CENTER FOR AGRICULTURAL PROFITABILITY
*Institute of Agriculture and Natural Resources*

# Paying Family Members on the Farm or Ranch

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For many farm and ranch families, bringing children or grandchildren into the operation is the ultimate goal. Successfully bringing additional family members into the operation may require some creativity as all parties need to maintain a viable standard of living. This is the first in a series of articles that will highlight ideas and tactics for bringing another family member into the operation.

One tactic is to provide new family members with monetary compensation, such as an hourly wage or salary. The total compensation should be comparable to the market value of wages to hire a non-family member to do the same work.

Here are things to consider when employing this strategy.

1. **Start anytime** - This strategy can begin early in life. Children under 18 can earn monetary compensation from the farm or ranch. This can give family members a sense of responsibility and allow them to learn how to manage money at an early age. Furthermore, this can jump-start their savings for education, retirement, or business assets. Work with a financial advisor to explore tax-advantaged ways to save and invest on a child's behalf such as Roth IRAs or 529 Accounts.
2. **It's tax-deductible** – Wages or salaries paid to family members may be tax deductible. The downside is that it may require additional paperwork. Work with your accountant to make sure you have the correct documentation and reporting.
3. **Financial Freedom** – Providing monetary compensation can provide financial autonomy. A competitive compensation package shows that you value their contributions to the business. Additionally, being able to make their own spending and investment decisions can be empowering for them.
4. **Setting Expectations** –One of the biggest challenges for farm and ranch families is setting expectations for work. Different generations often have different views on this matter. When setting a monetary compensation rate, also consider writing position descriptions that clearly define working hours and responsibilities.
5. **Maintain control** – By monetarily compensating family members, ownership of the entity and capital assets are not being transferred. In the early stages of the transition process, paying wages or a salary may be a way to test the waters and see if working together in the operation is feasible. If it is not, the owner still maintains control of the capital assets. The family member also now has cash to start their own operation or choose a new career path.

Not all compensation has to come from an hourly wage or salary. Often, owners will provide compensation to family members in various forms providing housing, vehicles, insurance, etc. Non-monetary compensation should be valued and factored into the total compensation package. The total compensation package should allow both owners and other family members to maintain a viable standard of living. The compensation package, both monetary and non-monetary, should be discussed, and in writing, before someone becomes involved in the operation.

Providing monetary compensation is just one strategy to help transition someone onto your farm or ranch operation. Look for future articles outlining other strategies on the Center for Ag Profitability website at cap.unl.edu.

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