feed, livestock, and machinery.
Methods of maintaining the going concern

The empirical data obtained in this study indicate that the going concern probably has not been disrupted on a large percentage of the farms transferred through the intra-family transfer process. However, there were some instances where the going concern apparently suffered in the transfer process, and some evidence appeared to indicate that a large share of the going concerns on the respondents' farms might be disturbed in the transfer process.¹ This potential danger to the going concern on the respondents' farms stemmed from the large proportion of respondents having failed to make any plans to attempt to preserve the going concern. This would seem to point again to the need for an educational program which would first make farm owners' aware of the losses which may result from the disorganization of a going concern, and second, make the owners aware of various means of achieving this objective along with the associated consequences that employing a certain mean will have on achievement of other objectives.

In providing information on the various techniques which could assist in maintaining the going concern educational programs would have to take into account conflicts with other objectives such as that found with the equitable treatment. Although the overwhelming importance of equitable

¹As indicated in the second chapter, the sample of respondents was a random sample with minor exceptions and thus the potential danger to the going concern indicated through the sample of respondents is a relatively unbiased estimate of this danger. However, since the sample of deceased relatives appeared to be seriously biased, the small frequency with which the going concern was disturbed may not be a true estimate of the extent of past disturbances.
treatment was the most common reason given for not making a plan to protect the going concern four respondents had made such a plan which also essentially permitted achievement of the equitable objective. These four respondents planned testate provisions wherein the child who would be operating the farm at the respondent's death would be given an option to purchase the farm at its appraised price in the estate settlement. Thus, the estate would receive the full monetary value of the farm, and the funds could be distributed among the children according to other testate provisions which may be designed to achieve equitable treatment. All of the four respondents had more than one child and only one respondent had as many farms as he had children. Where the number of children exceed the number of farms, the other children who do not receive an option may still feel that they do not receive equitable treatment because they failed to receive the economic opportunity of buying the parent's farm. However, it would appear that use of such an option or similar arrangement would give considerable assurance of maintaining the going concern and yet minimize any feeling the parent may have that he would not be treating his children equitably as well as serving to minimize dissatisfaction among the children. Thus, the landowner who possesses the going concern and equitable treatment objectives may consider that an option given in a will or in a contract may result in an optimum achievement of these two objectives.

An inter vivos transfer of the farm to the operating child may achieve the same results as above but have varying affects on some additional objectives. The parent may sell the farm to the operating child at market
price or give a contract option to buy at a later date. Such action would tend to be complementary to achievement of early assistance to children as was discussed in the previous section. However, there may be conflict with the retirement income objective although the parent has received the full monetary value for his farm. Retired farm people may feel more secure by having their savings invested in farm property than in some investment about which they are less familiar. A recent Iowa study found that a group of farm operators felt that the capital requirements needed for retirement on income from farm property would be less than if retirement income were received entirely from non-farmer investments.\textsuperscript{1} However, the objectives of maintaining the going concern and early assistance to children may be sufficiently desired so that the parent is willing to sacrifice some of the security he may have felt through retention of farm ownership. Evidently \textit{inter vivos} transfers of farms to children tended to provide the optimum achievement of these three objectives for the farm parents in the Wisconsin area where Parsons and Waples found that the children acquired farm ownership at the age of 27.\textsuperscript{2} The priority given the going concern objective by these Wisconsin farmers was emphasized by the finding that 36 of 58 farms were purchased fully stocked and equipped.

In order to provide for more complete maintenance of the going concern, the farm owner who is not retired or who still owns a share of the

\textsuperscript{1}Earl C. Heady, W. B. Back, and G. A. Peterson. \textit{op. cit.}, p. 423.

\textsuperscript{2}Kenneth H. Parsons and Eliot O. Waples. \textit{op. cit.}
farm personal property might take steps to see that the farm operator after his death not only acquires the farm but also this farm personal property. Such assurance can also be obtained to a large degree by providing some kind of option arrangement. If the deceased person were operating the farm at his death he might provide that the heir who takes over the farm would have first chance at purchasing the farm personal property in the estate settlement. Similar arrangements can be provided where the owner does not operate the farm but owns some share of the farm personal property. Research work has provided some information on possible arrangements for maintenance of the going concern in family operating agreements. However, educational programs in the general area of father-son farming arrangements have not tended to furnish information on how to protect the going concern if something happened to one member of the working arrangement. Therefore, educational programs might well expand their research and extension work in this regard.

The results from the methods discussed in the preceding paragraphs for facilitating achievement of the going concern may often be obtained without the deceased landowner having taken any action. The going concerns on the farms of those deceased relatives who died after 1939 were found to be disturbed in only a few instances and even less often was the farm personal property sold out of the family. Complete information was not obtained on the extent that these deceased persons planned for maintaining the going concern. However, of 22 going concerns which were not interrupted there appeared to be seven instances where the deceased person took

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some action to insure that the tenant children received control of land they had been operating. In the remainder of the instances, the heirs evidently reached a positive family agreement while the estate was being settled which allowed the going concern to be preserved. Furthermore, as mentioned earlier, three of the respondents thought the going concern on their farms would not be disturbed in the settlement of their estates because they felt that the family would make some agreement among themselves which would permit the going concern to continue with a minimum of interruption. However, for respondents who definitely want to achieve the going concern objective the reliance on a family agreement after death involves considerable uncertainty about the achievement of this objective.

Although arrangements of some kind are made to permit one of the heirs to keep the farm operation intact there was still found to be a potential danger in cases where the estate had insufficient funds to pay costs and taxes or the operator was unable to obtain funds for purchase of the farm personal property. Thus, the owner in making his plans must provide some source of funds to pay costs and taxes; this might involve the use of some kind of life insurance. Educational programs might make the person who will need funds to purchase the personal property aware of this need and encourage him to be prepared through some source such as life insurance. Information on the inter vivos transfer of farm personal and real property in a gradual process as the operator obtains funds may be made more available through educational programs. Where the farm owner intends to sell the property anyhow, this method may have some significant
capital gain advantages in reporting income taxes.¹

Prevention of Overburdensome Debt

Frequency as a transfer objective

Previous discussion has pointed to the increasing requirement for substantial sums of capital needed to acquire and operate a farm. In Grundy County the average value of the land owned by the respondent landowners at the time of the interview was found to be around $50,000² (Table 10). As stated in the previous section, the non-retired respondents owned farm personal property with an average value of around $18,000. Thus, with some allowance for operating capital an heir who took over the land in the settlement of the estate of an average Grundy County landowner would have to obtain approximately $70,000 of capital in order to own and operate the land. A large proportion of this quantity of capital may have to be borrowed from either the other heirs or non-related sources. Such debt acquired through the transfer process is accused as causing an accumulative effect on the debt load of farm owners in the following statement by Salter:

If one farmer has no children and another has a great number, rather than signifying that on the average the two have a few children, the implications for social evolution are that in both cases, the oncoming operators of these farms will have to begin to buy the capital value of the farm—in one case because


²Very few of the respondents owned more than one operating unit, but the exact number of such cases was not recorded.
the ageing farmer will sell it off in the absence of prospective related operators and in the other case because there are numerous related demanders for the property.¹

The debt that an heir may assume in connection with intra-family transfer of property may become overburdensome in several ways. The farm or part of it may have to be sold as a result of being unable to meet principal and interest payments. The owner may manage to retain the farm by severely reducing his standard of living or by intensive farming practices which result in inefficient deterioration of land and buildings. The owners of land may consider prevention of the overburdensome debt which causes such results as one of their intra-family transfer objectives.

Thirty of 75, or 40 per cent, of the respondent landowners said that prevention of overburdensome debt was one of their objectives (Table 2). The respondents thought that 24 of 45, or 53 per cent, of the deceased relatives had this transfer objective (Table 4). This data would tend to indicate that approximately one-half of the Grundy County landowners have been concerned about preventing any one of their heirs from acquiring an extra heavy debt load.

When the deceased relatives supposedly had the overburdensome debt objective, there was a significant tendency for the respondent also to possess it. The 24 respondents who said the deceased relatives had wanted to avert overburdensome debt also said this was one of their objectives. But, of the 21 respondents who did not believe that the deceased relative

had had this objective, only four said they were interested in preventing one of their heirs from assuming an extra heavy debt load.\(^1\) This highly related tendency for both the respondent and the respective deceased person either to have or not to have this objective suggests that the respondent's interest in this objective may have been influenced by the deceased relatives' desire to prevent overburdensome debt. However, such a cause and effect relationship may not have been true as often as the data indicates since the respondent provided the information both for himself and the deceased person. Furthermore, the respondent gave his list of objectives prior to giving the deceased person's objectives and thus he may have tended to say his deceased relative did or did not have the objective of overburdensome debt according to whether he previously said he had the objective himself.

The respondents who had the transfer objective of preventing overburdensome debt expressed a positive belief that it would be achieved in 12 of 25, or 40 per cent, of the cases (Table 5). Sixty-three per cent or 15 of 24 deceased relatives did achieve this objective, according to the respondents. Although affirmative answers to achievement of the objective were given more often for the deceased relative than for the respondents, there was not a significant difference. Also the positive achievement of this objective was not found to be facilitated by the existence of a transfer plan in either the \textit{ex post} or \textit{ex ante} situations (Table 9).

\(^1\) The difference between the two groups is significant at the one per cent level.
Occurrence and cause of overburdensome debt

The heir of heirs who take title to farm property in the estate settlement may assume a debt because they purchase the other heirs' shares or because of debts of the deceased person plus costs and taxes required to settle the estate. Obviously the debt problem associated with one heir attempting to acquire the farm property will be affected by the number of heirs. The relevant number of heirs is usually the number of children if the deceased person had children. Consequently, this problem appeared to be recognized most often by respondents with a plural number of children. One-half of the 50 respondents with two or more children had this objective, whereas this was true for only five of 25 with less than two children.¹

However, the ex post experience of the respondents and their siblings indicated only occasional trouble with debt which was incurred in taking over property of deceased relatives. Inquiry was made of the respondents as to whether any difficulty was ever experienced with the debt incurred by any of the heirs who took over property in settlement of estates where the deceased relative died after 1939. Only one instance was reported from among 26 such estates. In this case the deceased person left a substantial debt due to sickness prior to his death.

In instances where the deceased person died before 1940 the respondent was asked if he had experienced difficulty in making principal and interest payments on farm property which he only had acquired from the estate. Six

¹The difference is significant at the five per cent level.
of 19 respondents said they had had such trouble. Thus, the intra-family transfer process appeared to have created troublesome debt for the heirs more frequently before 1940 than after. ¹

In all seven cases where debt caused trouble before and after 1940, the respondent indicated that the deceased person either did not have the objective of preventing overburdensome debt or if he had had the objective that he failed to achieve it. In addition, six other respondents said that the deceased person had had the objective but that the deceased person either had not achieved the objective or the respondent did not know if it had been achieved. Five of these six cases involved deaths after 1939 but the respondent said that no trouble was experienced in meeting principal and interest payments. This may mean that the respondent felt the debt load had forced him to reduce his standard of living or to farm inefficiently. However, no data were obtained to verify this supposition.

The infrequency of difficulty in carrying debt loads by heirs when the deceased died after 1939 and even the lack of difficulty in cases where the respondent felt that the deceased failed to prevent overburdensome debt probably has been due in part to the increased level of farm incomes that came with World War II and the subsequent period. Thus, the experience of those cases involving death before 1940 in which trouble did occur may be examined further in order to find some of the causes and

¹A direct comparison of the frequencies that debt resulted in difficulties before 1940 and afterwards is not possible since the respondent was asked if any of the heirs had trouble where the death occurred after 1939 while for deaths before 1940 information was obtained only on the respondent's experience. If assumption is made that they are comparable then there is a significant difference at the five per cent level.
consequences of overburdensome debt.

All six respondents who had had trouble with debts on farm property which they had acquired from estates opened prior to 1940 blamed low prices of farm products during depression years. Poor crops also were mentioned in two instances and the inability to obtain credit because the banks were closed was mentioned. In no instance did the respondents indicate that the debt load was more than the farm could carry although citing poor crops indirectly infers some insufficiency in the productive capacity of the farm.

The consequences that these respondents experienced from their heavy debt load included two instances where land had to be surrendered. One respondent was forced to give up one-half of a 160 acre farm and the other lost the whole farm. The respondent who had lost his entire farm was one of nine children and he had bought out the other heirs in 1917. Purchase price had been $200 per acre for 154 acres and except for the respondent's one-ninth interest he had borrowed the entire amount to pay off the other heirs. Thus, the respondent's small equity may have caused him difficulty even if he had not bought the land at a time of peak land prices and had not experienced a period of declining product prices as existed after World War I.

Five of the six respondents whose debts were burdensome felt that they had had to reduce their standard of living in some years in order to meet debt payments. Three respondents said that they had neglected proper maintenance of farm improvements in order to meet debt payments. The respondent who had lost his farm felt that one reason why he had
gotten into trouble had been his attempt to keep his farm improvements properly maintained.

Thus, the empirical data concerning the deceased relatives indicated that before 1940 heirs occasionally had difficulty with debts they assumed in the intra-family transfer process and that after 1939 almost no difficulty was experienced. The probate data obtained about landowners who died in the 1948-54 period also gave some indication that debt loads seldom have been extra heavy on heirs in recent years. There were 110 cases in which all costs of settling the estate were known. The value of the personal property plus the urban real estate which the deceased person owned at death\(^1\) was sufficient to cover the debts of the deceased plus the costs and taxes involved in settling the estate in all but 24 of these 110 cases. In 12 of these 24 cases the extent of the insufficiency to cover debts, costs, and taxes amounted to only five per cent or less of the value of the land which was transferred.\(^2\) In only four instances did the excess exceed 20 per cent of the land's value. The excess of debts, costs, and taxes above the value of property other than land was as high as 61 per cent in one instance. This would mean that sometimes an heir acquiring the land from the estate may have to obtain funds for

\(^1\)Personal property and urban property in which a joint tenancy interest was owned at death was excluded since this property does not go into the hands of the administrator or executor.

\(^2\)This does not include land in which the deceased person owned a joint tenancy interest since the surviving joint tenant owners automatically own such land at the death of one of the joint owners.
disposing of this excess as well as for buying out other heirs.

However, during this recent period very infrequently would payment of all debts, costs, and taxes have consumed all of the other property and a substantial part of the land's value. Absorption of some part of the land's value would have been required even less frequently in the case of the respondents, assuming they had died at the time of the interview. The excess of debts plus estimated costs and taxes would have eaten into the land's value in only 9 of 76, or 12 per cent, of the cases as compared to 22 per cent for landowners dying in the 1943-54 period. Thus, in relatively few cases would heirs of the 1948-54 deceased landowners or heirs of the respondent landowners have acquired an overburdensome debt due to the amount of funds required to pay off the deceased's debts plus costs and taxes of settling the estates.

However, there may be more than sufficient liquid funds to pay off debts, costs and taxes, but if there are a number of heirs to the property then any one of the heirs would have only a fractional equity and thus a sizeable debt may be required for one heir to buy out the others. Such was the situation with the respondent, mentioned in a previous example, who had inherited only a one-ninth interest in the farm he acquired and eventually lost it in the depression period. In four of the seven previously discussed cases the respondents had difficulty

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1 This difference is significant only at about the eight per cent level. However, the estimates of costs and taxes for the respondents are above the average costs which can be expected due to allowance of a safety factor which will be explained in the next chapter.
because their debts were primarily attributable to buying out other heirs. The debts of the deceased relatives along with the costs and taxes were responsible for the debts which were assumed by the other three respondents.

The extent of the equity received by the heir who buys out the other heirs depends on the manner in which the property of the estate is to be distributed among the heirs as well as the number of heirs. The large proportion of the cases in which equal distribution resulted among children of the deceased relatives and may result among children of the respondents was previously discussed under equitable treatment (Table 19). The children of the deceased person shared equally in each of the four cases where the respondents had experienced difficulty with debt acquired in buying out other heirs. Two of the deceased persons had only owned one farm each while they had five and nine children, respectively. The other two deceased persons had seven and eight children and had owned five and three farms, respectively.

Although the frequency that heirs have had difficulty with heavy debt loads seems to have lessened since 1939, this does not prevent the possibility of a large proportion of the respondents' heirs from assuming an overburdensome debt in the settlement of the respondents' estates. The higher farm incomes and the relatively improved debt position of landowners in recent years may not continue. However, even if such unfavorable conditions were to return, the frequency of overburdensome debt might still be less than was experienced by children of the deceased relatives who died prior to 1940. In the third chapter it was pointed out that the deceased relative had a much higher average number of children
that did the respondents and that there was little chance that the average number of the respondents' children would ever reach that of the deceased relatives. Thus, with the tendency to treat children equal at death, the children of the respondents will on the average receive a higher equity in the property of the respondents' estates than did the children of the deceased relatives. When the deceased has more than two children who share equally in his estate the child who attempts to buy the farm property must obtain funds from some source at least equal to two-thirds of the property's value. Forty-six of the 76 respondents, or 61 per cent, had two or less children at the time of the interview while such was true for only nine of 45 deceased relatives.

However, in those cases where the respondent had several children, there may eventually be serious problem with overburdensome debt. Some examples are given in Table 26 which indicate the potential capital that individual children would have to have already possessed or obtained by going into debt if the respondent had died at the time of the interview and one of the children had acquired the farm property. Respondent A had three children and a 153 acre farm which along with farm personal property he valued at $47,010. A son of respondent A was operating the farm on a stock share renting arrangement. According to A's will his son would receive an equal share along with the other two children which would have been $14,875 after allowance for debts, costs, and taxes. The son's share would have given him an equity of 32 per cent in the farm property and if the son wanted to purchase the land and the farm personal property from the estate he would have needed an additional $33,135 of
Table 26. Examples of the amount of capital that would have been required for one of the respondents' children to have acquired the farm property in estate settlement.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Gross value of respondent's property</th>
<th>Debts plus estimated costs and taxes</th>
<th>Net amount distributed among children</th>
<th>Each child's share (^a)</th>
<th>Value of farm property</th>
<th>Additional capital required for any one heir to purchase farm property</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$48,010</td>
<td>$3,386</td>
<td>$44,624</td>
<td>3</td>
<td>$14,875</td>
<td>$47,010</td>
</tr>
<tr>
<td>B</td>
<td>65,600</td>
<td>9,120</td>
<td>56,480</td>
<td>4</td>
<td>14,120</td>
<td>64,600</td>
</tr>
<tr>
<td>C</td>
<td>85,240</td>
<td>6,836</td>
<td>78,404</td>
<td>7</td>
<td>11,200</td>
<td>56,740</td>
</tr>
<tr>
<td>D</td>
<td>52,400</td>
<td>18,776</td>
<td>33,624</td>
<td>5</td>
<td>6,725</td>
<td>52,400</td>
</tr>
</tbody>
</table>

\(^a\)Equal shares would have been received at death in all four cases.

\(^b\)The distributions shown for cases B, C, and D assume that the spouse died first, and no allowance is made for costs and taxes that might be incurred at the spouse's death. None of these spouses owned any property in their own right.
Such a debt at a five per cent interest rate would require payment of $1,658 of interest the first year before any payment on principal.

Respondent B had four children, and since he had no will the children would have shared equally in his estate. He was still operating his 158 acre farm, but one of his children was also farming on another farm. Assuming that B's spouse predeceased him then each child's share of B's estate would have been $14,120 or 22 per cent, of the farm property value. However, if B's spouse did not predecease him then each child's intestate share would have been one-sixth or $10,767 since the surviving spouse would have received one-third of the estate property. Thus, if the child who was farming had wanted to purchase the shares of the surviving parent as well as those of the other children he would have had only a 17 per cent equity and would have needed $53,833 of additional capital.

Respondent C had a 156 acre farm and seven children. Since five of these children were farming, one of them may very likely be interested in buying the farm. If the spouse predeceased the respondent, the seven children would share equally in the respondent's estate and each child's share would be equal to only 20 per cent of the value of the farm property (Table 26).

Respondent D with five children had a $15,200 debt on his 140 acre farm. Thus, if the respondent survived his spouse, each child's share would be equal to only 13 per cent of the value of the farm property. However, each child's share would have dropped to ten per cent if the spouse survived and received her intestate share.
In any one of the examples just described the debt that an individual child would have had to assume may have become overburdensome if they had used credit in purchasing the shares of the other heirs. If the relatively low level of farm prices that existed during the depression period were again approached along with some years of low yields, the child who had assumed such a hypothetical debt may have considerable difficulty. The uncertainty of a farmer's ability to carry a debt load due to uncertain prices and yields has resulted in the size of loan which can be obtained from most lending institutions to be limited to less than the market value of the farm. For example, the maximum loan which can be obtained from insurance companies is around 65 per cent of the appraised market value. Thus only in case A would one of the children's shares have been approximately sufficient to have given him enough equity so as to obtain a 65 per cent loan on the farm property. In all the other examples, the equity of a single child would have been so small that a loan sufficient to acquire the other heirs' shares could have been obtained only from a private individual. A possible source of such credit would be the other heirs but they may be impatient to obtain their share of the funds from the estate. If credit is extended under such conditions the child who does acquire the farm faces considerable uncertainty and consequently may operate the farm inefficiently and also restrict his level of living.

The landowners who want to prevent the problems which children may have with an overburdensome debt may attempt to alleviate them to some extent by making a transfer plan which enables a certain heir to buy out the other heirs under specified conditions. However, only two of 33 respondents who had a transfer plan and who had more than one child said they had included such a provision in their plan (Table 27). The plans to which these two respondents referred were only that one of the children be given first option to buy the farm at the appraised market price. In addition, one respondent specified that the purchasing child was to pay the going market rate of interest. He did not specify the source of credit although it appeared that he thought the other four children would give credit to the extent of their shares. Thus, in both cases, the respondents failed to include any definite specification for the source of credit or the manner of repayment which may have provided some relief during periods of distressed conditions.

Almost two-fifths of the respondents said they had made no plan providing for one heir to buy the farm in estate settlement because they wanted to let the children decide among themselves as to who would buy the farm (Table 27). Here again equitable treatment was found to be a conflicting objective and appeared to dominate since no plans were made for the prevention of overburdensome debt or its consequences. When the landowner preferred to let the children decide as to which one would buy the farm, the respondent may have thought that more than one child might want to acquire the farm. Such may particularly be the case for nine of 13 respondents who had two or more children who were already farm operators.
Table 27. Frequency that respondents with transfer plans\textsuperscript{a} had made plans to enable one heir to buy out the other heirs after the respondent's death or reasons why they had not made such provisions

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent had made a plan for one heir to buy farm in estate settlement</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Reasons why respondent had not made a plan for one heir to buy farm in estate settlement:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wants to let children decide among themselves</td>
<td>13</td>
<td>39</td>
</tr>
<tr>
<td>Will have enough farms for all children</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Children are too young yet or it is too early in the family stage</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Not important</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Farm is too small</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Had not thought of it</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Wants sons to be partners</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Respondent's own bad experience</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>100</td>
</tr>
</tbody>
</table>

\textsuperscript{a}Tabulation has been made only for respondents with more than one child.
Four respondents who had made no plans for one heir to buy out the other heirs indicated that they would achieve the objective of preventing heavy debt because they would have enough farms so that each child would receive a farm (Table 27). Of course this problem would also tend to be solved in the same way for landowners with only one child, which was the case for 18 per cent of all the respondents. Thus a total of 22 per cent or 17 of the 76 respondents did not have a problem of one child taking on a heavy debt because there were more children than farms.

Inquiry was made of the 16 respondents who had more than one child but who did not have transfer plans as to whether they thought that the heir who buys out the other heirs may have a debt load beyond his ability to pay. Eleven either gave a negative answer or said they did not know. Two of the five who gave affirmative answers said they did not know how to keep a heir from having trouble with debt, and a third said that it was not possible for the parent to do so. On the other hand, one respondent said he could do nothing without being unfair to the other children which again brings in the conflict with equitable treatment. The fifth respondent said he might prevent trouble with debt by selling the farm to his son before he died. Thus the answer of these five respondents along with the two who had made plans providing options seemed to indicate that respondents were little aware of any effective means of providing a flexible source of credit so as to prevent one of their children from assuming an overburdensome debt.
Modification of debt loads assumed by heirs

The making of plans to prevent the effects or occurrence of an heir assuming a heavy debt load was found to be hampered by the conflict with equitable treatment and also appeared to be limited by lack of knowledge of effective means. Furthermore, trouble with debts acquired in the transfer process appeared to come at times of distress such as with low prices, poor yields or sickness. Thus, education would seem to have a definite role in remedying the problems associated with overburdensome debt.

Landowners with children may need more knowledge about alternative sources of credit and methods of financing the child who purchases the farm property. The landowner may be able to work out arrangements which would enable him to give considerable protection to the debt assuming child while also achieving equitable treatment. The discussion with the examples illustrated in Table 26 point out that the amount of credit needed was so relatively large that it could be obtained only from individuals in many cases. Johnson has presented a plan which is similar to the bond of maintenance idea allowing for the inter vivos transfer of a farm to one of the children who has insufficient capital to acquire a farm through use of ordinary credit sources.\(^1\) The parent selling the farm would receive a contract for a given number of payments which are determined in amount by the value of a certain number of units of some farm

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commodity such as corn. The parent's rights in such a contract may be transferred in an equitable manner to his children at death. If after the parent's death the children wanted to obtain liquid funds from their share of the contract rights, they could sell them for their discounted value.

A similar type of plan might be incorporated into the landowner's transfer plan which takes effect at death. The equitable treatment objective may be fully achieved by still permitting the children to decide who will buy the farm from the estate. The other children would be required to furnish credit to the extent of their shares in the estate. This credit would be repaid according to some flexible plan prescribed by the parent. Even though the other children sold their right to receive the flexible payments, the child buying the farm would have some protection against heavy debt repayment in periods of low income.

The purpose of using such a variable payment plan is to adjust periodic payments on principal and interest to variations in income. A farm operator's income tends to vary due to variations in crop yields as well as prices. Thus a flexible repayment plan to finance purchase of a farm may provide for payments to vary according to both types of variation. A recent study of credit arrangements has illustrated several methods by which repayments may be made to vary according to variations in net farm income. Educational programs may seek to further develop such plans and encourage their use by lending institutions.

The use of life insurance in various forms may assist landowners in achieving the objective of preventing overburdensome debt. Life insurance may increase the share that any one child receives in the parent's estate and thus give him a larger equity in the farm property he wishes to purchase. If a child has been informed in advance that he will be given an opportunity to buy the other heirs, insurance might be used to insure a source of funds.

Preventing Division of Land into Less Efficient Sized Units

Frequency as a transfer objective

The problems of intensive subdivision of land into small tracts and the part that succession of property has played in this subdivision in some European countries is well known. In the United States the transfer process has been credited for contributing to parcellation of land holdings. A Virginia study found a high frequency of subdivision of farm units even in those cases where wills were made. This study concluded that:

There is little doubt that the small farm problem in many parts of Virginia has developed in part from equal subdivision among heirs in both testate and intestate inheritance.²

A recent Michigan study made in a single township found that for landowners

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who died in the period 1925 to 1950 there had been a physical division of land ownership in 9 of 61 cases with the division most frequent in testate cases.\textsuperscript{1} This study also found that much of the physically divided land was later consolidated.

Such physical division of landownership may result in less efficient farm operation. Decreased efficiency might result particularly where the land that had been farmed as one operating unit is split into several operating units. This would be true if operating units set up on the smaller tracts of land have a higher minimum average cost of production than existed on the larger land tract. Part of any such inefficiency would stem from the necessity to build up going concerns on each new tract and the adapting of such items as labor, buildings, and machinery of each operator to the respective tracts of land. Even though the land was not physically divided so as to increase the number of operating units, the land may have gone into undivided ownership as a result of the transfer process. Undivided ownership may hamper the efficiency of the operating unit through several persons having some voice in the management or through increasing the uncertainty of tenure of the operator.

The prevention of subdivision of their land into less economic units in the transfer process was found to be an objective of the landowners of Grundy County in only about one-half the cases. Forty-three per cent of the respondents and 53 per cent of the deceased relatives had this objective (Table 4). Furthermore, only one respondent rated this objective

\textsuperscript{1}Harold Ellis, Raleigh Barlowe, and E. B. Hill. \textit{op. cit.}, p. 9.
important enough to consider it as one of his three most important transfer objectives (Table 2).

A majority of those respondent landowners who did possess the objective of preventing a split of their land into uneconomic sized units thought they would be able to achieve the objective. Twenty-four of 32, or 75 per cent, affirmed achievement of this objective whereas 22 of 24, or 92 per cent, of the deceased relatives were said to have had positive results concerning this objective (Table 5). In addition, the frequency of achievement showed no evidence of being related to existence of a transfer plan by either the respondents or the deceased relatives (Table 9).

Actual and potential division of land.

When the intra-family transfer process results in the transfer of ownership of a farm to more than one person, there is the possibility of subdivision of the land. Inter vivos transfers within families tend to involve transfers to a single individual, but transfers at death may often result in some form of joint ownership of land. Thus, as land is transferred subsequent to the death of the landowner, the number of persons who will take title will often be governed by the number of the landowner's children. The respondents who had the objective of preventing an uneconomic fragmentation of their land tended to have more than one child, as did the respondents having the objective of preventing overburden-some debt. Fifty respondents had more than one child, and 27 of them had the objective of preventing such a division of their land. Such was the
case for only five of the 25 respondents with less than two children.\footnote{This difference is significant at the five per cent level.}

In the second chapter some hypothetical reasons were advanced as to why land may be broken up into less economic units in the transfer process. Although a landowner may have several children he may make some provisions enabling one child to buy out the other children at his death or he might go so far as to bequeath all his land to one child to the exclusion of all others. However, landowners may not make such provisions because of conflict with the equitable treatment objective. The data in Table 19 indicate the extent to which children of the respondents and deceased relatives would have or had received equal shares in the parent's estates without any other provisions for sharing the property. Such equal sharing would have resulted among the respondents' children in 90 per cent of the cases and did result in 68 per cent of the deceased relative cases. Furthermore, the transfer plans which provided for other than equal sharing sometimes did not include any specification which allowed one of the children to take title to the land.

When several children take title to land through an intra-family transfer, there may be disagreement among the children which leads to division of the land into several ownership tracts. The children may not be able to agree on which one will be allowed to buy out the other children. More than one of the children may want to buy the land or else have his share. Therefore, one or more of the children may seek court action for a parti-
The land of a deceased owner may be fragmented if none of the children have the capital or a source of credit sufficient to buy all the land. Therefore, more than one child may buy part of the land which formerly made up a single operating unit. Also, as was discussed in the previous section, one heir may acquire an overburdensome debt which may cause him to eventually lose part of his land.

In spite of these factors which may cause the segregation of operating units, the ex post data indicate that the land in only a few operating units has been broken up. The land in the operating units of the deceased relatives was found to have been divided into a larger number of operating units in only four of 42 cases during estate settlement, and in one other instance division occurred afterwards. Whereas in another situation the deceased relative's land was consolidated from the seven operating units that existed prior to his death to five during the estate settlement. Reconsolidation to the original number of units occurred in another instance. In a third situation, two of the three tracts split out of an operating unit were immediately incorporated with other land which the new owners were operating. Thus in summary, the intra-family transfer process contributed to a fragmentation of the deceased relatives' land in five of 42 cases but was offset to some extent by a consolidation in three other instances.

1For the Iowa Law in regard to partition of property see Code of Iowa 1954:651.

2Only 42 of 45 deceased relatives owned land at death. However, in one additional case, the deceased relative had inter vivosly transferred the land of four operating units so that each of his four children owned a farm. Thus, ownership of the land in these operating units was not subdivided.
The conclusion that the transfer process has contributed only rarely to a reduction in the amount of land in operating units in Grundy County is supported by census data. Census data indicate that the average size of farm in Grundy County has not varied much since 1900. A high of 182.2 acres was reported for the average size farm in 1910 compared to a low of 173.5 in 1935, whereas the average was reported to be 179.5 acres in 1954. Thus, if the intra-family transfer process has resulted in a reduction of land in operating units, then it apparently has been offset by consolidations of other operating units in Grundy County.

In all five instances where the land of the deceased person was broken up into an increased number of operating units, there were more children than the original number of operating units. In two instances, the deceased persons made transfer plans which gave each child some land or other real estate. The number of operating units went from four to six in one case and from two to five in the other. Thus, the large number of children contributed to a subdivision of land although testate provisions did not specify equal sharing in these two situations.

A third case of fragmentation occurred where the will was broken and a partition action resulted in the number of operating units going from five to seven. The deceased person had seven children. One of these operating units was subsequently further divided when part of the land was

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1These data are adapted from the U. S. Bureau of the Census, Census of Agriculture for all decennial and mid-decennial reports between 1954 and 1900.
lost during the depression due in part to the debt assumed in acquiring the land in the partition action.

In one of the other two instances where fragmentation occurred, the operating unit was split into two units when both of the two children wanted to farm. The deceased person died intestate in the other situation and the land was split from two to three units and later reconsolidated into two units when one of the children acquired full title to two of the units.

Thus in three of the five cases, the land appeared to be subdivided due to several children wanting to own some of the land. Friction apparently occurred only in one case where there was a partition action. The friction occurred mainly in regard to the amount of benefits bestowed on the grandchildren in the deceased's will which was broken. However, the following partition action apparently was precipitated by lack of agreement on who would own the land.

Thus, the lack of friction or disagreement among the children indicates that the children in the majority of the ex post cases must have been able to decide how ownership of land was to be continued without serious disagreement since the deceased persons had not prescribed for certain children to own the land (Table 19). Also, a large portion of the respondents thought that there would be no friction among their children because they felt that the children would be able to reach an agreement on how the estate should be settled. Twenty-two of 34 respondents who had made no plans to prevent disagreement and who had two or more children thought their children would agree among themselves without trouble.
However, such attitudes would appear to give little assurance that friction may not develop at a later time which would result in a division of landownership. In fact, five of the 34 respondents thought there might be friction among the children in estate settlement. One respondent said friction already existed and three more feared friction may result because more than one child might want to obtain the same property in the estate settlement. Thus, a small minority of the respondents realized that friction might occur in the transfer process in regard to who acquires property ownership.

The ownership of property may remain undivided among the heirs if no arrangement is made or no agreement can be reached for individual heirs to take title to specific tracts of land. Ownership still remained in undivided shares among the heirs of the deceased relatives in 15 of 42 cases at the time of the interview. In five instances, the heirs still owned as tenants in common the land which the deceased relative possessed at death. In one of these five cases where the deceased died intestate the ten heirs who became tenants in common in 1943 still remained as such at the time of the interview. The other ten cases of undivided ownership involved situations where more than one child owned a remainder interest subject to a life interest. The children who owned these fractional remainder interests will become tenants in common at termination of the life interest unless one of the children acquires the remainder interests of his siblings.

Therefore, a possibility exists that the intra-family transfer of the land which was owned by the deceased persons may still contribute to a
subdivision of land within operating units. Where the land was owned by
tenants in common or was likely to be owned in this manner, any one of
the tenants in common may seek a partition action. Partition of the land
within operating units appeared more likely in 11 of the 15 instances
since in these 11 cases the number of children exceeded the number of
operating units. If the tenants in common put off any action to remove
the undivided ownership condition, then the possibility of a larger
number of co-owners exists through death of some of the tenants in common.
Although tenants in common may continue their co-ownership of land in­
definitely, some inefficiency may result as was previously mentioned due
to possible difficulties of the numerous owners reaching agreement on the
farm's operation.

Undivided ownership of the respondents' land might result in a large
number of the cases unless some plan had been devised for one heir to ac­
quire the other heirs' shares. Data presented in a previous section in­
dicated that only two of 33 respondents who had a transfer plan and who
had two or more children had made some plan for one of the heirs to buy
out the others (Table 27). The most common reason for not having made such
a plan was to permit the children to decide among themselves. In addition
to this potential extent of undivided ownership among the respondents'
children where the respondent had a transfer plan, undivided ownership
would automatically result in cases where the respondent might die inte­
state. In total the children of the respondent would have been undivided
owners of the respondent's land in at least 90 per cent of the cases if
the respondent had died at the time of the interrogation (Table 19). Thus
the extent of co-ownership that existed among the deceased relatives' children plus the potential extent among the respondents' children indicates that the intra-family transfer process could contribute to numerous subdivisions of land within farms.

A portion of the respondents appeared to recognize that undivided ownership might lead to subdivision of farm land. Seven of 16 respondents who had made no plans and who had two or more children said that one heir should buy out the interest of the other heirs in the farm in order to prevent farm units from being too small. However, here again the conflict with equitable treatment showed up in that four respondents preferred to let the children decide if one of them should buy out the others.

However, even the respondents with transfer plans had seldom taken steps to prevent subdivision. No inquiry was made of this group as to whether they thought one child should purchase the farm, but, as was previously mentioned, only two respondents thought they had made a plan providing for one heir to buy out the other heirs. Furthermore, these respondents were asked directly if they had taken steps to prevent their land from being divided into farms which were too small. Only four of 33 gave affirmative answers. However, in only one of these four instances did the respondent have more children than he had farms. Thus the landowners in Grundy County appear to have made almost no plans for the purpose of preventing fragmentation of their farms.

Remedial measures

Subdivision of farm operating units was found to have occurred only infrequently, but there was evidence that the transfer process may con-
tribute to increased frequency of such subdivision for which there had been very little planning in an attempt to prevent. The achievement of this objective would be complementary to achievement of the going concern and overburdensome debt objectives. The various possible methods and plans which will assist in maintaining the going concern and enabling one heir to acquire the farm without acquiring overburdensome debt will also enable achievement of the objective of preventing subdivision of land.

However, conflict with the equitable treatment objective appeared to be a factor in preventing respondents from taking action to avert fragmentation as was the case with maintenance of the going concern and prevention of overburdensome debt. Therefore, educational programs have a role to play in assisting farm owners to obtain knowledge of the various means of transferring their farms intact and also to obtain knowledge of the resulting consequences on both complementary as well as competitive objectives. A landowner might transfer his farm either at death or inter vivos to the child who is operating his farm so as to maintain the going concern. He may include some kind of flexible payment provisions to protect against overburdensome debt. Thus, he would have also taken steps to achieve the objective of preventing fragmentation of his land. By requiring the child who acquires the farm to pay full market price and by use of other forms of assistance the parent might consider that he achieved the equitable treatment objective. Previous discussion has indicated how a possible conflict with the retirement income objective may be minimized through an inter vivos transfer.
Although a respondent does not make a plan which would at least partially achieve these complementary objectives, the children may be able to work out a satisfactory solution if there is no serious friction. Data previously presented indicated that a large number of the respondents expected no friction among their children because they would be able to make peaceful agreement. However, 17 respondents who had two or more children and who had made a transfer plan said they had taken steps to prevent disagreement. Six thought that giving their children equal shares in their will would be sufficient. However, such action would seem to give little guarantee of preventing friction if more than one of the children wanted the farm or if one child thought that he had been given less inter vivos assistance.

Two of these 17 respondents thought that they had taken action to prevent friction by discussing their transfer plans with their children. Such action would not forestall future friction if new factors developed which changed some of the childrens' attitudes about what they expected to receive. The other nine of these 17 respondents said they had attempted to thwart friction through having made a will or through having included certain provisions in the will. However, six of the nine had only provided equal shares for their children without any specification as to who would be permitted to acquire and operate the land. Thus, only three respondents of the 51 who had more than two children appeared to have taken effective steps to prevent friction among the children in a way which would give some assurance that the objective of preventing subdivision of land and complementary objectives are achieved. The wills of these three respondents
specified that the children were to receive specified farms or options to buy the farms.

Remedial measures through public action might be taken to prevent subdivision of farms into less efficient units. On the basis of research legal restrictions could require that tracts of below a certain acreage must not be subdivided in ownership. Economic research might find for example that farms on less than 100 acres in Grundy County tended to be definitely less efficient than farms on larger tracts. Thus, a landowner could be restricted from transferring less than 100 acres of approximately contiguous land to a single individual if that much is owned. When a number of heirs received title to land at death, the law might require that the land be transferred to individual owners in tracts of not less than the minimum size before the estate could be settled. Thus, if the minimum size were 100 acres then the farm would have to be at least 200 acres in size before it could be subdivided. Such a law might mean that a substantial number of farms might have to be sold out of the family because none of the heirs would have sufficient financial resources to buy out the other heirs. However, with increased knowledge, the public choice might be to sacrifice the satisfaction which some individuals obtain from keeping the farm in the family in order to achieve a higher level of efficiency of land used in production of physical goods.

Such a proposal for preventing the ownership of contiguous land from being below a certain minimum size may still permit the owner freedom to operate the land in any manner he chooses. The owner may decide to operate only part of the land himself and field rent out the rest possibly to
other owners who own smaller tracts, or the land may be broken up into several operating units. However, if operations on acreages which are smaller than the minimum acreage permitted to be transferred were inefficient, then these would be discouraged and probably cease to exist over time. On the other hand, such legal restrictions may also discourage part time farming on small tracts although considerable efficiency could be achieved.

Keeping the Farm Within the Family

Frequency as a transfer objective

The desire to keep ownership of land in the family has been an objective of landowners at various times in history and in various parts of the world.¹ Different methods such as that of entail and primogeniture were used in attempting to insure that rights in land were perpetually retained by succeeding generations of the family. Public action has been taken to restrict the use of methods which limit the alienation of land by future generations. However, owners of land in Iowa still are allowed to make a disposition of their property whereby they may suspend the absolute power to control land for 21 years beyond the life of persons then in being.²


²For the rule against perpetuities see Code of Iowa 1954:558. 68.
Thus, persons attempting to keep ownership of their farms within their families may take such forceful steps rather than rely on means which necessitate the voluntary cooperation of the succeeding family members.

Almost two-thirds or 48 of the respondent landowners wanted to keep their farms in their families (Table 2). Hypothetically, landowners desire to have ownership of their land retained in their family for the same reason as owners may want to maintain the going concern. They have developed pride in their farms and derive satisfaction from knowing that one of the next generation is going to own and preferably operate the farm. Some positive indication that pride is a factor was found in the same manner as it was found to be a determinant of who had the going concern objective. Twenty-nine of the 38 landowners who were still operating their farms wanted to keep their farms in the family whereas this was true for only nine of 37 non-operating respondent landowners. Persons who operate their farms would be expected to have more pride in ownership of their land; and furthermore, their children may be more interested in the farm and farming.

As would be expected, the data indicated that the objective of keeping the farm in the family was possessed more frequently when the respondent had children. Only three of 11 respondents without children wanted to achieve this transfer objective, but such was the case for 48 of 64 respondents with children. Respondents without children would not as often

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1 The difference in proportions is significant at the one per cent level.

2 The difference in proportions is significant at the one per cent level.
be expected to have an interest in keeping the farm in the family through
transfer to nieces or nephews or some more distant relatives as would
respondents with children.

A third factor was found to be associated with the frequency that
respondents wanted to keep the farm in the family. As was the case with
the overburdensome debt objective the respondents appeared to be influenced
by whether the respective deceased relative wanted to keep the farm in the
family. The respondents had this objective in 27 of 37 instances where
the deceased relative had possessed the objective, and only 2 of 8 respon-
dents had the objective when the deceased relative had not had it. The
difference is significant at the five per cent level with a two
tail test. But there is significance at the one per cent level using a
single tail test. The viewpoint of the deceased relative would have been
expected to influence the respondent assuming the values of the parents
affect the values of their children to any extent.

Since the respondents gave the answers both for themselves and the de-
ceased relative the significance of the influence of the deceased relative
may be somewhat offset. The respondents may have tended to say that the
deceased person had the objective if they had previously given it for
themselves, or if the deceased relative's land had remained in the family.
However, there was no other way of determining what the objectives of the
deceased relative had been except to question some living family member.

Thus, evidence was found which indicated that three factors were
closely related to landowners' desires to keep their farms in their fami-
lies. Respondent landowners who had this objective were usually owner-
operators, had children, and had a deceased relative who had had this ob-
jective. However, in the case of any one landowner none of these factors may have existed and he may still have wanted to keep his farm in the family. A retired owner whose parents never owned land may have developed an intense personal like for some niece or nephew to whom he wanted to transfer the farm. Another factor which may cause owners to want to keep their land in the family is that they feel that the family income and prestige of succeeding generations would be best protected.

This objective of keeping the farm in the family was held even more often by the deceased relatives than by the respondents. Eighty-two per cent, or 37 of 45, deceased relatives had had this objective compared to 64 per cent of the respondents (Table 4). A higher proportion of the deceased relatives could be expected to have possessed the objective for a number of reasons. Similar to the reasons why more of the deceased relatives had had the objective of maintaining the going concern, the deceased relatives had more often been farm operators than the respondents since an increasing number of farm children who are never farm operators probably inherit land. Furthermore, more respondents than deceased relatives probably considered the ownership of their land as an investment and thus were less concerned with keeping their land in the family. The objective of keeping the farm in the family might tend to be obtained with age since older persons may become more attached to their land. The deceased relatives were about 11 years older at their death than were the respondents at the time of interview (Table 13). Furthermore, some of the

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1 The difference is significant at the five per cent level.
respondents may have realized that none of their children wanted to farm and thus were not interested in keeping the farm in the family. The large average number of children of the deceased persons increased the chances of some children being interested in farming.

Thus, there may be good reasons why a higher proportion of the deceased persons would be expected to have the objective of keeping the farm in the family. However, as previously discussed, the significance of the difference again may be offset by the fact that the respondents indicated the objectives both for themselves and for the deceased relatives.

When the objective of keeping the farm in the family was possessed, the respondents thought they would be able to achieve it almost as often as the deceased relatives had. Seventy-five per cent of the respondents who had this objective thought it would be achieved, and affirmative answers were given for 86 per cent of the deceased relatives (Table 5). However, the respondents who had made transfer plans gave affirmative answers more often than those who had made no transfer plan. Eighty-three per cent of the respondents who had transfer plans thought they would be able to keep their farms in the family while only 54 per cent of the respondents without plans gave positive answers (Table 9). The making of a transfer plan probably made the respondent feel that this objective was achieved although the plan may have been one which would have resulted in less chance of keeping the farm in the family than if the respondent died intestate. The discussion in the next section will indicate the relatively few instances in which the respondents actually included pro-
visions in their transfer plans that gave some assurance of their farms staying in the family.

Obstacles to keeping the farm in the family

Although the owners of land may desire that ownership of their land remain within succeeding generations of their families there may be various reasons why this objective would not be realized. Some of the obstacles to keeping the farm in the family are the same as those faced in achieving the closely related objectives of preventing overburdensome debt and prevention of the subdivision of land into less efficient operating units. Land may have to be transferred out of the family because one of the heirs acquires an overburdensome debt in taking over the land or because none of the heirs have sufficient capital to enable them to buy out the other heirs. Friction may develop among children to the extent that land has to be sold out of the family in order to settle the estate.

Besides the obstacles which are similar to ones discussed under previous objectives, there may be additional hindrances to keeping the farm in the family. The children of the respondent may not want to farm or even to retain the farm as an investment. If such were true the owner may not be particularly concerned if the farm stayed in the family through more distant relatives. Children may not care to take over the home farm because they feel that it is too small for efficient operation. Or they may consider the farm too small to serve as a basis for two families to obtain a satisfactory income and thus they may decide to go into other pursuits. Furthermore, children may enter other professions if the land-
owning parent gives them no assurance as to when they might be given control of the farm. As was discussed under the early assistance objective, the landowner may intend to operate his land indefinitely thus decreasing the early opportunity of farming to his children.

The _ex post_ data indicated that the intra-family transfer process was connected with land being sold out of the family in only six instances. However, the hypothetical causes were found to be present in these cases. In two instances, land was sold out of the family due to overburdensome debt acquired with land taken over in estate settlement. These two cases were previously discussed in connection with overburdensome debt. In another instance, a portion of the deceased person's land was sold in estate settlement in order to pay the debts of the deceased plus the costs and taxes of estate settlement. In a fourth situation, the respondent sold the farm which he inherited because it was too small for him, and he purchased a larger tract. None of the heirs wanted to buy the land in the fifth and sixth situations. In one of these two cases, the children were already established on their own farm or in other businesses at the death of the parent and also the children appeared reluctant to assume the debt which would have been necessary to buy out the other heirs. None of the children in the sixth case wanted to acquire as large a farm as the deceased person owned; this stemmed partly from the wartime shortage of help.

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1The previously mentioned Michigan study covering all transfers of land at death of the owner between 1925 and 1950 in one township found that the property remained in the family in only about one-half of the instances. Harold Ellis, Raleigh Barlowe, and E. B. Hill. _op. cit._, p. 11.
that existed at the time of estate settlement.

Therefore, the ex post data indicated that the farms of the deceased persons were retained in the families through the intra-family transfer process except in only a few instances which is similar to the level of achievement found for other objectives. However, the empirical data seemed to point to a potential danger that a large number of the respondents' farms might not be kept in the family which is similar to the jeopardous position found for several other closely related objectives.

The extent that respondents had made plans to prevent overburdensome debt which might lead to land being sold out of the family was found to be almost zero. As previously discussed, no instances were found where the respondents with two or more children had made a plan which included some kind of flexible payment provision to protect the child who will buy out the other children. However, in four instances where the respondent had two or more children, there was reasonable assurance that the respondents' farms would stay in the family since the respondents owned as many farms as they had children (Table 27).

The possibility of one of the respondent's children acquiring an overburdensome debt was emphasized by previous discussion of the substantial amount of capital that was involved in the average value of the respondents' real and personal farm property. Furthermore, examples were given in Table 26 showing the amount of additional capital that one child would have had to obtain in order to buy out the shares of the other children in the respondent's farm property. This potential possibility of such overburdensome debt was also a potential danger to keeping farms in
families. However, the data presented under the overburdensome debt objective indicated that such debt would have occurred very seldom due to the debts of the respondents plus costs and taxes of estate settlement.

The *ex post* data found no instances where land was sold out of the family due to friction. But, the lack of planning by respondents to prevent friction was pointed out in discussing the prevention of the subdivision of land. Friction caused by various things such as the price for one heir to purchase the land or as to who may buy the land could result in a sale of some or all of the property out of the family. Two respondents indicated that there was serious disagreement among the children of the deceased as to what price the purchasing child should pay although this disagreement had not caused the land to be sold out of the family. Evidently realizing the possibility of friction, two of 16 respondents who were asked the question thought one child should buy out the other children in order to keep the farm in the family.

There appeared to be some indication that the respondents' farms may not stay in their families because children did not want to farm or to retain the farms as investments. However, no direct information was obtained from the children as to what they intended to do with the farm after the respondent's death. Data were obtained on the number of the respondents' children who were farm operators. At least one of the respondent's children was a farm operator in 25 of 38, or 64 per cent, of the cases where all children were out of school. Thus the children of the other 36 per cent of the respondents apparently were in some occupation other than farming. Albeit that these children do not become farm
operators, they may still be willing to own their parents' land as an investment.

The probability that none of the respondent's children will want to farm is smaller when the respondent has only a few children. Fourteen of the respondents, or 18 per cent, only had one child and 21, or 28 per cent, only had two children. The respondent's children were all out of school in 22 of these 35 cases. In 11 of the 22 cases none of the children were farm operators. Although non-farming children might eventually decide to farm or else want to own the parent's farm, there remained the possibility that some respondents' farms may not be kept in the family because the children were not interested in retaining ownership.

The uncertainty which children face as to when they might get a chance to operate the respondents' farms may cause the children to decide to enter other occupations than farming. In the discussion on early assistance to children, the late age at which children may first get a chance to operate their parent's land was pointed out. The retirement age of Grundy County landowners appeared to be around 60 (Table 23) and a portion of the landowners never planned to retire. Thus, it would appear that under these circumstances a respondent with only a few children may have little chance of some of his children entering into farming and thus being interested in eventually owning the farm.

The decision of children to enter into some line of work other than farming may be influenced by the small size of their parent's farm. Since in most cases the farm would be the main source of income to the parents, the farm would have to serve as the basis for providing income for two
families if one of the children operated the parent's farm under some kind of arrangement. Just how small the farm would have to be to discourage children is not known and would vary in individual situations. However, data presented in Table 11 indicate that about two-fifths of the respondents owned less than 120 acres of land. Seldom would children be enthusiastic about operating farms of less than 120 acres in some kind of partnership arrangement wherein the parent received a substantial share of the farm income. Thus, the children of many respondents may not enter farming which in turn may contribute to a failure to keep ownership of the respondents' farms within their families.

Methods of achieving objective

Previous discussion indicated that the obstacles to achieving the goal of keeping the farm in the family are similar to the obstacles which handicap the achievement of several other objectives. Therefore, the remedial actions are much the same for this group of transfer objectives which are complementary in many instances. As was discussed under the objective of preventing subdivision of land, a landowner may make a transfer plan which will enable one child to acquire the farm. Provisions could be included in the plan which give protection to the going concern, help prevent overburdensome debt, prevent subdivision of land, and in some cases may also help achieve the objective of early assistance to children. Such a plan would also insure to a large degree that the farm will be kept in the family.
Previous discussion has also indicated that transfer plans which will achieve this bundle of complementary objectives may conflict with the objectives of equitable treatment and retirement income. Methods of reducing these conflicts and the need of educational programs to assist farm people in resolving these conflicts have been discussed in previous sections.

Some landowners may want to take the strongest possible action to insure that their farms are kept in the family. The property rights of the landowner make it possible for him to suspend control complete alienation of his property for at least one succeeding generation. The owner may devise a series of succeeding life interests to his living descendents and thus he may postpone power of any person to completely alienate the land until 21 years after the life of the descendents. Owners who take such drastic steps may be more interested in protection of the income of their children than in keeping the farm in the family.

In situations where the children are uncertain about their opportunity of farming on the home farm, the landowner may obviously reduce such uncertainty by an open discussion with his children. Children may be advised of what they can expect in the way of opportunity to operate the farm. Also, as previously discussed, written business arrangements between parents and farming children will reduce the uncertainty facing the children.

1Code of Iowa 1954;558, 68.
Landowners who are highly interested in keeping their farms in the family but whose children do not want to farm also may increase chances of achieving this objective by discussion with the children. If the children understand this interest of the parent they may be willing to keep the farm as an investment. Where there are only a few children, one of them may have sufficient equity so that he is willing to assume the debt load of buying out the other children. If there are several children, they may voluntarily help finance one of the children in buying the farm so as to achieve the objective of keeping the farm in the family.
Transfer of property either inter vivos or at death must proceed through various legal steps. Financial costs incurred in carrying out these legal steps are usually more complex for transfers at death than for inter vivos transfers. In addition to the legally connected costs, the cost of the last sickness, funeral, and burial are associated with settling the estate of deceased persons and must be taken care of before the property transfer is fully effected. Certain taxes may be applicable if any element of gift is present in inter vivos transfers as well as transfers through a deceased person's estate.

Minimization of Costs and Taxes as a Transfer Objective

One of the goals of a landowner in transferring his property within his family may be to minimize the costs and taxes resulting from the transfer since these expenses serve to reduce the amount of property received by family members as well as reducing the property available for achieving other objectives. Ninety-five per cent, or 71 of 75, of the respondents had this objective (Table 2). Three of the four respondents who did not care about minimizing costs and taxes had no children. The fourth respondent who had four children said that inter vivos gifts to avoid taxes were not honest. This was apparently a strong conviction of this respondent since he volunteered this opinion.

Although most of the respondents had the objective of keeping costs and taxes to a minimum, only about one-half of the deceased relatives
apparently had had this objective. Twenty-four of 45, or 53 per cent, were reported to have had this goal compared to 95 per cent of the respondents (Table 4). Hypothetically, this significantly lower percentage of deceased relatives having had the objective of minimizing costs and taxes may have been attributable to the lower degrees of concern about taxes in general in years previous to the time the respondents were interviewed. Since World War II, an increased proportion of persons have been affected by income taxes, and the higher net worth of farm owners has increased the possibility of their estates being affected by inheritance and estate taxes. Thus, a larger share of the respondents might have been expected to show concern over minimizing taxes in general. However, this hypothesis that the deceased persons did not have this objective because of less concern over taxes was not verified. The proportion of the deceased relatives wanting to minimize costs and taxes was no greater for those who died after 1940 than it was for those who died prior to the respective dates. Furthermore, the deceased relatives whose estates were required to pay either or both inheritance and estate taxes had had this objective less often than did deceased relatives on whose estate no such taxes were paid. Some taxes were paid in eight of the 21 instances where the deceased relative supposedly did not care to minimize costs and taxes compared to only three of 24 cases where this objective was possessed. Therefore, this evidence indicates that where deceased relatives had had the goal of keeping costs and taxes to a minimum that

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1 A significant difference exists at the five per cent level.
taxes were seldom paid by their estates. This relationship may bring the question of whether or not those deceased relatives who had had the objective but whose estate paid no taxes had made a transfer plan which was able to avoid paying any taxes. However, no significant difference was found between the frequency with which the deceased relatives with and without a transfer plan had desired to achieve this goal (Table 3). Thus, this tendency not to possess the goal of minimizing costs and taxes where taxes were paid may have once more been a situation which was influenced by the respondents giving the objectives both for themselves and the deceased relatives. Some respondents may have felt that the deceased relative had not had this objective if it had been necessary to pay taxes in the settlement of the deceased relative's estate.

No important difference was found between the proportion of respondents saying they would be able to achieve the objective of minimizing costs and taxes and the proportion of deceased persons who had achieved the objective (Table 5). However, highly significant differences were found in the affirmative achievement of this objective between persons who did have and persons who did not have transfer plans (Table 9). Seventy-two per cent of the respondents with transfer plans thought they would be able to achieve this objective compared to only 38 per cent without transfer plans. Of the deceased relatives who had wanted to minimize costs and taxes, the respondents said that 89 per cent who had had a transfer plan had achieved the objective as compared to only 17 per cent who had a transfer plan. The explanation for this difference would appear to lie
within the act of making a plan although there was found to be little evidence that transfer plans have reduced costs or taxes. Data will be presented later which indicate no difference in the amount of costs and taxes which have been experienced between persons who died testate and intestate. Furthermore, no difference was found in the frequency that taxes were paid by testate as compared to intestate landowners of the 1948-54 period. Also data presented in a later section show that if respondents had died at the time of interview about the same proportions of those with wills and those without would be estimated to have some death taxes to pay. In addition, other data presented in this chapter on costs of estate settlement show that costs in testate cases were not lower than for intestate cases in the 1948-54 period. Thus, the respondents appeared to believe that the act of making a transfer plan and particularly a will served to reduce costs and taxes although there is little evidence that existence of transfer plans had reduced them. This point is further emphasized in a subsequent section.

Individual Costs and Taxes of Estate Settlement

The empirical data obtained in this study concerning costs and taxes of intra-family property transfers were limited to those associated with the transfer of property at death. Data on costs and taxes of settling

1 The significance of no difference here is further strengthened by the fact that no significant difference was found between the amount of property owned by the respondents who had and did not have transfer plans, or between the testate and intestate 1948-54 deceased landowners (Table 10).
estates were generally available from probate records which are on file for each deceased property owner in the office of the clerk of the district court.¹

Complete data had not been included in some of the records where the estates were kept open because of a life interest, and in a few cases the data on costs were omitted. In addition, only incomplete data were available on some of the estates of landowners who died in the later part of the 1948-54 period. However, all data which were obtained from the probate records of landowners who died between January 1, 1948, and July 1, 1954, were used in the subsequent analysis.

Court costs

One of the kinds of costs involved in the settlement of estates is court costs. These costs are actually fees and expenses paid to the clerk of the district court for various services performed by the clerk's office in connection with settlement of the estate. In order to open an estate and make a settlement in regard to the rights of all interested parties, the clerk of the district court is required by law to take vari-

¹In rare cases there may not be any record in regard to a deceased property owner in the office of the clerk of the district court. One reason that only a limited possibility exists is that property transfers through a will are not effective until a will has been probated. The rights of persons to property received from intestate persons and as a surviving joint tenant may be unclarified unless there has been proper probate of a deceased person's estate. For further discussion of this possibility see John F. Timmons and John C. O'Bryne. op. cit., pp. 166-167.
rious actions and file various reports for which a charge must be made against the estate. In addition, the property of the deceased person might be of sufficient amount that an appraisal must be made in order to ascertain if any Iowa inheritance taxes are due. The costs of making the appraisal are included in the court costs.

The amount of the court costs may also be greatly increased when friction occurs among the heirs. If the friction were of sufficient magnitude that additional court action such as a partition action resulted or that it lead to the breaking of a will, then the extra court costs could be substantially increased. Even though major court actions may not result, the lack of agreement on the manner of distributing the property may require additional costs such as further appraisals and an increased number of reports filed in the clerk's office.

The actual average dollar amount of court costs involved in settlement of the estates of landowners who died between January 1, 1948, and July 1, 1954, was $107 (Table 28). However, the average cost increased as the gross value of the deceased person's property increased. For estates with a gross value under $40,000 the average amount of court costs was $63 compared to $167 for estates with a gross value of $80,000 and over (Table 28). Although the average costs tended to increase with gross value a wide range of costs was found in each class of gross value. Estates with $60,000 to $80,000 and over had court costs ranging from $25 to $292 which gave the widest range of $267. The various factors pre-

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1 For a more detailed account of the steps taken through the office of the clerk of the district court in both testate and intestate situations see Ibid., p. 164-170.
Table 28. Court costs$ of estate settlement (1948-54 period)

<table>
<thead>
<tr>
<th>Gross value of estates:</th>
<th>Number of cases</th>
<th>Dollar amount of court costs Average</th>
<th>Range</th>
<th>Average per cent of gross value$^b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $40,000</td>
<td>55</td>
<td>$63</td>
<td>$12 - 163</td>
<td>.24</td>
</tr>
<tr>
<td>$40,000 to 60,000</td>
<td>41</td>
<td>94</td>
<td>30 - 216</td>
<td>.19</td>
</tr>
<tr>
<td>$60,000 to 80,000</td>
<td>19</td>
<td>152</td>
<td>43 - 174</td>
<td>.22</td>
</tr>
<tr>
<td>$80,000 and above</td>
<td>35</td>
<td>167</td>
<td>25 - 292</td>
<td>.14</td>
</tr>
<tr>
<td>Total:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Testate</td>
<td>92</td>
<td>120$^***</td>
<td>18 - 292</td>
<td>.22</td>
</tr>
<tr>
<td>Intestate</td>
<td>58</td>
<td>87$^***</td>
<td>12 - 247</td>
<td>.18</td>
</tr>
<tr>
<td>All cases</td>
<td>150</td>
<td>107</td>
<td>12 - 292</td>
<td>.20</td>
</tr>
</tbody>
</table>

$^*** Denotes a significant difference at the one per cent level.

$Except for appraisal fees the charges made by the clerk of the district court in Iowa were increased by 100 per cent on July 4, 1952.

$The data in this column are an average of the percentages for individual cases.
viously mentioned many contribute to this wide range found in court

costs. However, the element of expense which appeared to contribute
the most to the variation was whether or not it had been necessary to
make an appraisal of the property.¹

The court costs of testate cases were found to be significantly
higher than for intestate cases (Table 28). Average court costs of
testate cases were found to be $33 higher. This difference did not
appear to be due to a larger proportion of the testate cases requiring
appraisals, since as was previously pointed out there was no difference
in the frequency with which inheritance and estate taxes were paid bet­
ween the testate and intestate groups. Also, as was shown in Table 10
the higher court costs for testate cases evidently were not due to a
higher gross value of property.² Thus, the explanation of the testate
cases requiring higher court costs might be connected with provisions

¹ No tabulation was made of the various elements that made up the
court costs, but it was frequently noticed that appraisal fees tended
to exceed all other costs in the cases where appraisals were made.
After the wide variation in court costs became more apparent in making
the analysis this belief was checked through examination of court costs
in cases of similar gross value according to whether or not any Iowa
inheritance taxes were paid. The effect that appraisal fees in connec­
tion with such taxes has on the total amount of court costs is illustrated
in the following example. Two estates of persons who died in 1948 each
had about $35,000 of gross property. In one case, there were no inheri­
tance taxes and the court costs were $27. However, there were $1,624 of
inheritance taxes in the other case and court costs were $102.

² Court costs were obtained for only 150 of the 172 cases for which
gross value is shown in Table 10. However, the difference in the gross
value of property between testate and intestate groups was found to be
highly insignificant with a t value of .35.
for a more complex distribution than what the statute provides for intestate cases. Testate provisions for such things as options and trusts may require a larger number of decisions by the district court and reports to the court than would be the case with many intestate distributions. Furthermore, the probate records may be closed more often in intestate cases with the property still undivided in ownership since the heirs automatically become tenants in common in every intestate case.

However, the court costs were found to be equivalent to only a relatively small percentage of the estates' gross property. The average percentage of all cases was one-fifth of one per cent (Table 28). The case with the highest such percentage had court costs which amounted to .58 of one per cent of the gross property. Thus, court costs made up only a very small fraction of the costs of estate settlement.

Administrator or executor fees

After the death of the deceased person, one individual is given responsibility for administering the affairs of the estate. If the deceased person had not named some person to be executor in a will, the court appoints an administrator. The executor or administrator is responsible for the property of the deceased person during the period of estate settlement, and he may even operate the business for awhile. He pays the debts, expenses, and taxes and makes distribution of the remaining property among

\[1\text{Code of Iowa 1954;633. 12,39.}\]
rightful heirs. The person who performs the role of executor or administrator is entitled to a fee for his services. However, many times the executor or administrator is a close relative of the deceased person and thus is also a beneficiary of the estate, if not the only beneficiary in some instances. Therefore, the executor and administrator may wave his right to receive the fees or part of the fees to which he is entitled.

The fees were waved completely by almost two-thirds of the executors and administrators of the estates of the deceased landowners who died in the 1948-54 period. Only in 53 of 146 instances where the information was available did the administrator or executor accept payment of the fees (Table 29). The fees were found to have been waved most often in testate cases. Such was the case in 61 of 88 testate cases compared to 32 of 58 intestate cases. Executors who were named by persons dying testate often would be expected to be more closely related to the deceased person than the court appointed administrators. Also, the executors in such cases may be the only or the main beneficiary and thus would have little reason to charge fees. On the other hand, the probability of only one heir in intestate cases is much less. The most probable instance of there being only one heir would be when there was only one child and no surviving spouse and this would appear to be likely to occur less than the

1 For a more complete discussion of the duties and responsibilities of the administrator or executor see John F. Timmons and John C. O'Bryne, op. cit., pp. 168-170.


3 The difference is significant at the five per cent level only by use of a single tail test.
Table 29. Administrator or executor fees of estate settlement (1948-54 period)

<table>
<thead>
<tr>
<th>Gross value of estates:</th>
<th>Total number of cases</th>
<th>Number of cases in which fees were received</th>
<th>Average$^a$</th>
<th>Range value</th>
<th>Average per cent of gross value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $40,000</td>
<td>52</td>
<td>18</td>
<td>$320</td>
<td>$75 - 766</td>
<td>1.21</td>
</tr>
<tr>
<td>$40,000 to $60,000</td>
<td>42</td>
<td>13</td>
<td>548</td>
<td>100 - 1290</td>
<td>1.03</td>
</tr>
<tr>
<td>$60,000 to $80,000</td>
<td>19</td>
<td>4</td>
<td>739</td>
<td>250 - 2074</td>
<td>1.04</td>
</tr>
<tr>
<td>$80,000 and above</td>
<td>33</td>
<td>18</td>
<td>1327</td>
<td>200 - 3647</td>
<td>1.09</td>
</tr>
<tr>
<td>Total:</td>
<td>88</td>
<td>27$^*$</td>
<td>809</td>
<td>100 - 3400</td>
<td>1.06</td>
</tr>
<tr>
<td>Testate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intestate</td>
<td>58</td>
<td>26$^*$</td>
<td>688</td>
<td>75 - 3647</td>
<td>1.17</td>
</tr>
<tr>
<td>All cases</td>
<td>146</td>
<td>53</td>
<td>750</td>
<td>75 - 3647</td>
<td>1.11</td>
</tr>
</tbody>
</table>

$^a$ Denotes a significant difference in the proportion of all cases at the five per cent level with a single tail test.

$^*$ The data in this column are an average of only the cases in which fees were received.

frequency of a testate devise of all property to a single individual.

No information was obtained in regard to the frequency with which the administrator or executor waved a portion of the fees which he might have been allowed by the district court. But, in the 53 cases where some
fees were accepted, the average was found to be $750 (Table 29). As would be expected, the fees tended to be larger as the gross value of the estates increased. However, similar to the situation with court costs, a wide range of fees existed within each class of gross value. Estates with under $40,000 of gross value had administrator or executor fees ranging from $75 to $766 and for $80,000 and over of gross value the wider range of $200 to $3,647 was found. The smaller fees which were found appeared to occur where the fees claimed were only a portion of what would have been allowed.\(^1\)

Although the average administrator fees of intestate cases were over $100 lower than for the testate cases this difference was not found to be statistically significant.\(^2\) Since the court costs in testate cases were significantly higher the administrator fees might have been expected to also be higher. The administrator is necessarily involved in the various court actions which result in higher court costs. Therefore, if a larger

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\(^1\)This hypothesis appeared to be verified by a cross check with the lawyer fees in the same case. The general policy of the District Court in Grundy County was to grant administrator or executor fees equivalent to the lawyer fees unless some unusual legal service was performed. No data were obtained on the frequency of extra lawyer fees, but an example may be given in which a portion of the administrator or executor fees were waived. A case was found where the gross value of property was $107,438, the lawyer fees were $1,000 and the administrator fees were only $200.

\(^2\)The average gross value of property for the 26 intestate cases paying administrator fees (Table 29) was also found to be lower, but no test was run to determine if it was significantly lower. However, this lower gross value would appear to make the difference in average administrator and executor fees even less significant through use of an regression analysis.
sample had been taken a significant difference may have been found.

The average administrator or executor fees were about the same percentage of gross value for each class of gross value. The average percentage in each value class was slightly over one per cent with the overall average at 1.11 per cent (Table 29). However, in four of the 53 cases, these fees were equivalent to more than two per cent of the gross property with the highest individual case amounting to 2.5 per cent. Thus, the average administrator or executor's fees when accepted were over five and one-half times higher than the court costs and required substantial funds from the estate.

**Lawyer fees**

The administrator or executor may acquire the services of a lawyer to aid him in administering the estate. Fees for such legal assistance are payable out of the funds of the estate. The amount of such fees may be equal to the fees paid to the administrator or executor and may be even larger when extra legal services are required. The administrator or executor may require additional services from a lawyer in situations where there is a complex tax involvement or where extra problems arise in clarifying title to real estate which is to be sold. Furthermore, legal fees may be considerably increased if friction develops among heirs. Even if friction does not extend to the point of causing separate court actions, it may result in increased problems of disposing of property.

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which in turn may increase the legal fees.

There was no tendency to wave lawyer fees as was the case with administrator fees since the lawyer who was hired to assist the administrator was seldom a close family relative. Fees for legal assistance were found to have been paid in each of the 146 cases for which information was available in the 1948-54 period. The average fee was $949 (Table 30). The average percentage of gross value was 1.56 which compares to 1.11 per cent for administrator or executor fees. The main reason for this difference probably is due to the practice of administrators to frequently wave a portion of the fees which they might claim rather than a requirement for extra lawyer services.

By classes of gross value the average lawyer fees increased from $406 for estates under $40,000 of gross value to $1,907 for estates of $80,000 and over (Table 30). Thus, a significant regression relationship was found between the amount of lawyer fees and the gross value of property. This relationship appears to be linear as is indicated by the regression shown in Fig. 1.

This regression calculation indicates that for each additional $100 of gross value the average lawyer fee was about $1.55 higher. This constant proportion also tended to be approximated by the average percentage of gross value for each class of gross value (Table 30). For estates below $40,000 the average percentage indicated that lawyer fees

\[
Y = -7 + 0.015482X
\]

This value of $1.55 is derived from the regression of \(Y = -7 + 0.015482X\) for all cases in Fig. 1. For all practical purposes the line raises from the origin which indicates that no lawyer fees would be incurred if there were no gross value. However, for deceased landowners the relevant range of gross value commences at some point beyond zero.
Table 30. Lawyer fees of estate settlement (1948-54 period)

<table>
<thead>
<tr>
<th>Gross value of estates:</th>
<th>Number of cases</th>
<th>Dollar amount of lawyer fees</th>
<th>Average</th>
<th>Range</th>
<th>Average per cent of gross value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $40,000</td>
<td>48</td>
<td>406</td>
<td>75 - 799</td>
<td>1.64</td>
<td></td>
</tr>
<tr>
<td>$40,000 to $60,000</td>
<td>43</td>
<td>755</td>
<td>250 - 1937</td>
<td>1.51</td>
<td></td>
</tr>
<tr>
<td>$60,000 to $80,000</td>
<td>20</td>
<td>993</td>
<td>561 - 2095</td>
<td>1.42</td>
<td></td>
</tr>
<tr>
<td>$80,000 and above</td>
<td>35</td>
<td>1907</td>
<td>1000 - 5282</td>
<td>1.60</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>89</td>
<td>1013</td>
<td>90 - 5282</td>
<td>1.58</td>
<td></td>
</tr>
<tr>
<td>Testate</td>
<td>57</td>
<td>849</td>
<td>75 - 3647</td>
<td>1.54</td>
<td></td>
</tr>
<tr>
<td>Intestate</td>
<td>146</td>
<td>949</td>
<td>75 - 5282</td>
<td>1.56</td>
<td></td>
</tr>
</tbody>
</table>

were $1.64 for each $100 of gross value and it dropped to a low of $1.42 for estates with a gross value between $60,000 and $80,000. For estates above $80,000 the rate again rose to an average of $1.60 which was probably associated with the higher frequency of inheritance and estate tax liabilities.

The overall relationship which shows that average lawyer fees amounted to $1.55 per $100 of gross value may serve as a guide to farm owners in Grundy County as to the lawyer fees which their estates might
Fig. 1. Relationship of lawyer fees to gross value of landowners' estates (1948-54 period).

- Y = -7 + 0.15482 X (All Cases) \( r = .88 \)
- Y = 73 + 0.16944 X (Testate Cases) \( r = .89 \)
- Y = 80 + 0.13240 (Intestate Cases) \( r = .90 \)
have to pay. An estimation of lawyer fees on the basis of the regression shown in Fig. 1 would be assuming the same general level of fees as existed in the 1948-54 period. Furthermore, such an estimate would have to be adjusted for the expected need of legal assistance as compared to the average. In the 1948-54 period a wide range of lawyer fees was found in individual cases within each class of gross value. For estates with under $40,000 of gross value the range was $724 and it increased to $4,282 for estates of $80,000 and over (Table 30). The highest percentage that lawyer fees were found to be of gross value in a single case was 3.86 where the fees were $350 and gross value was $9,057. The lowest percentage was .52 where the fees were $90 and gross value was $17,164. Thus, there was a considerable range in lawyer fees for individual cases.

However, the variation in lawyer fees was almost four-fifths accounted for by the variation in gross value. Therefore, the occurrence of more or less than the average requirement for legal service appears to account for only a small fraction of the variation in legal fees. This variation of lawyer fees with gross value raises the question of whether legal services actually do increase proportionally to gross value. Do higher lawyer fees on larger estates result from a relatively larger use of legal services or does the larger amount of property provide the basis for a larger fee even though very few more legal services are given? Statute provision for fees in proportion to the amount of personal property implies

\[ \text{The } r \text{ value for the regression of all cases shown in Fig. 1 was } 0.883823 \text{ which gives an } r^2 \text{ value of } 0.781143. \]
that legal services are rendered in such proportions. However, the data presented on costs pertained only to persons who owned land at death. Data were presented in Table 10 which indicate that real estate accounted for 76 per cent of the gross estate of these persons who died in the 1948-54 period. This large proportion of the gross value derived from real estate overshadows the personal property in making up total gross value. Thus, the subsidiary question is raised of whether the legal services rendered to an estate increase proportionately to the value of the real estate? The existence of a larger amount of land may mean that less legal service is needed since each heir's inheritance would tend to be larger, and thus they may more easily reach agreement on disposition of property under amicable conditions which for example may prevent sale of land out of the family. Therefore, it appears that lawyer fees might be based on value of the estate rather than on the extent of assistance given to the administrator. This same hypothesis might also apply to administrator fees since the allowable administrator fees are closely tied to the lawyer fees, as was previously discussed.

The average lawyer fees for testate cases were $1,013 compared to $849 for intestate cases. Although this is not a significantly higher average for testate cases it may be considered significant in terms of being contrary to the hypothesized relationship. The lawyer fees for


2 The t value was 1.277 which is approximately at the 80 per cent level of significance with 144 degrees of freedom.
intestate cases were expected to be higher than for testate cases because such a distribution was expected to increase the problems of disposing of the property or deciding on which heirs would acquire title to property. However, the regression of lawyer fees on gross value also failed to indicate that intestate cases had higher lawyer fees (Fig. 1). On the other hand for larger size estates, the regression for intestate cases indicated that lawyer fees averaged lower than for testate cases. Although the intestate regression was not found to be significantly lower the lawyer fees for intestate cases were found to increase at a significantly lower rate as gross value of estates became larger.

The significance of the lawyer fees in intestate case being lower in relation to testate cases than was expected may be increased in view of the significantly lower court costs for intestate cases. If the explanation is valid that testate cases have higher court costs because of various complex testate provisions which must be carried out before the estate can be closed then higher lawyer fees would be expected for testate cases also. Furthermore, as was suggested in discussing court costs, the estate may be more often closed in intestate cases with the final ownership of real estate unresolved which may mean requirement of

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1The difference between the regression coefficients was significant at the one per cent level. However, the absence of a difference in the level of the regression lines is partly due to the slightly higher fees for intestate cases at lower gross values where there was a larger number of observations. With a larger sample a test of only those estates of over $80,000 gross value may show that the lawyer fees were significantly lower in intestate cases.
legal aid at some time after the estate was closed. In addition, the estates of testate cases may tend to remain open a longer length of time; this will be discussed in a later section. The longer time required to settle an estate would be particularly the case where a life interest was provided in the will and the estate was not closed until the death of the life tenant.\footnote{Life interests would occur in intestate distributions only where a surviving spouse elects to take a life interest in the homestead instead of the one-third distributive share.} Thus, the lawyer fees in some testate cases might be larger than if the person had died intestate due to the necessity of carrying out various testate provisions before the estate can be closed.

**Bond costs**

The administrator or executor of an estate must give a bond before performing his duties of estate settlement.\footnote{Code of Iowa 1954:633. 43.} This is another type of expense which may be paid out of estate funds. However, this expense may be avoided in two ways. A testator can specify that a certain person or persons be the executor of his estate and that the executor will not be required to furnish a bond.\footnote{Code of Iowa 1954:635. 51.} If no such testate provision is made then persons who are usually other heirs of the deceased person may serve as personal surety.\footnote{Code of Iowa 1954:682. 41.}
Information was obtained on 158 cases in the 1948-54 period as to whether or not bond costs were incurred. Such expense was reported in only 26, or 16 per cent, of the cases. No significant difference was found between testate and intestate cases in the frequency with which bond costs were paid although for testate cases these costs could be avoided through both testate provisions and personal sureties. In about seven out of ten testate cases there was a provision in the will negating the bond requirement.

In the 26 cases reporting bond costs the average cost was $76. Thus the average bond cost amounted to about three-fourths of the average amount of court costs. In relation to gross value the bond costs averaged .16 per cent as compared to .20 per cent for court costs. The range of costs in dollar terms was from $8 to $390. Thus, bond costs appeared to have had considerable variability but were relatively small in relation to gross value of the estate.

Medical and burial costs

The unpaid medical expense associated with a person's death is necessarily a debt which his estate must assume. A portion of the medical expense incurred with the last illness may have been paid already. Data concerning the unpaid medical expenses along with burial costs were obtained from the probate records of the landowners who died in the 1948-54 period.

1Unless the last illness was prolonged it seems unlikely that any portion of the medical expense was paid prior to death. This is assuming that people tend to pay the complete medical bill for any single illness at one time.
period. Although these costs are not direct expenses of transferring property they must be paid out of the estate funds and thus affect the remaining amount of property which is transferred at death.

The average medical and burial expenses were found to be larger than any of the other kinds of costs of estate settlement. For the 113 cases on which data were obtained the average medical and burial expense was $1,157 (Table 31).¹ The average dollar amount increased with gross value of the estate but not nearly in the same proportion as did lawyer and administrator fees. The average percentage of gross value decreased from 4.68 per cent for estates of under $40,000 to 1.40 per cent for estates of $80,000 and over.

Thus, the average requirement for funds to meet the medical and burial costs was substantial. However, as was the case with other costs a wide variation was found in the amount of the dollar costs within each gross value class (Table 31). But, as a percentage of gross value in individual cases the most extreme burdens fell on estates of small gross value. The highest such percentage was 13.48 where the medical and burial expenses were $1,221 on an estate with a gross value of $9,057. On the other hand, the lowest such percentage was .45 where the expenses were $1,020 and the gross value was $226,281.

¹Data were obtained on a smaller number of cases than the number for which data were obtained on other kinds of costs because the probate records frequently did not list any medical and burial expenses. Evidently the heirs paid these expenses out of their own pocket, and where this occurred there were probably only a few heirs.
Table 31. Medical and burial expenses of estate settlement (1948-54 period)

<table>
<thead>
<tr>
<th>Gross value of estates:</th>
<th>Number of cases</th>
<th>Dollar amount of medical and burial expenses</th>
<th>Average</th>
<th>Range</th>
<th>Average per cent of gross value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $40,000</td>
<td>42</td>
<td>1063</td>
<td>360 - 1836</td>
<td>4.68</td>
<td></td>
</tr>
<tr>
<td>$40,000 to $60,000</td>
<td>35</td>
<td>996</td>
<td>305 - 2258</td>
<td>2.03</td>
<td></td>
</tr>
<tr>
<td>$60,000 to $80,000</td>
<td>13</td>
<td>1283</td>
<td>628 - 2301</td>
<td>1.85</td>
<td></td>
</tr>
<tr>
<td>$80,000 and above</td>
<td>23</td>
<td>1503</td>
<td>601 - 3001</td>
<td>1.40</td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Testate</td>
<td>65</td>
<td>1126</td>
<td>360 - 2160</td>
<td>2.62</td>
<td></td>
</tr>
<tr>
<td>Intestate</td>
<td>48</td>
<td>1199</td>
<td>305 - 3001</td>
<td>3.20</td>
<td></td>
</tr>
<tr>
<td>All cases</td>
<td>113</td>
<td>1157</td>
<td>305 - 3001</td>
<td>2.87</td>
<td></td>
</tr>
</tbody>
</table>

Although the average medical and burial costs of intestate cases were slightly higher they were not significantly higher. There appears to be no good reason why these costs would be expected to differ between testate and intestate cases of the same gross value. However, for some unexplained reason, these costs in intestate cases range upwards much higher than for

1However, if the regression on gross value had been calculated the medical and burial expenses of intestate cases may have been found significantly higher in view of the difference in average percentages shown in Table 31.
testate cases. The highest amount of these costs for testate cases was only $2,160 compared to $3,001 for intestate cases. Conceivably, the larger medical and burial expenses may not have been reported in testate cases since the heirs may have chosen to pay these expenses themselves. This would more likely be the case when there was only one main beneficiary, and previous data indicated that in about nine of ten cases the testator gave the surviving spouse a life interest in all property (Table 17). Thus in such testate cases the surviving spouse may have proceeded to pay medical and burial expenses out of funds owned in joint tenancy or other funds she may have had.

Other costs

In addition to taxes and the kinds of costs previously discussed there were some other kinds of costs which occasionally were directly associated with the transfer of property at death. In reporting the expenses of estate settlement the administrator sometimes listed such items as abstract fees, revenue stamps, appraisal costs for a second appraisal if it has been required, and sale costs. These costs are the direct result of disposing of the estate property and would appear to occur most likely when the property is sold out of the family. The administrator may have made payments on additional items such as property and income taxes, but they were not directly incurred because of the deceased person's death. Furthermore, these items were not listed separately in the probate records as to the amounts which were due at death and the amounts which became due afterwards for which income of the estate was offsetting. Therefore, the
data for "other costs" refer only to those items which would not have been incurred if the deceased person had not died.

These "other costs" were paid in only 28 of 135 cases, or in 21 per cent of the cases. The average dollar amount was $212 but spread over all 135 cases an average of only $44 was paid. For the 28 instances the average percentage of gross value was .27 which is slightly higher than the .20 per cent found for court costs. These "other costs" varied from zero up to $797 with the latter amount being equivalent to .72 per cent of gross value. No difference was found in the frequency or the amount of these "other costs" between testate and intestate cases.

Estate and inheritance taxes

The estate of any deceased person may be subject to an inheritance tax which is levied by the state of Iowa and an estate tax which is levied by the federal government. Thus in planning for the intra-family transfer of property the landowner may wish to consider the various aspects of these two types of death taxes. The amount of each type of tax depends on the "net" amount of the estate after deduction of debts, costs, amounts given to charitable and similar organizations, and the amounts of certain exemptions.

1See Timmons and O'Bryne, op. cit., pp. 198-203 for an explanation of the details of the Iowa inheritance tax and the federal estate tax. Reference is also provided to the applicable statutes in the footnotes. Only some of the main aspects of their discussion is presented in the above text.
The allowable exemptions as well as the rates of taxation under the Iowa inheritance tax law vary according to the degree of kinship of the heirs to the deceased person.¹ For example, a surviving spouse may receive $40,000 free of tax while a child has an exemption of $15,000. A sibling gets no exemption and the rates of taxation range from five per cent to ten per cent as compared to a range of only one to eight per cent for a surviving spouse or child.

Inheritance taxes were paid by about one-half, or by 70, of the 141 estates of deceased landowners that were studied for the 1948-54 period (Table 32). This tax was paid in a higher percentage of the estate of larger gross value than of lower gross value as would be expected. The percentage of estates that paid some inheritance tax increased from 31 for estates with less than $40,000 of gross value to 76 for estates with $80,000 and over of gross value.

For the 70 cases in which inheritance taxes were paid, the average was $1,142 and the average percentage was 1.70 of gross value (Table 32). This average percentage for cases paying some tax was slightly higher than the 1.56 per cent that lawyer fees were of gross value (Table 30).² The tax as a per cent of gross value averaged about twice as high for estates under $40,000 than for lawyer estates although the average dollar amount of taxes increased with gross value.

¹Ibid.

²However, the average percentage for lawyer fees might be higher if only the 70 cases paying inheritance taxes were considered.
Table 32. Iowa inheritance taxes paid by estates of deceased landowners (1948-54 period)

<table>
<thead>
<tr>
<th>Gross value of estates</th>
<th>Total number of cases</th>
<th>Cases in which taxes were paid</th>
<th>Average per cent</th>
<th>Average per cent</th>
<th>Average per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total number of cases</td>
<td>Per cent of all cases</td>
<td>Dollar average</td>
<td>Dollar of gross maximum value</td>
</tr>
<tr>
<td>Below $40,000</td>
<td>51</td>
<td>16 31 784 1,869 2.82</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$40,000 to $60,000</td>
<td>42</td>
<td>19 45 591 4,538 1.22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$60,000 to 80,000</td>
<td>19</td>
<td>13 68 1,031 6,077 1.41</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$80,000 and above</td>
<td>29</td>
<td>22 76 1,943 8,960 1.46</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>141</td>
<td>70 50 1,142 8,960 1.70</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In individual cases, the amount of the Iowa inheritance tax may absorb a portion of the estate property which is many times larger than the average case. Such results are most likely when the property is distributed to distant relatives for whom little or no exemptions are allowed and the rates are higher. The maximum amount of inheritance taxes paid in any individual case in the 1948-54 period was several times the average amount paid for each gross value class with $8,960 being paid in the...
highest single instance (Table 32). The per cent of gross value ranged as high as 8.78 in one instance where $4,538 of inheritance taxes were paid on an estate of $51,694 gross value.

The Iowa inheritance tax was paid just as frequently in testate cases as in intestate cases. Although the tax averaged slightly higher for intestate cases it was not significantly higher. Hypothetically, the testate cases would be expected to have lower taxes on the average since testate provisions can be made to take full advantage of the allowable exemptions. However, apparently the possible tax savings were not sufficient to have caused the landowners to make distributions which significantly reduced taxes below the amounts paid by intestate cases.

Although the Iowa inheritance tax might be paid frequently by estates under $60,000 of gross value the federal estate tax is not payable on such estates. In addition to allowing for debts, costs, charitable gifts, and Iowa inheritance taxes, the federal estate tax law allows a $60,000 exemption for all estates. Furthermore, one-half of all property received by a surviving spouse is exempted from tax. This is known as the "marital deduction." Thus, an estate must have at least $60,000 before any federal estate taxes become due.

Ninety-three of 139 cases of deceased landowners in the 1948-54 period had less than $60,000 of gross value (Table 33). Federal estate taxes were paid in only 22 of the remaining 46 cases, or 16 per cent of the 139 cases. The average estate tax of the 22 cases was $8,202. The

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1 Timmons and O'Bryne. op. cit. pp. 193-203.
Table 33. Federal estate taxes paid by estates of deceased landowners (1948-54 period)

<table>
<thead>
<tr>
<th>Gross value of estates:</th>
<th>Total number of cases</th>
<th>Cases in which taxes were paid</th>
<th>Average per cent of gross value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per cent of all cases</td>
<td>Dollar average</td>
</tr>
<tr>
<td>Below $60,000</td>
<td>93</td>
<td>0a</td>
<td>0</td>
</tr>
<tr>
<td>$60,000 to $80,000</td>
<td>19</td>
<td>6</td>
<td>32</td>
</tr>
<tr>
<td>$80,000 and above</td>
<td>27</td>
<td>16</td>
<td>59</td>
</tr>
<tr>
<td>Total (all cases)</td>
<td>139</td>
<td>22</td>
<td>16</td>
</tr>
<tr>
<td>Testate (over $60,000)</td>
<td>30</td>
<td>15</td>
<td>50</td>
</tr>
<tr>
<td>Intestate (over $60,000)</td>
<td>16</td>
<td>7</td>
<td>44</td>
</tr>
</tbody>
</table>

a The federal estate tax allows an exemption of $60,000 after allowance for debts, costs, charitable gifts, and Iowa inheritance taxes.

b This average is reduced to $3,014 when the average is made over the 30 testate cases having over $60,000 of gross value and to $5,629 for the 16 intestate cases. There is no significant difference between these two means.

average percentage of gross value was 5.03 which means that about one dollar in 20 of gross value was required to pay estate taxes in these 22 cases. However, in one estate almost one dollar in five of gross value was needed to pay estate taxes. The estate taxes were $44,076 which was 19.48 per cent of gross value. This same estate had the highest inheri-
tance taxes of $8,960 which meant that total death taxes came to 23.44 per cent of gross value. Thus, the estate tax may make heavy drains on the funds of larger sized estates and it may also be coupled with a sizeable Iowa inheritance tax.

The average estate tax paid in intestate cases was about twice as high as the average paid in testate cases (Table 33). However, due to the large variance between cases the difference was not statistically significant. A larger sample of estates over $60,000 of gross value would give a more definite indication of whether estate taxes may run higher in intestate cases. However, such a result would be expected since the distribution under the law of descent and distribution reduces the possible advantage of the "marital deduction." In an estate of the same size a testate distribution giving the surviving spouse any amount over one-third of the property would have had the benefit of a larger "marital deduction." Although the "marital deduction" could be used in testate cases to eliminate estate taxes entirely on $120,000 of property,\(^1\) estate taxes were paid in 50 per cent of the testate cases having over $60,000 of gross value and 44 per cent of the intestate cases.\(^2\) Thus, it appeared that full

\(^1\)If the deceased person's property above debts, costs and charitable contributions was $120,000 and it was all devised to a surviving spouse, there would be no estate tax since the marital deduction would be $60,000 in addition to the $60,000 exemption granted to all estates.

\(^2\)This frequency of testate cases paying estate taxes was not larger relative to intestate cases because of a larger proportion of estates over $120,000. There were four such estates out of the 30 testate cases as compared to two of 16 intestate cases. The mean gross value was $92,531 for the 30 testate cases and $106,374 for the 16 intestate cases.
advantage of the "marital deduction" may not have been taken in some
testate cases assuming that the frequency of a surviving spouse was simi-
lar in both groups.

For testate and intestate cases of deceased landowners as a group, the
total amount of death taxes appeared to be relatively unburdensome for a
large portion of the cases. Exactly one-half of the estates of 140 land-
owners who died in the 1948-54 period paid no estate or inheritance taxes
(Table 34).\(^1\) Three-fourths of these estates either paid no death taxes
or paid taxes equivalent to less than one per cent of gross value. Only
13 per cent of all cases had death taxes which amounted to five per cent
or more of the gross value. The highest percentage for an individual
case was 23.44 which was previously discussed.

Calculation of the probable death taxes that would have been due on the
respondents' estates if they had died at the time of the interview indi-
cated a relationship to gross value similar in some respects to that
which existed for the 1948-54 cases. However, only one-third of the res-
pondents' estates would have had no taxes to pay compared to one-half for
the deceased group. Also two-thirds of the respondents' estates would
have had either no taxes or taxes of less than one per cent of gross value
as compared to three-fourths of the deceased group. But only 11 per cent
of the respondents would have had death taxes equivalent to five per cent
and over which is practically the same as the 13 per cent for the 1948-54

\(^1\) Information was obtained in regard to both estate and inheritance
taxes on 140 estates. Two additional estates paid some inheritance taxes,
but no information was obtained about estate taxes. Thus actually 70 of
142, or 49 per cent, of the cases paid no death taxes. Ninety-five per
cent confidence limits lie between 41 and 57 per cent.
Table 34. Frequency that total estate and inheritance taxes fell within different per cent classes of gross value

<table>
<thead>
<tr>
<th>Percentage total estate and inheritance taxes were of gross value</th>
<th>Total taxes of deceased landowners (1948-54 period)</th>
<th>Calculated&lt;sup&gt;a&lt;/sup&gt; total taxes for respondents</th>
<th>Respondents who overestimated their total taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per cent of all cases</td>
<td>Number</td>
</tr>
<tr>
<td>0.0</td>
<td>70</td>
<td>50&lt;sup&gt;**&lt;/sup&gt;</td>
<td>25</td>
</tr>
<tr>
<td>Up to 0.5</td>
<td>26</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>0.5 to 1.0</td>
<td>9</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>1.0 to 2.0</td>
<td>6</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>2.0 to 5.0</td>
<td>11</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>5.0 and over</td>
<td>18</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100</td>
<td>76</td>
</tr>
</tbody>
</table>

<sup>**</sup>Denotes a significant difference at the two per cent level.

<sup>a</sup>Calculated taxes refer to the total estate and inheritance taxes which were calculated to have been due if the respondent had died at the time of the interview.

<sup>b</sup>The total adds to more than 100 per cent because of rounding individual items to the nearest whole percentage point.
Thus, the higher proportion of the respondents' estates that would have had some taxes was entirely due to cases where the total taxes would have been less than five per cent of gross value. The reason for this higher frequency apparently lies in the $9,573 higher average net worth of the respondents as compared to the deceased landowners (Table 10). Furthermore, 66 per cent of the deceased group had estates of under $60,000 of gross value as compared to only 42 per cent of the respondents.

In an attempt to determine the extent that landowners were aware of the potential death tax liability, the respondents were asked to estimate the amount that the taxes would have been if they had died at the time of the interview. Thirty-five of 76, or 46 per cent, of the respondents overestimated the calculated taxes whereas it was underestimated by 29 or 38 per cent of the respondents.\(^1\) Twelve, or 16 per cent, of the respondents said they did not know.

The respondents whose calculated taxes would have been either zero or below five per cent of gross value overestimated the calculated taxes in exactly one-half or 34 of 68 cases (Table 34). On the other hand the taxes were overestimated by only one respondent of eight whose calculated taxes exceeded five per cent of gross value.\(^2\) Thus, the respondents whose

\(^1\)The respondents sometimes hesitated to give estimates of specific amounts of death taxes. In such cases they were given ranges of various amounts and asked if they thought the taxes would fall within any one of these ranges. When a range such as from $2,000 to $5,000 was given then the midpoint of the range or $3,500 was used as their estimate of death taxes.

\(^2\)The difference is significant at the five per cent level.
estates would have had relatively heavy taxes appeared to be less aware of this possible drain of funds from their estate. In view of this finding, the respondents having the larger gross values would have been expected to most often have underestimated death taxes because of the progressive rates. Such was the situation when the frequency of underestimation is considered in relation to the frequency that there was some calculated tax. Thus, it was found that the estates of all 24 respondents with $80,000 and over of gross value would have had some calculated taxes, but that only ten respondents overestimated such taxes (Table 35). However, as gross value deceased below $80,000 an increasing proportion of the respondents overestimated their taxes in relation to the proportion having some calculated taxes. There would have been death taxes in only two instances where the gross value was below $40,000, but five of these respondents overestimated their taxes. Thus, respondent landowners failed most often to anticipate the total amount of death taxes in cases where the calculated taxes would have been five per cent or more of the gross value and where gross value was over $80,000.

Respondents who had made wills would be expected to have overestimated the death taxes more often than those who had not made wills since awareness of such taxes may be one reason for making a will. However, no significant difference was found between the two groups in frequency that taxes were overestimated. Seventeen of 42 respondents with wills overestimated the taxes and 18 of 34 without wills overestimated their taxes (Table 35). In relation to the frequency that there would have been some death taxes, the respondents without wills overestimated the taxes more
Table 35. Estimation of total taxes by respondents

<table>
<thead>
<tr>
<th>Gross value</th>
<th>Total number of cases</th>
<th>Cases that would have overestimated some taxes (calculated)</th>
<th>Number who overestimated calculated taxes</th>
<th>Respondents who overestimated taxes as a per cent of the number who would have some calculated taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Per cent</td>
<td></td>
</tr>
<tr>
<td>Up to $40,000</td>
<td>15</td>
<td>2</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>$40,000 to $60,000</td>
<td>17</td>
<td>8</td>
<td>47</td>
<td>8</td>
</tr>
<tr>
<td>$60,000 to $80,000</td>
<td>20</td>
<td>17</td>
<td>85</td>
<td>12</td>
</tr>
<tr>
<td>$80,000 and over</td>
<td>24</td>
<td>24</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>51</td>
<td>67</td>
<td>35</td>
</tr>
<tr>
<td>Had a will</td>
<td>42</td>
<td>30</td>
<td>71</td>
<td>17</td>
</tr>
<tr>
<td>Had no will</td>
<td>34</td>
<td>21</td>
<td>62</td>
<td>18</td>
</tr>
</tbody>
</table>

a Calculated taxes refer to cases where there would have been either or both estate and inheritance taxes due if the respondent had died at the time of the interview.

b Taxes were also considered to be overestimated if there were no calculated taxes but the respondent believed that his estate would have had to pay taxes.

frequently than did the persons with wills (Table 35).

Time used in estate settlement

The length of time between the death of the landowner and the final report made by the administrator closing the deceased's estate may be
considered a cost of the estate although not a direct financial cost. As was previously discussed, the death of the landowner may result in a disruption of the going concern or at least a slowing down of its effectiveness. Even if the going concern were not disturbed very much, the heirs may feel some added uncertainty until an agreement is reached on who will acquire title to farm property and the district court has given its approval. Furthermore, there may be an increase in the costs of administrator and lawyer fees as the time required to settle the estate lengthens.

Iowa law requires that final reports must be made within three years unless the district court orders otherwise. The probate records of Grundy County for the five year period of 1948-52 indicated that the estates of 129 deceased landowners were opened. In late 1954 113 of these estates were closed. The average length of time between death and closing of the estate was 14.6 months. However, this average would be increased when the other 16 unclosed estates were eventually closed and included in the average. Each of these 16 estates had been open at least 24 months in late 1954, and in one estate where a life interest was given, it had been almost five and one-half years since the death of the landowner.

Hypothetically, the length of time for closing estates in intestate cases might be longer than for testate cases since without testate specifications the administrator might need more time to dispose of the estate property or decide which heirs will acquire title to the property.

However, considering only those estates which were closed, the average time to close estates was 14.6 months for both intestate and testate cases. But out of the 16 unclosed estates 14 were testate cases which means that the average time for testate cases will eventually be increased. Furthermore, 61 per cent of the intestate cases were settled within 12 months of death as compared to 48 per cent of the testate cases (Table 36). The higher intestate percentage is not statistically significant, but some significance seems to be indicated since the difference is contrary to what was anticipated, as was also found to be the case with court costs and lawyer fees. Again, a larger sample of cases might throw more definite light on whether a higher proportion of intestate cases are settled within 12 months. The previous explanation given for court costs and lawyer fees possibly being lower in intestate cases would also be a possible reason for the quicker settlement of intestate cases. The provisions made by the testator may require more time for the executor to carry out than in intestate cases where the estate may be quickly closed with the real property still in undivided ownership. The most extreme example of testate provisions resulting in a longer time to close the estate is where life interests are left and the estate is not closed until the life tenant dies.

**Total Costs and Taxes**

**Amount of total costs**

Data presented in previous sections indicated the amount of each of the various types of estate settlement costs for deceased landowners in
Table 36. Length of time between death and closing of estate according to testacy (1948-52 period)

<table>
<thead>
<tr>
<th>Time between death and date of final report closing the estate</th>
<th>Testate cases</th>
<th>Intestate cases</th>
<th>All cases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per cent</td>
<td>Number</td>
</tr>
<tr>
<td>Up to 12 months</td>
<td>36</td>
<td>48</td>
<td>33</td>
</tr>
<tr>
<td>12 to 24 months</td>
<td>19</td>
<td>25</td>
<td>11</td>
</tr>
<tr>
<td>Over 24 months(^a)</td>
<td>20</td>
<td>27</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75</strong></td>
<td><strong>100</strong></td>
<td><strong>54</strong></td>
</tr>
</tbody>
</table>

\(^a\)The data in this row include 14 testate and two intestate cases which were still open in late 1954, but in every case it had been at least 24 months since the death of the landowner.

the 1948-54 period. The total amount of costs, of course, will be determined by the sum of the individual items of cost in each estate. The average total of all costs excluding taxes was $2,472 for the 110 estates where information on all costs was available (Table 37). However, as previously discussed, some estates did not have to pay one or more of the items of administrator or executor fees, bond costs, or the "other costs." Therefore, the average cost of $2,472 is less than a total of the average cost for each individual item where the average is only over those cases that experienced the cost (Table 37).

The average total cost for intestate cases was $2,610 as compared to $2,372 for testate cases. However, these two means did not differ signifi-
Table 37. Summary of average costs for each type of cost (1948-54 period)

<table>
<thead>
<tr>
<th>Type of cost</th>
<th>Testate</th>
<th></th>
<th>Intestate</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Average</td>
<td>Number</td>
<td>Average</td>
<td>Number</td>
<td>Average</td>
</tr>
<tr>
<td></td>
<td>of cases</td>
<td>cost</td>
<td>of cases</td>
<td>cost</td>
<td>of cases</td>
<td>cost</td>
</tr>
<tr>
<td>Court costs</td>
<td>92</td>
<td>$120</td>
<td>58</td>
<td>$87</td>
<td>150</td>
<td>$107</td>
</tr>
<tr>
<td>Administrator or</td>
<td>27</td>
<td>809</td>
<td>26</td>
<td>688</td>
<td>53</td>
<td>750</td>
</tr>
<tr>
<td>executor fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lawyer fees</td>
<td>89</td>
<td>1013</td>
<td>57</td>
<td>849</td>
<td>146</td>
<td>949</td>
</tr>
<tr>
<td>Bond costs</td>
<td>15</td>
<td>82</td>
<td>11</td>
<td>78</td>
<td>26</td>
<td>80</td>
</tr>
<tr>
<td>Medical and burial</td>
<td>65</td>
<td>1126</td>
<td>48</td>
<td>1199</td>
<td>113</td>
<td>1157</td>
</tr>
<tr>
<td>expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other costs</td>
<td>17</td>
<td>223</td>
<td>11</td>
<td>195</td>
<td>28</td>
<td>212</td>
</tr>
<tr>
<td>Total costs(^a)</td>
<td>64</td>
<td>2372</td>
<td>46</td>
<td>2610</td>
<td>110</td>
<td>2472</td>
</tr>
</tbody>
</table>

\(^a\)Average total costs were determined from all cases where information was obtained as to whether or not each kind of cost was incurred. Thus, average total costs are considerably below the total of the individual items mainly because administrator or executor fees, bond costs, and other costs were not incurred in every case.

...cantly as would be expected in view of the failure to find differences for the individual cost items. Since the individual costs were found to vary according to gross value, the regression of total costs on gross value was determined in a further attempt to see if any difference existed between testate and intestate cases. No significant difference was found in the level of the regressions nor in the slope of the regres-
Therefore, a regression of all cases was calculated (Fig. 2). About three-fifths of the variance in total costs were explained by the variation in gross value of the deceased landowners. However, the variation of gross value would not be expected to account for all of the variation in total costs since some estates may have had an extra heavy medical expense to pay or have had some estates problems which were not associated with gross value. For example, lawyer fees, administrator fees, court costs, as well as "other costs" may be increased if land is sold out of the family as compared to an estate of similar gross value where the land remains in the family. Also, the decision of the administrator to accept or decline fees would cause considerable variation in costs.

However, the regression of total costs on gross value gives an estimate of what the average total costs would have been in Grundy County for any particular gross value. For similar conditions the average total costs of estate settlement could be estimated to amount to $1,012 plus about $2.51 for each $100 of gross value. This estimate averages those cases that paid administrator fees, bond costs and "other costs" with those cases that did not have this expense. If the administrator decided to take the full allowed amount of fees then an estimate based on this regression would probably have been too low. A landowner who wants to establish a source of funds which his estate may use to

1 The intestate regression was $Y = 1129 + 0.0248467X$ and the testate regression was $Y = 929 + 0.0253908X$. Thus, the intestate line was slightly above the testate line especially for the lower gross values.

2 The $r^2$ value were .58 for the testate regression, .62 for the intestate regression, and .60 for the overall regression (Fig. 2).
Fig. 2. Relationship of total costs to gross value of landowners estate (1948-54 period)
meet costs and taxes might desire to add a safety factor to the estimate given by this regression.

The calculation of this regression from which average costs might be estimated failed to use all the data obtained on costs of estate settlement. Some data on costs were obtained on 161 of the 172 probate cases of landowners in the 1948-54 period. However, as previously indicated, only 110 of these cases gave information in regard to all types of cost. Thus, by an approximated method a second regression of total costs on gross value was calculated in which all data available from the 161 cases were used (Fig. 2). In addition, this approximated regression was calculated in such a manner that it allowed a substantial safety margin above the average costs that might be expected. The total costs under similar conditions would not likely exceed the estimate given by this regression more than one time in twenty. In 95 times out of 100 the total costs would be less than an amount determined by $1,194 plus $4.46 for each

1The data from all 161 cases were used by finding an average dollar amount for each type of cost in the following classes of gross value: up to $40,000; $40,000 to $60,000; $60,000 to $80,000; and $80,000 and above. The average for each of the costs was summed in each value class. With each of these totals a U value was obtained by adding 1.64 times the estimate of the standard deviation. This estimated standard deviation of total costs was obtained for each gross value class from those cases in which total costs were actually known. The U value determined in this manner is an estimate of a value of total costs which will exceed the average total cost in each gross value class in 95 per cent of the cases. From these four U values a regression on gross value was determined. The U values were used as the dependent or Y variable and the independent or X variable was the average gross value for each class of gross value. Weights were assigned according to the number of estates in each gross value class.

2However, this regression determined from the empirical data is only an estimate of the true regression.
$100 of gross value. However, a landowner in Grundy County might want to plan on providing his estate with funds equal to the amount determined by this regression in order to have a safety margin. The estimated total costs from this approximated regression are a progressively smaller percentage of gross value going from smaller to larger sized estates. They are 8.44 per cent of gross value for a $30,000 estate while the percentage is only 5.46 per cent of gross value for an estate of $120,000.

Examples of the amount of variation in total death taxes

In the previous section the amount of total costs was examined and taxes were not considered. Total costs were found to vary significantly with gross value of the estate in a linear relationship. Also, the data presented in Tables 32 and 33 indicate that both inheritance and estate taxes tend to vary with gross value. However, progressive tax rates apply against a "net" amount of the estate in both the inheritance and estate taxes which gives a curvilinear relationship with gross value. Also, as previously mentioned, there are various exemptions allowed which differ between estates of similar size. These exemptions are determined by the manner in which and to whom the property is distributed except for the flat $60,000 exemption allowed to all estates under the estate tax. Therefore, the amount of total costs was examined independent of taxes since inclusion of taxes would have reduced the significance of the linear relationship found between total costs and gross value.
Some hypothetical examples shown in Table 38 illustrate the different amounts of taxes that would be payable according to different distributions of a given sized estate. Estates of $20,000, $60,000, $100,000 and $150,000 of gross value are considered with the assumption of no debts. For each size of estate the death taxes have been calculated for different distributions after allowing for potential total costs determined from the approximated regression in Fig. 2. The different distributions of the deceased person's property were as follows: equally to two brothers; equally to two children; an intestate distribution to a surviving spouse and three children; and all property going to a surviving spouse.

For a $20,000 estate distributed equally to two brothers, there would be an estimated $896 of inheritance taxes which is equal to 4.48 per cent of the gross value (Table 38). No taxes would be due for the other three suggested distributions of a $20,000 estate. Only the intestate distribution to the surviving spouse and three children would not have any death taxes with a $60,000 estate, while a distribution to two brothers would result in an estimated $3,179 of inheritance taxes. Some taxes would be due for all four different distributions with a $100,000 estate. On a $150,000 estate the death taxes would range from $23,747 when two brothers received the property to $3,941 when all property went to a surviving spouse. These taxes respectively amount to 15.83 and 2.63 per cent of gross value. Thus, the death taxes on an estate of a given size may have wide variation depending on the manner of property distribution.
Table 38. Examples of potential total costs plus taxes for various sizes of estates with various distributions

<table>
<thead>
<tr>
<th>Gross value of deceased person's property</th>
<th>$20,000</th>
<th>$60,000</th>
<th>$100,000</th>
<th>$150,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential total costs</td>
<td>$2,086</td>
<td>$3,870</td>
<td>$5,654</td>
<td>$6,691</td>
</tr>
<tr>
<td>Assumed distribution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Equal to two brothers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inheritance taxes</td>
<td>896</td>
<td>3,179</td>
<td>5,589</td>
<td>8,392</td>
</tr>
<tr>
<td>Estate taxes</td>
<td>0</td>
<td>0</td>
<td>3,782</td>
<td>15,355</td>
</tr>
<tr>
<td>Total costs and taxes</td>
<td>2,982</td>
<td>7,049</td>
<td>15,025</td>
<td>30,438</td>
</tr>
<tr>
<td>(b) Equal to two children</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inheritance taxes</td>
<td>0</td>
<td>984</td>
<td>1,116</td>
<td>1,404</td>
</tr>
<tr>
<td>Estate taxes</td>
<td>0</td>
<td>0</td>
<td>3,782</td>
<td>15,355</td>
</tr>
<tr>
<td>Total costs and taxes</td>
<td>2,086</td>
<td>4,854</td>
<td>10,554</td>
<td>23,450</td>
</tr>
<tr>
<td>(c) Intestate shares to spouse and three children</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inheritance taxes</td>
<td>0</td>
<td>0</td>
<td>169</td>
<td>620</td>
</tr>
<tr>
<td>Estate taxes</td>
<td>0</td>
<td>0</td>
<td>1,448</td>
<td>8,960</td>
</tr>
<tr>
<td>Total costs and taxes</td>
<td>2,086</td>
<td>3,870</td>
<td>7,271</td>
<td>16,271</td>
</tr>
<tr>
<td>(d) All to spouse</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inheritance taxes</td>
<td>0</td>
<td>223</td>
<td>1,323</td>
<td>3,225</td>
</tr>
<tr>
<td>Estate taxes</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>616</td>
</tr>
<tr>
<td>Total costs and taxes</td>
<td>2,086</td>
<td>4,093</td>
<td>6,977</td>
<td>10,532</td>
</tr>
</tbody>
</table>
Total costs and taxes in relation to value of assets

Previous discussion has indicated the relationship of various segments of total costs and taxes to the gross value of estates. However, the amount of financial benefits received by the heirs or beneficiaries of a deceased landowner's estate is that amount of the gross value which remains after deduction of costs and taxes as well as debts. The average total dollar amount of costs and taxes for the deceased landowners in the 1948-54 period increased from $1,997 for estates under $40,000 to $12,472 for estates of $80,000 and over (Table 39). However, the average percentage of gross value did not vary upwards with gross value of estates. An average of only about five per cent of the gross value was required for costs and taxes for estates between $40,000 and 8,93 for estates of $80,000 and over. The main reason for the higher percentage on the smaller sized estates was the large requirement for medical and funeral expenses relative to gross value (Table 31). The upward turn in the percentage for estates of $80,000 and over was associated with the heavier death tax liability on these estates (Tables 32 and 33).

This average percentage also was found to decrease first and then increase in the case of the estimated total costs and taxes for the respondents assuming they would have died at the time of the interview (Table 39). However, the average percentage for each class of gross value was higher for the respondents than for the deceased group since the costs were estimated from the approximated regression which includes a safety margin over the estimated average.
Table 39. Relationship of total costs and taxes to classes of gross value

<table>
<thead>
<tr>
<th>Gross value of estates</th>
<th>Deceased landowners (1948-54 period)</th>
<th>Respondent landowners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of cases</td>
<td>Average amount</td>
</tr>
<tr>
<td>Below $40,000</td>
<td>39</td>
<td>$1,997</td>
</tr>
<tr>
<td>$40,000 to 60,000</td>
<td>34</td>
<td>$2,305</td>
</tr>
<tr>
<td>$60,000 to 80,000</td>
<td>13</td>
<td>$3,043</td>
</tr>
<tr>
<td>$80,000 and above</td>
<td>22</td>
<td>$12,472</td>
</tr>
</tbody>
</table>

The total costs and taxes for individual cases in the 1948-54 period varied widely as would be expected. In an individual case the lowest percentage that total costs and taxes were of gross value was 2.11 percent where the gross value was $56,937. The highest such percentage was 27.24 where the total costs and taxes were $61,629 and the gross value was $226,281.

The estimated costs and taxes for the respondents did not vary nearly so widely. As a percentage of gross value there were two elements of variance. The total costs estimated from the approximated regression are a decreasing percentage of gross value going from smaller to larger estates. Second, as previously indicated, the death taxes not only are an increasing portion of gross value but they vary as a percentage of
gross value according to the manner of distribution. Thus, some variation was found in the percentage that total costs and taxes were of gross value. The lowest such percentage was 6.00 where gross value was $77,710. No death taxes would have been due since there would have been an intestate distribution to a surviving spouse and four children. The highest percentage was 16.78 per cent where gross value was $205,990. The total costs were estimated at $10,331 and death taxes at $24,188. This respondent had a will but did not take full advantage of the marital deduction since the spouse only received a fee simple interest in about two-fifths of the property. An additional illustration was shown in Table 38 of the varying proportion of gross value required to meet estimated costs and taxes on estates of the same size. On the $150,000 estate the total costs and taxes for different distributions varied from seven to 20 per cent of gross value.

The source of funds which the administrator draws on to pay costs and taxes as well as debts of the deceased person is the various assets which were owned at death. Liquid assets which were not owned in joint tenancy would be the type of asset first used to pay off costs and taxes. Such assets were insufficient to pay for all costs and taxes in 48 of 110, or 44 per cent, of the cases of deceased landowners in the 1948-54 period (Table 40). However, for the respondents the much higher percentage of 91 would not have had enough of such liquid assets to pay costs and taxes. The main reasons for this difference probably are that the estimated costs were higher than the average for the 1948-54 group and that taxes would be higher since the average net worth of the re-
Table 40. Frequency that various categories of assets were insufficient to meet costs plus taxes; and costs, taxes, and debts

<table>
<thead>
<tr>
<th>Costs plus taxes exceed:</th>
<th>Deceased landowners (1948-54 period)</th>
<th>Respondent landowners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per cent of all cases</td>
</tr>
<tr>
<td>Liquid assets except those owned as a joint tenant</td>
<td>48</td>
<td>44%</td>
</tr>
<tr>
<td>All liquid assets plus life insurance to a named beneficiary</td>
<td>31</td>
<td>28%</td>
</tr>
<tr>
<td>All property except exempt property, and land, and that owned as a joint tenant</td>
<td>16</td>
<td>15%</td>
</tr>
<tr>
<td>Costs, taxes and debts exceed:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Per cent of all cases</td>
</tr>
<tr>
<td>Liquid assets except those owned as a joint tenant</td>
<td>57</td>
<td>52%</td>
</tr>
<tr>
<td>All liquid assets plus life insurance to a named beneficiary</td>
<td>43</td>
<td>39%</td>
</tr>
<tr>
<td>All property except exempt property, and land, and that owned as a joint tenant</td>
<td>24</td>
<td>22%</td>
</tr>
</tbody>
</table>

Respondents was approximately $10,000 larger.

When the liquid assets are owned in joint tenancy and thus do not go into the hands of the administrator, the joint tenant may oftentimes be one of the main beneficiaries of the estate and, therefore, be willing to
use these jointly owned funds to meet these expenses. Also, the bene­
ficiaries may permit similar use of the funds received from life insur­
ance rather than have the administrator sell some of the estate property
to obtain the necessary liquid funds. However, all liquid assets plus
life insurance received by named beneficiaries were still insufficient
in amount to cover costs and taxes in 28 per cent of the cases of the
deceased group and 49 per cent of the cases of the respondents (Table 40).

On the other hand, the persons who were joint tenant owners of pro­
perty with deceased persons and who received life insurance benefits may
not have felt so benevolently inclined to permit use of these funds to
pay costs and taxes especially if there were other heirs who received a
large share of the property. In addition, a certain amount of the per­
sonal property may be set off as exempt for a surviving widow and this
property also is not available to the administrator to pay costs and
taxes.\(^1\) Thus, the property which the administrator can use to pay these
costs and taxes includes all property which was not owned in joint
tenancy and which was not exempted to the widow. The administrator is
not permitted to sell real property to pay costs, taxes, and debts un­
less there is an inadequate amount of personal property.

Since retention of the land in the family was often an objective and
failure to achieve this objective would usually result in the most serious
disturbance of the going concern, the sufficiency of property exclusive
of land in the administrator's hands to meet costs and taxes was examined.

\(^1\)Code of Iowa 1954:637. 7.
Such an insufficiency was found to exist in 15 and 12 per cent of the cases of the deceased group and respondents, respectively (Table 40). In such cases, the administrator must sell the land to obtain the funds with which to pay costs and taxes unless the heirs supply the necessary funds. Sale of the land may be to one of the heirs which would still enable achievement of the objectives of keeping the farm in the family and maintaining the going concern.

In addition to costs and taxes, the administrator may have to obtain funds for paying off debts left by the deceased person. Forty-eight of the 110 deceased persons had some amount of debt, and 30 of the 76 respondents had some debt at the time of the interview. However, there were no substantial increases in the number of either the deceased group or the respondents whose assets in each of the above described categories were insufficient to cover the costs, taxes, and debts as compared to only costs and taxes. For the most part, the cases in which there were inadequate assets of a given category to pay off costs and taxes were the same cases where the assets were also insufficient to pay off costs and taxes plus debts.

Impediments to Minimizing Costs and Taxes

Previous discussion has indicated the costs and taxes that were involved in the estates of deceased landowners in Grundy County for the period of January 1, 1948, to July 1, 1954. Also discussed were the estimated costs and taxes of the respondents. The payment of these costs and taxes were found to require a sizeable amount of funds which ranged up to
over one-fourth of the estate's gross value. The question now appears to be what elements within the intra-family transfer situation contribute to these large costs and taxes or what impediments prevent a reduction of them.

In general, the total amount of costs and taxes was found to be associated with gross value of property owned at death. Thus, failure to make inter vivos gifts of property results in a "maximum" quantity of property possessed at death. The amount of taxes associated with the transfer of property may be greatly reduced through inter vivos gifts as compared to transfers at death. Instead of a transfer being subject to inheritance and estate taxes it would be subject to a gift tax in which the rates are only about three-fourths of the estate tax rates and in which more liberal exemptions might be obtained. However, the value of gifts of property may be included in an estate's gross value for estate and inheritance tax purposes if the gifts were made in contemplation of death.

Some of the various costs of estate settlement may have been reduced through inter vivos gifts. Evidence presented in earlier sections indicated a high degree of relationship between lawyer fees and gross value

1See Timmons and O'Bryne. op. cit., pp. 202-205.

2If the property were given within three years of death it may be considered as given in contemplation of death for estate tax purposes. Ibid., pp. 199 and 201. However, gifts within the three year period would not be considered as a gift in contemplation of death if the deceased person has taken a medical examination at the time of making the gift and the examining doctor had given him a written statement indicating the existence of good health. John F. Timmons, Ames, Iowa, (Private communication) 1955.
of estates and that administrator fees when accepted were similar to lawyer fees in amount. Also gifts may tend to reduce other types of costs although the amount of medical and burial expenses may be little reduced.

The making of gifts for the purpose of achieving the objective of reducing costs and taxes may conflict with the objective of insuring an adequate level of retirement income. Although most all of the respondents had both objectives the retirement income objective was considered as first in importance by 80 per cent of the respondents while only three per cent gave first place to minimization of costs and taxes (Table 2). Thus, landowners may choose to retain their property or the largest share of it rather than to make gifts even though it may result in their estates having to pay higher costs and taxes.

On the other hand, the transfer of property through inter vivos gifts might be complementary to the achievement of the early assistance to children objective if the gifts are made sufficiently early in the children's lives. Thus, gifts made with the intention of reducing costs and taxes may be made so late in the children's lives that they contribute very little to achieving early assistance to children. Previous discussion under early assistance to children indicated that in most cases the respondents thought the type of aid received from their parents which they considered as having been of the most financial value was forms of assistance received early in their life and which probably did not involve the the transfer of any substantial portion of their parents' property (Table 22). Furthermore, only six of the respondents had ever been given land
and only 15 reported receipt of cash gifts. In only four of these 21 instances was the gift of land or cash considered to have been of the most financial assistance. Thus, only limited complementarity may exist between the objectives of minimizing costs and taxes and early assistance to children.

However, only a very small portion of landowners appear to have made gifts for the purpose of reducing costs and taxes. The respondents felt that only two of 45 deceased relatives had done so. Only one of the 51 respondents who had made a transfer plan had made gifts with the objective of reducing costs, and only three had done so to reduce death taxes (Table 41). However, three of the ten respondents who intended to make a transfer plan thought they might use gifts as a method of reducing either costs or taxes. Thus, the fruitful method of reducing costs and taxes through inter vivos gifts appeared to be infrequently used.

For the property in which a deceased person has retained ownership until death, the amount of death taxes may be affected by the manner of distribution among the heirs. As was indicated in previous discussion death taxes are seldom important on estates below $60,000 of gross value (see Tables 32 and 33). However, in some situations, the amount of inheritance taxes on smaller estates might be affected by the property distribution. For example, an intestate distribution of an estate of $40,000 after costs to a surviving spouse and one child would result in $133 of inheritance taxes. The spouse would receive only one-third whereas the child would receive two-thirds and has an exemption of only $15,000. A testate distribution giving all the property to the surviving spouse would
Table 41. Frequency of specific methods that respondents used in their transfer plans to reduce costs and taxes

<table>
<thead>
<tr>
<th>Method used</th>
<th>Costs of estate settlement</th>
<th></th>
<th>Estate and inheritance taxes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of cases</td>
<td>Per cent of all cases</td>
<td>Number of cases</td>
<td>Per cent of all cases</td>
</tr>
<tr>
<td>Making a will</td>
<td>14</td>
<td>27</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Proper preparation of will</td>
<td>5</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A particular distribution of property</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Providing a life estate</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Providing for a particular executor</td>
<td>5</td>
<td>10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Owning property in joint tenancy</td>
<td>4</td>
<td>8</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Providing that no bond be required</td>
<td>2</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Inter vivos gifts</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Miscellaneous methods</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Nothing was in plan</td>
<td>27</td>
<td>53</td>
<td>37</td>
<td>73</td>
</tr>
<tr>
<td>Total b</td>
<td>51</td>
<td>100</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Some methods were applicable only to costs and some applied only to taxes.

The sum of the individual items will add to more than the total because some respondents gave more than one method.
have resulted in no inheritance taxes.

However, this reduction of taxes to a minimum on the estate of the landowning parent is only a partial analysis from the standpoint of minimizing taxes on the estates of both the landowner and spouse. In the above example, if at the subsequent death of the surviving spouse the single child had received $35,000 after costs then the inheritance taxes would have been $300. Thus, total taxes would have been larger with a testate distribution of the property of the first deceased parent than with an intestate distribution. An intestate distribution in the first place would have meant that after the death of the second parent the property received by the single child would not have exceeded the $15,000 exemption unless the second parent had originally owned some additional property. However, if the second parent had owned property the total taxes would still be higher with a testate distribution of the first parent's property since the total amount received by the child after the second parent's death would be correspondingly increased.

A complete analysis of all the many ramifications of attempting to minimize death taxes has not been attempted in this study. The distribution of property and the methods used to effect the distribution which will minimize taxes depend on each family situation and the amount of property owned. Another example might be used to illustrate how death taxes might be greatly reduced on larger sized estates by taking full advantage of the marital deduction and subsequent use of gifts by the surviving spouse. In the example of a $150,000 estate shown in Table 38, the total death taxes dropped from $9,580 with an intestate distribution to $3,841
for a testate distribution which gave all property to the surviving spouse. The surviving spouse could then proceed to make \textit{inter vivos} gifts to the three children until the gross value of the remaining property was cut down to approximately the $60,000 exemption allowed under the estate tax.\footnote{There may be a decided income tax advantage in delaying gifts until after the death of the parent who first owned the property if the gifts involved real estate or real estate were sold to make gifts. This would happen if the value of the real estate had increased since the time the deceased parent first acquired it because the basis for figuring capital gains and depreciation would be the higher value that existed at the first parent's death. See Timmons and O'Bryne. \textit{op. cit.}, pp. 210-214.} If the surviving spouse died leaving $60,000 after costs to the three children there would be only $150 of inheritance taxes to pay at that time. Thus, total death taxes would have been reduced considerably below what they might have been. All the property would have been retained up to the death of the first parent so as to protect retirement income and the surviving spouse would have retained a substantial share of the property with which to provide retirement income and from which some of the property could have been safely consumed if need be. However, this example assumes that the spouse of the property owner does not predecease him and that the later gifts would not be ruled as made in contemplation of death. If the property owner's spouse did predecease him the owner may then start to make gifts with the intention of reducing death taxes.

Although the death tax liability might be considerably reduced by planning the distribution of property there appeared to be very few landowners who had done such planning. Only one of 45 respondents indicated
that the deceased relatives had attempted to reduce death taxes through a planned testate distribution. In the respondents own planning only three of 51 who had a transfer plan thought they would be able to reduce death taxes through a particular distribution of their property (Table 41). Only one of these three respondents had knowingly attempted to take advantage of the marital deduction. However, for determining the amount of the marital deduction, the spouse would have received only about two-fifths of the respondent's total property which was valued at over $200,000. Thus, full advantage of the marital deduction would not have been obtained. The spouse in this case was to have received a life interest in the other three-fifths of the property. Two other respondents thought their provision for a life interest would reduce the amount of death taxes payable by their estates. However, property distributed in this manner does not qualify for the marital deduction allowed under the federal estate tax unless a power of appointment is granted to the owner of a life interest. The respondents had not provided such a power of appointment in either of these three cases. Furthermore, two of the respondents thought that their deceased relatives had attempted to reduce taxes by providing for a life interest. The extent that a life interest will reduce inheritance taxes would depend on whether or not the value of the life interest permitted full use of the spouse's $40,000 exemption and the lower tax rates applying to surviving spouses and children.

Therefore, these landowners may have lacked knowledge and had misconceptions of the tax effects of the planned distributions of their pro-
property. Additional evidence indicated that the respondent may have had misconceptions or lacked information about the tax effects of various aspects of transfer planning. Fourteen of 51 respondents who had transfer plans thought making a will would enable them to reduce costs of estate settlement and four respondents thought such action would reduce death taxes (Table 41). Also, four of the ten respondents who intended to make a transfer plan thought they could reduce taxes by use of a will. However, as was indicated in previous discussion the average costs and taxes of estate settlement was not found to differ between testate and intestate cases. Thus, these respondents appeared not to realize that a will only serves as the vehicle for testate provisions which may reduce costs and taxes and without the correct stipulations a will may do nothing to reduce costs and taxes.

A few respondents also appeared to lack information about the tax effects of owning property in joint tenancy. Three of the respondents thought such action would reduce death taxes (Table 41). However, such property is included in the deceased person's estate for both estate and inheritance tax purposes. Also, the transfer of property through joint tenancy has income tax disadvantages.¹ On the other hand, the ownership of property in joint tenancy might reduce costs of estate settlement since this property does not go into the hands of the administrator and title to the property is already established. However, no attempt was made to verify this supposition from the empirical data.

¹Ibid., p. 213.
Landowners may fail to make testate stipulations which would prevent bond costs or which would provide for a close family member to be administrator. Only two of the 51 respondents with transfer plans indicated they had used this method to reduce costs. However, most of the respondents who had wills may have failed to mention that they made such a provision since 75 of 99 testate landowners in the 1948-54 period specified that the executor could serve without bond. A testate provision for a close family member to be executor would result in any charge which was made for executor fees being retained in the family and such an executor might be more interested in minimizing other cost items than a non-family executor. Five of the 51 respondents with transfer plans thought the particular executor they had named would help reduce costs of estate settlement (Table 41).

The occurrence of friction among the heirs may contribute to higher costs of estate settlement. However, in the settlement of the estates of the 45 deceased relatives there was only one instance where friction clearly resulted in substantially higher costs of estate settlement. On the other hand, as was previously pointed out in the discussion of preventing the subdivision of land, only three respondents of 51 with two or more children had taken effective steps to prevent friction. However, prevention of friction may have been partially what was in the minds of the five respondents who thought they would reduce costs by proper preparation and plainly stating the provisions in the will (Table 41).

In summary, 21 different respondents out of the 51 with transfer plans thought they had taken steps to reduce costs and 14 different res-
pondents thought they had taken steps to reduce death taxes (Table 41). However, as has been pointed out, these steps may not be effective or in some cases they may be only partially effective. Thus, over one-half of these respondents said they had done nothing in their transfer plans to reduce costs and almost three-fourths said they had done nothing to reduce death taxes. Only six of 45 respondents thought their deceased relatives had taken action to reduce taxes and only four thought they had attempted to reduce costs. The failure of these landowners to take such action could have been due to several things. The previously mentioned conflict with the retirement income objective may have prevented them from making gifts. Obtaining the distribution that they had specified in their will may be more important than a possible saving in taxes. Some may have made no plans to reduce taxes because they realized that their estates were too small. Lastly, the landowners may have been unaware of any possible methods of reducing costs and taxes.

An attitude of indifference seemed to be expressed by six of the 15 respondents who said they would be satisfied with an intestate distribution. These six respondents said they did not think that death taxes would be minimized by this distribution, but in five of the instances they had just put off making any plans for minimizing taxes. The sixth respondent did not think he had enough property to bother with making a plan. Another six of these 15 respondents demonstrated a lack of knowledge on the subject in that they said they did not know if an intestate distribution would minimize taxes.
Previous discussion has indicated the importance of a source of liquid funds which the estate could use to pay costs and taxes. However, in nine-tenths of the cases the liquid funds that would have gone into the hands of an administrator from the respondents' estates would have been insufficient to pay costs, taxes, and debts (Table 40). Furthermore, only nine of the 51 respondents who had a transfer plan thought that they had taken some specific action to provide ready cash for payment of costs and taxes. One respondent who evidently realized the requirement for death taxes had provided for the sale of one of his farms so as to furnish his estate with necessary funds. Three respondents had bonds which they said were being held to furnish funds for such purposes as costs and taxes of estate settlement. Four more of the respondents indicated they had provided for such funds through insurance. However, in each of these four instances the life insurance was payable to a named beneficiary and not to the respondent's estate. In these four cases the spouse was to either receive a fee simple or life interest in all of the respondent's property and thus would have little reason for not using the life insurance proceeds to pay costs and taxes. However, when the landowner wants to assure that life insurance proceeds will be available to the administrator to pay costs and taxes, he would have to make the insurance payable to his estate. This method of providing funds for costs and taxes evidently was not recognized by the respondents; none of the 76 reported having such insurance. On the other hand, insurance payable to the estate has the disadvantage of increasing the size of the estate for tax purposes while proceeds of a policy payable to a named beneficiary may
not be taxable.¹

Overcoming Impediments to Minimizing Costs and Taxes

The frequency that landowners fail to take action to minimize costs and taxes was discussed in the previous section. Possible reasons why such action was not taken were also discussed. Two general impediments to making effective plans to reduce costs and taxes were revealed. First, lack of knowledge of specific methods as well as ignorance of the consequences of methods used appeared to be the most important factor in preventing achievement of this goal. Second, the conflict with the objective of retirement income may prevent use of means which would minimize costs and taxes. Where objectives conflict, lack of knowledge also may contribute to decisions which give inadequate results.

Remedial actions for the purpose of overcoming these obstacles which prevent landowners from achieving the objective of minimizing costs seem to lie in the area of education. Previous emphasis has been given to the educational possibilities of assisting landowners to choose between conflicting objectives and also to enable landowners to achieve each objective to some optimum degree. Educational information may be made available to farm people concerning such methods as making gifts or planning the property distribution so as to minimize costs and taxes. The data previously presented indicate that farm people may not only need informa-

tion about such means but also they may need it to clear up some misconceptions they have about methods they are using. The consequence of plans made on the basis of misinformation may be contrary to the objectives the property owner was trying to achieve. For example, the goal of reducing taxes would not be achieved although in some cases the respondents thought ownership of land in joint tenancy would help reduce death taxes.

Furthermore, the respondents lacked information on the extent of death taxes, as was indicated in Table 38. Although some respondents overestimated their death taxes, the more serious consequences may follow from underestimating taxes. The amount that death taxes were underestimated in the most extreme case was about $8,500. In addition to some respondents underestimating taxes, 12 of the 76 said they did not know what the taxes would be, and the interrogator was unable to obtain any kind of an estimate from them. Thus, farm owners appear to lack information about death taxes. Also information may be needed about the interrelationship between death taxes and income taxes. The increased income tax rates in recent years may have caused some of the misconceptions about the burden of death taxes.

Although landowners may choose not to make any plans to reduce costs and taxes, they still may take action to provide a source of liquid funds for paying costs and taxes. Data in the previous section indicated that very few respondents had made any plans which would make liquid funds available for paying costs and taxes. Educational information could assist in making landowners conscious of the need for such action by
making them aware of the possible detrimental effects on the going concern as well as contributing to the debt load of the heir who acquires the farm. However, any provision for such funds would necessarily draw resources away from some other use and thus information regarding these methods and their consequences could be supplied to farm people. Fig. 3 illustrates a method of remedial action that one respondent might have taken to assure that liquid funds would be available to pay his estate settlement costs. This respondent was an owner-operator of a 160 acre farm and had all but $500 of his capital invested in land and personal property. The estimated estate settlement costs were $4,002. Thus, it would have been necessary for the heirs who would have been a spouse and three children by intestate distribution to sell some of the personal property or borrow money in order to pay for these costs. However, the existence of a $10,000 insurance policy payable to the respondent's estate would have given ample funds for paying these costs.

If the respondent had previously obtained such insurance, then obviously he could not have had the same amount of other assets which he possessed unless he had reduced his standard of living. This respondent could have commenced payments on an insurance policy from his $500 of cash assets and planned to make future payments out of future income. Thus, some resources must be shifted out of other uses in order to obtain insurance as a method of furnishing liquid funds for payment of estate settlement costs. Insurance policies can be obtained which include both savings and insurance elements. However, a landowner may prefer not to have the savings element so as to retain as much capital as possible in
Fig. 3. Various types of assets of a respondent before and after acquiring insurance compared to estimated costs of settling his estate.
the farming business and still provide this source of funds for his estate.

To fully acquaint all landowners with all the alternative methods and combinations of methods which may be used and their consequences on the landowners' objectives may be beyond the scope of any conceivable agricultural education program. However, information may be supplied which would acquaint farmers generally with their alternatives and also inform them how to secure assistance in making an optimum transfer plan. Legal organizations may wish to assist in such educational programs. In Iowa, educational work of this nature has already commenced with the Iowa Extension Service and the School of Law working cooperatively.
SUMMARY OF FINDINGS AND SUGGESTIONS FOR FURTHER STUDY

In connection with the ownership of land in Grundy County the intra-family transfer of property is an important institution. Economic assistance involving gifts or an economic opportunity had been received by every member of a sample of 76 landowners. More than four of five landowners had already benefited by inheritance from either or both his relatives or the relatives of his spouse. Including inheritance, the landowners had received from their relatives an average of 4.4 different kinds of economic assistance (Table 22). Thus, the financial well-being of the Grundy County landowners appeared to have considerable association with the extent and nature of intra-family transfers of property.

The importance of such transfers emphasizes the significance of the problems that landowners face in achieving their intra-family transfer objectives about which this study is concerned. The objective of this study was to assist owners of land in finding solutions to the problems they experience in attempting to achieve transfer goals to an optimum level. As guides for carrying out this inquiry, hypotheses were formulated as to the specific problems that landowners have in achieving transfer objectives, the causes of these problems, and some of the possible means of solving the problems. In attempting to test these hypotheses, empirical data were obtained from interviews with landowners and courthouse records. Information was obtained from a random sample of 76 landowners. From 45
of these landowners, information was obtained about the property transfers of deceased relatives. Data were also gathered from courthouse records in regard to these 45 deceased relatives. In addition, limited data from courthouse records were obtained about 172 landowners who died between January 1, 1948, and July 1, 1954.

Basic Elements of the Transfer Process

Each owner of farm land has a set of goals or objectives that he would like to attain in transferring his property to his family. The goals of any particular individual are qualified by the amount of property owned and the nature of his family. Thus, the character of each person's transfer plans depends on the basic elements of property, family, and objectives.

Farm owners had considerable difficulty stating what goals they did want to achieve in the transfer process. Over one-third of the respondents were unable to give any transfer objective without the interrogator's assistance (Table 7). The average number of objectives volunteered per respondent was .88 of an objective (Table 7). However, the average number of objectives pointed out by the respondents when shown a prepared list of objectives was 5.29, and the respondents indicated that the deceased relatives had had an average of 5.67 transfer objectives. Thus, the respondents appeared not to be too keenly aware of what they wanted to achieve in the transfer process.

The respondents who had made a transfer plan to take effect at death, other than deciding they were satisfied with an intestate distribution,
appeared to be more aware of what they wanted to achieve than did respondents who had not made any transfer plan. Fifty-four per cent of the respondents without transfer plans could not voluntarily state a single transfer goal as compared to only 27 per cent of those respondents with transfer plans (Table 7). In addition, an average of twice as many transfer objectives was voluntarily stated by respondents having transfer plans, but the average number of objectives given by each group after seeing the prepared list was almost identical (Table 7).

The frequency that the respondent landowners had each of the individual objectives ranged from 100 per cent for the objectives of retirement income and equitable treatment of children to only 37 per cent for protecting the going concerns (Table 2). For the most part, the frequency that the deceased relatives had had each objective was similar to that for the respondents but for a few exceptions which will be discussed in a later part of this section (Table 4).

Ordinal ratings of objectives in terms of first, second, and third in importance were obtained from the respondents. For the respondents as a group, the most important objective appeared to be the achievement of adequate retirement income since 80 per cent of them rated it first in importance and 96 per cent rated it as one of their three most important objectives (Table 4). Equitable treatment of children seemed to be the second most important objective since 14 per cent placed it first, 67 per cent placed it second, and 96 per cent placed it as one of the first three in importance. The top three ratings were scattered among the other transfer objectives with only one respondent giving such a
placing to the objective of preventing the division of land into unecono-
nomic sized units.

In seeking achievement of their transfer objectives, 51 of the 76
respondents had made a definite transfer plan other than that of being
satisfied with the law of descent and distribution. Forty-two had made
a will, and nine more had a definite plan which they intended to put
into written form. Ten respondents intended to make a definite plan,
and 15 felt that they would be satisfied with an intestate distribution
of their property. For purposes of analysis, being satisfied with an
intestate distribution was not considered as having made a transfer plan
since it would be accidental if such a method of transfer afforded an
optimum achievement of an informed landowner's objectives. In the case
of the deceased persons, the making of a will was considered as having
made an effective transfer plan although it is realized that a transfer
plan could be fully carried out by inter vivos transfers. Sixty-seven
per cent of the 45 deceased relatives had made a will as had 63 per cent
of the 172 landowners who died in the 1948-1954 period.

Landowners tended to put off making transfer plans. Eight of the
nine respondents who intended to make a transfer plan admitted having
put off such action. The average age at which respondents had made
wills was 54.3, with over one-third being past 60 years of age when
they first made a will. Almost one-fourth of the 172 deceased landowners
in the 1948-54 period had made their last will within one year of death
(Table 6). On the other hand, 43 per cent of this group had made their
wills more than five years before death which may mean that transfer ob-
jectives are not achieved due to changes in the basic elements of the transfer process in this interim period.

The respondents who had made transfer plans had the same composition of objectives as did those without plans (Table 8). However, the respondents with transfer plans thought they would be able to achieve 80 per cent of all their objectives as compared to 63 per cent for those without plans (Table 9). This difference may only be due to a subjective feeling that making a transfer plan automatically facilitates the achievement of objectives since the respondents in hindsight indicated that deceased relatives without wills achieved objectives just as frequently as did those with wills (Table 9). Further support of this is indicated by over one-fourth of the respondents who had made a transfer plan having said that making a will would enable them to reduce the cost and taxes of estate settlement (Table 41).

The amount of property owned by landowners necessarily limits the extent that transfer goals can be achieved. The average net worth of the respondent landowners was about $70,000 (Table 10), and an average of 167 acres of land was owned (Table 11). The landowners who died in the 1948-54 period had an average net worth of about $60,000, and they owned an average of 175 acres of land. Most of this difference in net worth was due to the higher value of land owned by the respondents which in turn probably stems from the national rise in land values since 1948.

Evidence was found that joint tenancy ownership of land may be increasingly used as a method of transferring property within families. Twenty per cent of the respondents owned land as a joint tenant compared
to only five per cent of the deceased landowners of the 1948-54 period (Table 12).

The particular objectives that a landowner wants to achieve as well as the intensity with which he may want to achieve them is influenced by the makeup of his family. Sixty of the 76 respondents had a spouse, and 34 of the 45 deceased relatives had had a surviving spouse. The respondents had an average of 2.3 children whereas the deceased relatives had 5.0 children (Table 14). The average number of respondents' children would not be expected to increase significantly since the respondent's average age was 57.8 (Table 13).

Nature of Intra-family Transfer Problems

The empirical data which were obtained on the basic elements in the transfer situation along with data concerning actual property transfers were used to test the hypotheses of this study. An analysis was made of the extent and nature of the hypothesized problems that landowners face in achieving their transfer objectives.

As would be expected, all respondents and all deceased relatives had the objective of using their property to provide an adequate level of retirement income (Table 4). Although 91 per cent of the respondents thought they would achieve this goal, it was found that a large portion of them might fall short of having an acceptable level of income. If the respondents and their spouses were to have retired with their combined net worth which they possessed at the time of the interview and would have received an income equivalent to five per cent of net worth,
then a retirement income of less than $4,000 would have been received in two-thirds of the cases (Table 15). This assumes that the respondents would not have consumed any of their net worth. An income of $4,000 was used as a standard that might be considered as an acceptable level of income since it approximates the maximum amount of $4,200 which is taxed for social security purposes.

In signifying that they would be able to have sufficient retirement income, the respondents may have had other sources of income in mind in addition to the net worth they then possessed. Thirty-five of the fifty respondents who would have had under $4,000 of retirement income by the above assumptions were still farm operators and may have expected to accumulate further amounts of net worth. This may have been especially true for 16 of the respondents who were under 50 years of age. Thirteen per cent or 10 of the 76 respondents expected to continue operating their farms indefinitely and they would so supplement income in their old age. In addition, the recent extension of social security benefits to farm people may also serve as a supplementary source of retirement income.

Provision of adequate retirement income for a surviving spouse is part of the retirement income objective. The respondents thought that 32 of the 34 surviving spouses of the deceased relatives had had income equal to what they were previously accustomed. In these two exceptions, the depression was blamed for the lack of income rather than a failure of the surviving spouse to receive all of the deceased spouse's property. Furthermore, the failure to give the surviving spouse title to or use of all property owned made no difference in the frequency of affirmative
achievement of the retirement income objective either by the respondents or the deceased relatives (Table 16). Thus, it was concluded that there may be a tendency for surviving spouses and respondents to be satisfied with what they have except in extreme situations.

Thirty-five of 60 respondents had made a will providing that their spouse would receive either a fee simple or life interest in all of their property. However, in only three of the 25 cases where the spouse would not receive all of the property could prospective retirement income of the spouse as a survivor be increased above the previously used standard of $4,000 if the respondent had made a will giving all property to the spouse. Assuming the respondents had died at the time of interview, this projected $4,000 level of income would have been received by only 19 of 60 of the respondents' spouses on the basis of the property that they would have received from the respondent's estate plus property which the spouses already owned.

A portion of the spouses who do survive the respondents may find that they cannot augment their incomes by consuming the capital value of property which they inherit. Twenty of the 60 respondents who had a spouse had made a will giving only a life interest to the spouse without a power of appointment to consume any of the property (Table 17). Also ten of 34 deceased relatives had made such a testate provision. However, most of the respondents' spouses had fee simple title to property of their own which they could consume, or they would receive such property as a joint tenant or as a beneficiary of life insurance.
Although little empirical data were gathered in regard to the consumption of capital, it appeared to be infrequently used as a means of supplementing retirement income. However, only two of 34 surviving spouses of the deceased relatives appeared to have consumed any of their property. Eight of the respondents were also surviving spouses of deceased relatives, and they had no plans to consume capital in the future.

The annuity principle may also be used to consume accumulated capital in a regular or systematic manner. However, only four of the 76 respondents appeared to have annuity insurance and in only two instances had there been a transfer of a farm to respondents with the annuity principle used to make payments. Only two respondents had endowment type insurance policies which would give them a source of funds in their later years. Thus, it would appear that the various ways of consuming accumulated capital are seldom used to achieve the goal of assuring adequate retirement income.

Nearly all respondents and deceased relatives who had more than one child held the objective of treating children in an equitable manner (Table 4). However, 98 per cent of the respondents felt that they would be able to achieve this goal as compared to only 80 per cent of the deceased relatives whom they thought had achieved it (Table 5). This significant difference may only indicate a difference in viewpoint depending on whether the respondent was speaking as a parent or as a child. As children, the respondents may have considered only whether or not the parents gave them equal financial treatment and particularly whether or not equal shares were received at death. In six of the eight instances
where the respondents said that the deceased relative had not achieved equitable treatment, the children had not received equal treatment at death which compares to only five of 31 cases where the relative was believed to have achieved equitable treatment. In the other two cases in which the respondents gave negative answers but received equal shares at death, the respondents mentioned that unequal *inter vivos* treatment had been received. The respondents in speaking as parents may have included intangible factors other than strictly economic assistance in deciding that they had given children equitable treatment. In addition, the question may be raised as to whether or not parents would admit that they had not treated their children equitably.

If it is assumed that parents want to treat their children equally in a financial sense considering both *inter vivos* transfers and transfers at death, then a large majority of the parents may fail to achieve this objective. In a major portion of the cases of both the respondents and deceased relatives, the children would or did share equally at death (Table 19). In order to attain equitable treatment in a financial sense, these children would have to have been treated equally before the parent's death. Although one kind of *inter vivos* treatment to some of the children may be offset by another kind given to the remaining children, evidence was found that each of the common kinds of assistance had been given to only a part of the respondents' children in a majority of the cases.

1 The data refer only to cases where all children were out of school.
where the children would share equally at death (Table 20). However, more detailed data on the amount and time of assistance to each child would be necessary in order to make a complete analysis of whether or not parents had treated their children monetarily equitable.

The construction of permanent improvements by children on their parents' farms may have become less frequently a source of inequitable treatment in recent years. In 29 cases where the respondents had rented land to their children, only one renting child had made as much as minor improvements at his own expense (Table 21). However, 12 of 24 respondents who rented from their parents said that they had paid for improvements for which they received no compensation except in some cases by the good graces of the appraiser and administrator in settling the estate. Although the resulting inequitable treatment which the respondents received may have made them attempt to give fair consideration to their own children, the most probable reason for the smaller frequency that respondents' children paid for improvements may be the higher farm incomes received in recent years. The respondents may have been more financially able to construct improvements which their children desired than were the parents of the respondents. Only 21 per cent of the respondents' children wanted some additional improvements which they did not construct, while this was true for 50 per cent of the respondents when they were renting from the deceased relatives (Table 21).

The main reason for the children not constructing the desired improvements at their own expense was due to a lack of assurance of receiving compensation or eventually receiving title to the farm. Such was appar-
ently the reason in four of the six cases where the respondents' children wanted additional improvements, and six of 12 cases where the respondents rented from deceased relatives (Table 21). Thus, out of the total of all cases lack of consideration prevented construction of improvements in four of 29, or 14 per cent, for respondents' children and in six of 24, or 25 per cent, for the respondents themselves. In such situations the efficiency of operation may be hampered because of this awareness of possible inequitable treatment.

Remedial action in the nature of agreements particularly in written form so as to prevent inequitable results when children made improvements was found to be decidedly lacking. Only one of 29 respondents had made an agreement to compensate the renting child for making improvements; such a provision was found in only two of 24 cases where respondents had rented from deceased relatives. These three agreements were orally made and in each case the tenant was to take his compensation out of the rent. Thus no instance of written agreements were found and no agreements were made to provide compensation for remaining unused portions of improvements in case the tenant ceased to rent the farm.

Thus, educational programs may supply information to both the parents and children in regard to achieving equitable results among children and also the inefficiencies that may result in farm operations. Achievement of equitable treatment may also be facilitated where the parents have failed to take needed action by providing changes in property and inheritance laws. Tenants may be given more protection for improvements constructed, and administrators of estates might be given
more leeway to make adjustments for discriminatory *inter vivos* treatment of children.

To provide economic assistance to children at an early stage in the childrens' lives was an intra-family transfer objective of 95 per cent of the respondents and 82 per cent of the deceased relatives who had children (Table 4). As was the situation with achievement of the equitable treatment objective, the smaller proportion of the deceased relatives who supposedly wanted to give early assistance to children may have been due again to the respondents speaking as children and thinking only in terms of the monetary assistance. The respondents as parents would be expected to consider intangible assistance as being of aid to their children and also parents might well consider that this is one of their objectives, whereas one of their children would not believe it was so unless there had been something forthcoming.

As was previously mentioned in this chapter, all respondents had benefited to some degree from intra-family property transfers, but the kinds of assistance usually received early in their careers were considered as having been of the most financial assistance by a majority of the respondents. In 45 of 78 instances the respondents gave this top rating to one of the following kinds of assistance: college assistance; gifts of livestock and equipment; loans or credit backing provided; loans of feed, livestock, and machinery; labor and management assistance; and, the opportunity to rent land (Table 22). These forms of assistance, in general, involved a much smaller element of gift than kinds of assistance which are more often received later in life such as
gifts of land, gifts of cash, sale of farm, and inheritance. Thus, this objective of early assistance may be achieved to a large extent by property transfers which do not require the use of large portions of the landowner's resources. Such a solution minimizes the conflict with the objective of retaining ownership of resources so as to have the maximum assurance of retirement income.

Although control of land through ownership or a leasing arrangement is one of the most valuable kinds of assistance which might be provided to children who want to farm, this form of assistance may often be delayed until the children are past some of their most active years. The importance of an opportunity to operate land was emphasized by 19 of 76 respondents saying that it was the most valuable form of assistance they had received from their relatives (Table 22). However, the average age at which respondents had retired or planned to retire was approximately 60 (Table 23). About two-fifths of the retired respondents did so to permit a son or son-in-law to take over farm operation, but the average age of their oldest child was 31. Thus, the oldest child would have gotten a late start in becoming a farm operator if he had waited for an opportunity to take over the home farm.

The opportunity for children to operate the parents farm may be increasingly delayed if the mechanization of farms continues and if medical science continues to make possible better health in later years. Fifteen of 28 respondents retired because they wanted to or because they were physically unable to continue. In the future, the increased mechanization of farm and home along with
better health may influence farmers such as these respondents to delay retirement. As previously indicated, ten of the 38 operating respondents did not plan to retire, and this portion may increase in the future. Thus, children will have increasingly delayed opportunities to operate the land of parents who decide to further put off retiring. To some extent, social security may offset these factors which would defer retirement. However, the retirement age of 65 for social security purposes is approximately five years beyond the average age that respondents retired and many children may choose other alternatives if they know they will have to wait until their parents are age 65 in order to operate the home farm.

A majority of the respondents' children could not expect to obtain a fee simple interest in the respondents' land until after the end of both parents' life expectancies which are progressing upwards over time. About three-fifths of the respondents had made transfer plans giving either a life interest or fee simple interest in all property to their spouses. Thus, as life expectancies increase, so will the age at which children can expect to own their parents' land unless inter vivos transfers are planned. Respondents and their spouses may decide to make such inter vivos transfers of land to children. In 27 of 76 cases, either the respondent or his spouse had received title to land through inter vivos transfers from relatives.

Assistance to children through inter vivos transfers of title to land may be made by landowners through various means. Title may be conveyed under some form of annuity or purchase contract. Assurance
may be given *inter vivos* to a child that he will receive title to land at death of the parent through an option arrangement. However, the respondent landowners were found to be reluctant to make such provisions because of a fear that other children would not consider this to be equitable treatment. Evidence of this conflict with equitable treatment was indicated by 22 of the 51 respondents, who had more than one child, saying that they preferred to let the children decide among themselves as to who would operate the farm or buy the farm after the respondent's death.

Although the maintenance of the going concern might result in preservation of substantial material benefits to their families, a large majority of the respondent landowners apparently did not possess this objective. Only 28 of 75 indicated existence of this objective (Table 2). As would be expected, the owner operators, probably having more pride and closer contact with their farms, were found to have this objective more often than the non-operator owners. One-half of the owner operators wanted to maintain the going concern as compared to only one-fourth of the non-operator owners.

The going concerns on the land of the deceased relatives who died during 1940 or later was seldom disturbed due to a change in operators associated with the intra-family transfer of ownership at death. A change in operators occurred in only four of 51 operating units, and in one of these four cases the personal farm property was retained on the farm. However, the going concern was disrupted more frequently before 1940, where a change of operators occurred in seven of 18 instances. In
five of these seven changes, the change was necessary because the deceased relative had been operating the farm.

However, the going concerns on the majority of the farms of the respondents were potentially in danger of being broken up since only 11 respondents had made a plan for protecting the going concern (Table 25). The most frequent reason given for not having made a plan was that of preferring to let the children decide who would operate the farm. This reason was given by 12 of the 40 respondents who had made a transfer plan but had included no specifications for maintenance of the going concern. The conflict with equitable treatment was quite apparent for ten of these 12 respondents, since each of the ten had two or more children who were farming at the time of the interview. Respondents may make a will specifying that the child who is operating the farm be given first option to buy the farm on the basis of a market appraisal, and then other testate provisions could be used which would essentially insure equitable treatment. However, a respondent with two children who wanted to farm on the home farm might be reluctant to make such a plan.

The going concerns on the farms of deceased relatives had seldom been handicapped because of a necessity to sell farm personal property in order to pay costs and taxes of estate settlement, but such a possibility was faced in a large number of the respondents' situations. In only one instance among the estates of the deceased relatives was farm personal property sold out of the family for the purpose of paying costs and taxes. However, if the 34 owner operator respondents who had an average investment of $18,200 in farm personal property had died at the
time of the interview, the administrators of only three of the estates would have had enough liquid funds to pay costs and taxes. Only 11 of them would have had sufficient funds even if the surviving spouse had permitted use of the liquid funds "she" received from joint tenancy ownership plus insurance. Thus, the efficiency of the going concerns on at least two-thirds of these 34 farms might have been hampered by the necessity to sell personal property in order to pay costs and taxes. However, the heirs may have obtained the liquid funds by mortgaging real estate. The respondents could take action to alleviate the effects of costs and taxes on the going concern by acquiring insurance (see Fig. 3) or by accumulating liquid funds from future savings. However, only nine of 51 respondents who had a transfer plan said they had taken action to provide liquid funds for paying costs and taxes.

Thus, the going concern on Grundy County farms may have suffered only infrequently due to the intra-family transfer process, but there was evidence that the going concerns on a large share of the respondents farms might be broken up due to a failure to make adequate transfer plans. Educational programs providing information on various techniques and consequences of not planning may also help landowners take action to maintain going concerns.

To prevent an overburdensome debt from being acquired by the heir who takes over the farm property in estate settlement was an intra-family transfer objective of 40 per cent of the respondents and 53 per cent of the deceased relatives. The quantity of capital needed for obtaining the land of the average respondent and the average personal
farm property of the owner-operator respondents plus capital to operate the farm was estimated at around $70,000. The number of heirs is a significant factor in the size of the debt load that might be assumed when one heir buys out the other heirs. The relevant number of heirs is usually the number of children and this appeared to be most often recognized by respondents with more than one child. One-half of such respondents had the objective of preventing overburdensome debt as compared to one-fifth with less than two children. Furthermore, there was some evidence that respondents had this objective when the deceased relatives also had had the objective. The respondents logically could have learned to frown on the idea of having a debt from the deceased relatives, but again the extent of this relationship might be offset since the respondent gave the answers for both themselves and the deceased relatives.

The ex post experience of the heirs of the deceased relatives who died since 1939 indicated they had had very little trouble with debt incurred in taking over the deceased relatives' property. Trouble occurred in only one of 26 estates where the deceased left debts due to illness. In five other estates the debt caused no trouble although the respondents felt that the deceased relatives had not achieved this objective or else the respondents did not know if they had achieved it. The lack of trouble with debt loads since 1939 was probably associated with the higher farm incomes as compared to the previous period.

However, six of 19 respondents experienced serious trouble with debts on farm property acquired from estates opened prior to 1940. Each of
them blamed the low prices of depression years, but none of the respondents indicated that the debt load was more than the farm could carry. However, the debt originated in four cases from the hypothesized cause of buying out other heirs and in the other two cases from debts left by the deceased relative.

The possibility of the respondents' children assuming an overburden-some debt appeared to be of a mixed nature. If the respondents had died at the time of interview, there would have been sufficient property excluding land to pay off all debts plus estimated costs and taxes in all but nine of the 76 cases. Thus, a heavy debt on land would seldom have occurred due to paying off debts, costs, and taxes in estate settlement. Furthermore, the possibility of the respondents' children assuming a heavy debt was much less than what had existed for the deceased relatives' children because of the much smaller average number of children. Also, 61 per cent of the respondents had two or less children as compared to only 20 per cent of the deceased relatives. Thus, in a large share of the cases each of the respondents' children would stand to inherit a substantial equity in the respondents' property.

On the other hand, there appeared to be considerable possibility of the respondents' children assuming a heavy debt load because of the lack of planning to prevent such an occurrence. Only two of 33 respondents who had made a transfer plan and who had two or more children thought they had made such a plan (Table 27). However, in neither case did the plans appear to be effective since no source of credit was specified which would permit flexible repayments according to varying
economic conditions. Four respondents may have been able to effectively achieve the objective of preventing overburdensome debt since they said the reason for not having made a plan was because they had a farm for each child (Table 27).

A conflict with equitable treatment appeared as a dominate reason for not having made a plan to prevent heavy debt since 13 of the 33 respondents said they preferred to let their children decide who would buy the farm. This conflict again seemed to be most severe when the respondents had more than one child who was farming as did nine of these 13 respondents. However, for respondents who attach considerable importance to preventing debt, educational programs may be used to provide them with information in regard to use of flexible repayment credit arrangements whereby credit institutions or other heirs could supply the basic source of the credit with other provisions used to minimize or offset any element of inequitable treatment.

One of the intra-family transfer objectives of 43 per cent of the respondents and 53 per cent of the deceased persons was to prevent the division of their land into less efficient sized units with the assumption being made that such results would reduce efficiency of operation (Table 4). The number of the landowner's children most often determines the number of persons who might eventually take title to land and thus lead to a physical subdivision. Thus, the respondents with more than one child had this objective in 27 out of 50 cases as compared to only five of 25 respondents with less than two children.
For the deceased relatives this objective of preventing subdivision of land into small sized operating units appeared to have been realized in almost all cases. The land of the deceased relatives was found to have been divided into a larger number of operating units during or after estate settlement in only five of 42 cases. This subdivision was offset to some extent by later consolidation of operating units in two of the five cases and in a sixth case seven units were consolidated to five in estate settlement.

However, the opportunity for subdivision of land in the intra-family transfer process appears to have been prevalent because of the common tendency to provide equal shares to children without any specification for one child to take over the land. At the time of the interview, such equal sharing would have resulted among the respondents' children in 90 per cent of the cases and had resulted in 68 per cent of the deceased relatives' cases (Table 19). In each of the five cases where subdivision had occurred, there were more children than the original number of operating units. In addition, the transfer of property within the families of the deceased relatives may yet result in subdivision of land since in 15 of the 42 cases joint ownership still existed among the heirs at the time of interview. Thus, it is possible that these heirs may decide to take some partition actions.

The land of the respondents might have been transferred to the children in undivided joint ownership at the respondents' death in nine-tenths of the cases because of the unqualified provisions for equal sharing (Table 19). Only two of the 51 respondents with two or more children
had made a plan for one of the heirs to buy out the others, and the main reason that others had not made such plans was a conflict with the equitable treatment objective. Thus, the extent of co-ownership that existed among the deceased relatives' children plus the potential extent among the respondents' children indicate that the intra-family transfer process could contribute to numerous subdivisions of land within farms.

Only a few effective plans had been made which would prevent the possibility of friction causing subdivision of land where joint ownership occurred among children. Twenty-two of 51 respondents who had two or more children thought that their children would be able to agree peacefully among themselves. However, eight of the respondents thought friction might develop among their children in estate settlement, but they had made no plans to prevent it. Seventeen thought they had made plans to prevent friction through such actions as having discussed their transfer plans with the children, providing in their will that the children receive equal shares, or making other testate provisions. But, in only three cases had the respondents made testate provisions specifying which farms were to go to which children or that certain children were to have an option to buy a farm.

To keep ownership of their farms within their family was an intra-family transfer objective of about two-thirds of the respondents (Table 2). As would be expected, a significantly higher proportion of the operating respondents had this objective which was probably due to having developed more pride in their farms. Also as would be expected, the respondents with children more often had this objective as did the respond-
ents whose deceased relatives also had had the objective. On the other hand, there was evidence that might indicate that a smaller proportion of the respondents wanted to keep the farm in the family than did the deceased relatives. Eighty-two per cent of the deceased relatives supposedly had had this objective as compared to 64 per cent of the respondents (Table 4). Possible reasons for such a difference are: (1) that a larger proportion of respondents consider land ownership more in terms of an investment, (2) a larger proportion of the respondents were probably never farm operators and thus have not developed as much personal sentiment in their farms, and (3) a larger proportion of the respondents may not have had or expect to have any children who are interested in farming since the respondents' average number of children was much less than that of the deceased relatives (Table 14).

This objective was achieved by almost all deceased relatives since ownership of their land was retained in the family in all but six cases. However, in these six instances, land was sold out of the family for the hypothetical causes of: overburdensome debt; the need of funds to pay off debts, costs, and taxes; farm was too small for the heir; and none of the heirs wanted to buy the land for various reasons. Thus, some of the hypothesized problems were found to have caused the sale of land out of the family in the intra-family transfer process although the occurrence of the problems was infrequent.

However, there appears to be a much higher possibility that when the respondents' land is eventually transferred in the intra-family transfer process ownership of their land may pass out of their families.
This objective of the respondents' seemed to stand in potential danger of not being achieved for the same reasons as was the case with many of the other transfer objectives which tend to be complementary to that of keeping the farm in the family. Previous mention has been made of the lack of plans by the respondents to prevent overburdensome debt which may cause the farm to be sold out of the family. Also a scarcity was found of effective plans to prevent friction which could lead to a subdivision of land and possibly mean that some of it would be sold. The possibility of friction also may lead to increased costs of estate settlement which might require sale of land to obtain the necessary funds. The decreased chances of keeping the farm in the family when there is a small number of children has been suggested. Furthermore, 36 per cent of the respondents whose children were all out of school had no children may not be interested in retaining farm ownership. In connection with the objective of giving early assistance to children, discussion was given in regard to the possibility of children choosing other professions due to the uncertainty of the time that parents will retire or due to the late age of retirement. In addition, two-fifths of the respondents have farms of less than 120 acres; this may cause children to seek some other profession because the parents' farms are too small.

The various means which landowners may use to insure achieving the objective of keeping their farms in their families are much the same as actions which were discussed as means to achieve the complementary objectives of protecting the going concern, preventing overburdensome debt, preventing subdivision of land, and in some cases giving early assistance.
to children. However, the main reason why respondents had not made such plans appeared to be: (1) the existence of conflicts with the objectives of equitable treatment and the protection of retirement income, and (2) a lack of knowledge of the means and consequences which may be used to achieve an optimum level of all objectives. The most forceful means of obtaining some assurance that farm ownership would be retained within families is for landowners to suspend power of complete alienation of land by devising only life interest to their living descendants.

In order to maximize the amount of remaining property available for achieving other intra-family property transfer objectives, 95 per cent of the respondents wanted to minimize the amount of costs and taxes involved in estate settlement (Table 2). However, the significantly lower percentage of 53 deceased relatives supposedly had had this goal (Table 4). The hypothesis that this difference was due to an increased concern over taxes in general in recent years was not verified since the deceased relatives who died before 1940 had the objective just as often as those dying after 1940. Also, the respondents said that the deceased relatives most often had had this goal of minimizing costs and taxes when no estate or inheritance taxes were paid. But testate provisions had not been made by the deceased relatives whose estate did pay some death taxes any more frequently than by those whose estate did not have to pay such taxes. Thus, it appeared that the respondents may have tended to feel that the deceased relatives were not interested in minimizing costs and taxes if it had been necessary to pay any death taxes.
in the settlement of their estate.

The data from the estates settled in the 1948-54 period indicated a general tendency existed for each of the various categories of costs and taxes to increase in amount as the gross value of estates increased. The average amounts of several of the different kinds of costs appeared to vary in almost direct proportion to the gross value of the deceased landowners' property. However, for medical and burial expenses the average dollar amounts increased with gross value but at a decreasing percentage (Table 31). But this percentage was an increasing one for the progressive federal estate tax (Table 33). For all items of costs and taxes the amounts varied widely in individual cases both in dollar amounts and as a percentage of gross value. Of the various kinds of costs in estate settlement, medical and burial had the highest acreage cost at $1,157 with lawyer fees second highest at an average of $949 (Table 37).

A highly significant regression relationship was found between lawyer fees and gross value (Fig. 1). Average lawyer fees were found to be about 1.55 per cent of gross. Any use of such a percentage for estimating lawyer fees in similar family and property situations would have to be adjusted to the expected amount of lawyer services as compared to the average situation. However, this variance of lawyer fees in proportion to gross value raises the question of whether or not legal services given to the administrator in estate settlement do vary in proportion to gross value. Such a relationship may be doubted since 76
per cent of the average gross value of estates in the 1948-54 period was that of real estate (Table 10) and lawyer services would not be expected to increase in proportion to the value of real estate. Thus, lawyer fees may be based to a large extent on the ability to pay.

The evidence of this study indicates that there probably will be no estate and inheritance taxes to be paid on a large share of the estates of Grundy County landowners when they die. Depending on the manner of distribution, there are various exemptions which are allowed under both kinds of death taxes. Death taxes were paid in only about one-half of the estates of landowners who died in the 1948-54 period (Table 34). Although the net worth of the respondents was about $10,000 higher than for these deceased owners (Table 10), it was still estimated that one-third of the respondents would have had no death taxes if they had died at the time of the interview. Three-fourths of the 1948-54 estates either paid no death taxes or paid less than one per cent of gross value, and it was estimated that this would be true for seven-tenths of the respondents (Table 34). Death taxes extended beyond five per cent of gross value in only 13 per cent of the 1948-54 estates and would have done so in only 11 per cent of the respondents' estates. Thus, death taxes in the main do not appear to consume extremely large proportions of deceased landowner's property.

Respondent landowners whose estimated taxes were relatively large in proportion to gross value and those having property of large gross value tended to be less aware of the possible amount of death taxes which their estates would have had to pay. Respondents whose estimated
taxes were over five per cent of gross value tended more often to underestimate what the estimated amount of death taxes would have been on their estates if they had died at the time of interview (Table 35). The same tendency to underestimate death taxes existed for respondents who had property with over $80,000 in gross value.

Since the individual cost items of estate settlement varied according to gross value the total of all costs also varied accordingly for which a regression calculation was determined. From this regression calculation the average total costs were estimated to be $1,012 plus $2.51 for each $100 of gross value. However, a landowner using such a calculation as a guide for making liquid funds available to his estate for paying costs might want to allow a safety factor above the average requirement. Thus, another regression was determined which estimated the amount by which total costs under similar conditions would not be exceeded in 95 per cent of the cases. Estimated total costs which included this safety factor were found to be $1,194 plus $4.46 for each $100 of gross value.

The amount of death taxes were not included in these estimations of the average relations between total costs and gross value because death taxes vary quite widely for a given gross value depending on the manner of distribution. An example was given where the death taxes varied between 2.63 and 15.83 per cent of an estate with gross value of $150,000 depending on the manner of distribution (Table 38). The total costs plus death taxes on the estates of the deceased landowners in the 1948-54 period as a percentage of gross value appeared to be
lower for estates of $40,000 to $80,000 of gross value than for those below $40,000 and above $80,000 (Table 39). In individual cases the total costs plus death taxes were found to range between 2.11 and 27.24 per cent of gross value. Thus, there did not appear to be a linear relationship between the total of all costs and gross value, and a wide range percentagewise existed.

The act of making a will or transfer plan apparently made respondents feel that they would be able to achieve the objective of minimizing costs and taxes. Seventy-two per cent of the respondents with transfer plans as compared to only 38 per cent of those without plans thought they would be able to achieve this objective (Table 9). Also the respondents gave these percentages as 89 and 17, respectively, for the deceased relatives. Previously in this chapter, it was mentioned that over one-fourth of the respondents said they had taken action to reduce estate settlement costs by making a will (Table 41).

However, no evidence was found to support this belief that transfer plans have aided in reducing costs and taxes. The proportion of the respondents who had wills and whose estates were estimated to have had to pay some death taxes was not statistically different from the proportion who had no will but that would have had some estimated taxes (Table 35). Neither of the items of costs or taxes were found to have been lower for the estates of testate deceased landowners of the 1948-54 period as compared to those of the intestate landowners. On the contrary, there was some reason to believe that important items of cost were lower in intestate cases. Court costs were significantly lower for intestate
cases (Table 28). Lawyer fees in intestate cases were lower, but not significantly lower (Table 30). However, lawyer fees in intestate cases were found to regress on gross value at a significantly lower rate than for testate cases. Therefore, with estates of higher values there may be a range where lawyer fees in intestate cases are definitely lower. Since administrator fees are closely related to lawyer fees this also raises the question of whether this cost might also tend to be lower for intestate cases, although the acceptance of these fees was found to be frequently waived by the administrators or executors (Table 29).

The total of all costs in intestate cases was not found to be statistically higher than for testate cases as was hypothesized (Table 37). Similar results were found for both the Iowa inheritance taxes and the federal estate taxes (Tables 32 and 33).

The explanation for costs and taxes not being higher in intestate cases and for the suspicion that they are actually lower for some cost items appeared to stem from the nature of testate provisions. Complex provisions for distribution of the property may be written into wills such as trust arrangements, options, or life estates which directly affect such costs as court costs, lawyer fees, and administrator fees. Also in the settlement of intestate cases, there may be a tendency to close the estate with the property remaining in undivided ownership which may mean a requirement for additional legal aid at a later date when property is transferred out of undivided ownership. Therefore, it appears that testate landowners who died in the 1948-54 period did not have lower costs of transferring property and that they did not take
advantage of tax exemptions to reduce death taxes.

The transfer plans made by the respondents may similarly fail to assist in achieving the objective of minimizing costs and taxes. About four-fifths of the respondents who had a transfer plan said they had done nothing in their plans to reduce costs and taxes or else thought that the act of making a will would reduce these expenses. Very few had taken any effective steps to reduce costs such as two of 51 had done in specifying that the administrator could serve without bond. Only one respondent had made a conscious effort to take advantage of the marital deduction so as to reduce federal estate taxes but his plan failed to gain its full benefit.

Inter vivos gifts may be used to reduce costs and taxes of property transfers, but only three of the 51 respondents with transfer plans had attempted to use this means (Table 41). Such action comes into direct conflict with the objective of assuring retirement income but may be complementary to achieving early assistance to children. Therefore, remedial action for assisting landowners to achieve this objective again appears to lie within the field of education wherein information is needed about the means of reducing costs and taxes in achieving all transfer objectives to some optimum degree.

Some further condensation of the summary of findings presented in this section may be made. The objectives of landowners in the intra-family transfer process appeared to have been achieved in the past in the majority of the cases except possibly for that of minimization of costs and taxes. However, serious problems were experienced in many
of those individual cases where objectives were not achieved. Furthermore, the empirical data indicated that the respondent landowners may fail to, or that there were potential dangers that may cause them to fail to achieve their transfer goals in a large share of the cases. Two general areas of conflict in objectives were found. The goal of having adequate retirement income tends to conflict with achievement of early assistance and minimization of costs and taxes. The objective of equitable treatment was strongly in conflict to the group of more or less complementary objectives of protecting the going concern, preventing overburdensome debt, preventing the division of land into inefficient units, and keeping the farm in the family. The respondents had misconceptions and lack of knowledge of methods that may be used to assist in achieving transfer objectives, and thus, remedial action appears to be primarily a matter of providing education information.

Additional Areas of Study

This study dealt with some of the many problems that landowners experience in attempting to achieve their goals in transferring within families their rights in farm property. Future studies might take a much broader approach so as to consider the transfer objectives of all family members including families of non-landowning farm operators. Although the members who own the property have nearly exclusive rights to decide on how property is to be transferred, the objectives of the other family

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1 Family is thought of here as the parents and children.
members may be in conflict and result in serious problems. For example, one or more of the children may want to operate the parents' farm or may want to acquire title to it as early in life as possible. However, the parents may be reluctant to retire from farm operation or they may feel that retirement income would be more uncertain if they transferred title of their land to children.

The objectives of various family members may be found to be in harmony in many respects. This may be particularly true in regard to minimization of costs and taxes in estate settlement. However, there may still be a conflict where the children desire to minimize taxes through *inter vivos* transfers and the parents prefer to retain ownership for security purposes. In addition, both spouses may own property and the uncertainty as to which spouse will die first complicates the process of planning to minimize death taxes. Further study might seek ways of improving planning for more effective achievement of this and other objectives. In such a study the property owned by all family members would be considered as well as the prospective property which might be received.

A study of transfer objectives from an overall family approach would probably require use of the case method. It would have to be limited to families where all the children have obtained some reasonable mature age since information must be obtained from all family members. Such an analysis would not be subject to the questions which were raised in this study in regard to the respondents speaking as parents in one instance and as children in another. By interviewing both parents and
children a test may be made of the hypothesis which was formulated suggesting that parents consider intangible elements more than do children in determining whether equitable treatment or early assistance has been given to children. Also, the viewpoint of children could be checked against that of parents in regard to when permanent improvements were made by renting children and when compensation arrangements were made. Thus, such studies may help solve problems stemming from differences in the viewpoints of the parents and children. In addition, analysis may be made of the extent that intra-family property transfers contribute to inefficient farm operation through the hesitation of renting children to make improvements because of absence of any assurance of obtaining full benefits of such investments. A study along these lines would have to examine the potential contributions that these improvements make to the farm business.

In order to obtain a complete analysis of the extent that transfer objectives are not achieved a study extending over time is necessary. Information could be obtained from aged parents and then when their estates were closed, further information could be obtained from heirs and courthouse records. Such an extensive study may more clearly reveal the extent of transfer problems as well as successful remedial actions.

Additional research may delve into the effects of the intra-family transfer process on what persons receive the opportunity to farm. Since all respondent landowners in the Grundy County study received some form of assistance from intra-family property transfers and the respondents frequently indicated that forms of assistance which helped them get
started in farming were quite valuable, the intra-family transfer process may exercise considerable selection as to which persons become established in farming. This dependence on family assistance suggests that persons who are not children of landowners in Grundy County do not have equal opportunity to become farm operators. This appears to point up a conflict in the apparent public goal of providing broad freedom of bequeath and the often talked about public ideal of equal opportunity wherein it is envisioned that all persons have an equal opportunity to become not only farm operators but farm owners. Furthermore, the data obtained in this study in regard to the delayed retirement of parents suggest that the more capable children might be discouraged because of the uncertainty of opportunities to become farm operators and thus decide to enter professions other than farming. Further study may determine the extent that the intra-family process fosters less efficient farm children in farming through lack of opportunity or though the intentional action of landowners of providing farming opportunities only to those of his children who are less capable of entering into other pursuits.

The full implications on the intra-family transfer process of the recent application of social security to farm operators may well be the subject of further investigation. How will the availability of farm operation as well as ownership be affected by social security? Since the average age of retirement in Grundy County was found to be around age 60, social security might be a factor in prolonging retirement until age 65 with the attitude that they can afford to retire at
that time. Some farm owners who had not planned to retire until some-
time after age 65 may have this additional factor to consider.

The failure to verify the hypothesis that costs and taxes of estate settlement are less in testate cases might be made the subject of further inquiry. The subsequently developed hypothesis might be further tested which suggests that the complexity of testate provisions results in court costs, lawyer fees, and administrator fees being higher than in intestate cases. There was evidence that a larger sample of estates with higher gross values might show that lawyer fees and therefore administrator fees on the average are lower in intestate cases. More detailed investigation might also be made to verify the conclusion that testators have failed to take advantage of opportunities to reduce death taxes below what the tax liabilities would be in intestate cases.

The data obtained in this study indicate that the frequency with which landowners achieve equitable treatment in a monetary sense might be quite low. However, further intensive study on this particular transfer objective might reveal with a high degree of exactness the extent of monetary inequity. Complete information on the financial value of assistance given to children or of assistance given to parents could be sought. Such information would be of help in determining why equitable treatment as well as early assistance to children is or is not achieved and thus provide remedial suggestions.

The analysis of this study has been primarily a survey of what are the problems and their causes. Although numerous legal devices are known and combinations of them are innumerable, future studies are needed to
determine efficient educational techniques for supplying information of this nature to farm people. Farm people might have to be taught how to perform intelligent decision making before they can make sound and effective transfer plans for themselves. It appears essential that the subject matter of both the fields of law and agricultural economics be drawn upon and interwoven in order to initiate efficacious research and extension programs for aiding farm people in achieving intra-family transfer objectives.
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