

# Do I Need a Written Lease?

File C2-03

This is a common question asked by both tenants and landowners. Obviously, many farm lease agreements have existed for years without being written down. Figure 1 shows the percent of farmland under a rental agreement by county in Iowa, with a state average of 51%. An ISU survey shows that 64% of Iowa farm leases are on paper.

Where both parties know and trust each other, an oral lease may work well. However, there are several reasons why a written lease can be beneficial, even in the most amicable of situations.

## Record of Terms

Although key points may have been discussed, a written lease provides a clear record of what was agreed to. After several years the parties involved may recall details of the lease agreement differently or heirs may want to know what was previously negotiated.

The type of lease agreement you use can affect tax treatment of rent received, including income and self-employment taxes. It can affect whether a farm qualifies for special use valuation for estate taxation.

A written lease provides useful documentation for making these determinations, or as evidence in case of a tax audit.

Oral leases are valid for only one year at a time in Iowa. If a longer contract is desired, it must be in writing. However, twenty years is the maximum length for a lease contract in Iowa.

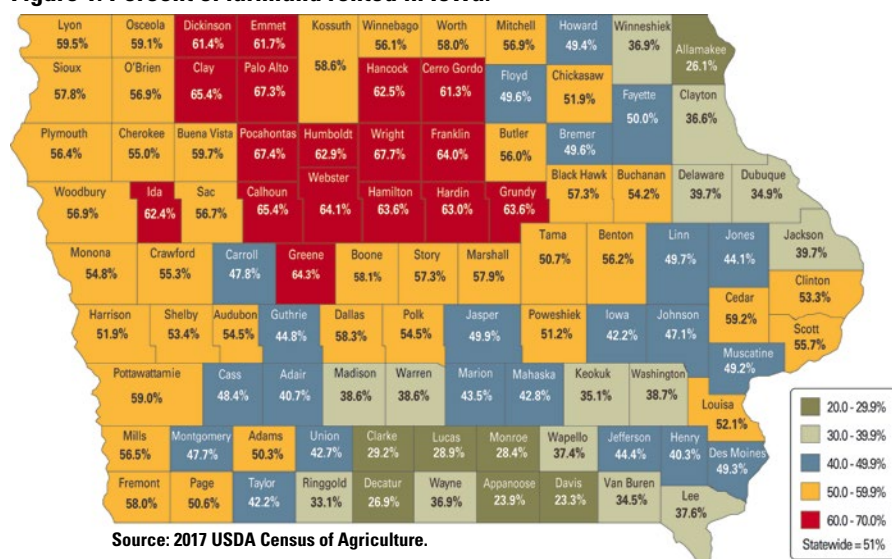
If either party dies, the lease remains in effect for the heirs until it expires. It is essential that the heirs be informed about the terms of the agreement. Under Iowa law, a lease for cropland must be terminated, in writing and separate from the lease, by September 1 each year or it stays in effect for another year under the same rates and terms. See [Iowa Farm Leases: A Legal Review](http://www.calt.iastate.edu/files/farm_lease_law.pdf), Center for Ag Law and Taxation, [www.calt.iastate.edu/files/farm\\_lease\\_law.pdf](http://www.calt.iastate.edu/files/farm_lease_law.pdf), for more information on terminating a lease. Rules may differ in other states.

## Farm Lease Forms

ISU Extension and Outreach has developed draft lease forms. A preprinted lease form may contain provisions that tenants and owners have not thought of discussing. If you don't want to include

a provision, simply draw a line through it. AgDM File C2-12, [Iowa Farm Lease](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-12.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c2-12.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-12.pdf), can be used for either cash or crop-share lease agreements. A short lease form is also available in AgDM File C2-16, [Iowa Cash Rent Farm Lease \(Short Form\)](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-16.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c2-16.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-16.pdf). In both versions, you can fill in the form electronically and save the file for future use.

Figure 1. Percent of farmland rented in Iowa.



Revised June 2023

Other lease forms can be downloaded free of charge from the North Central Farm Management Extension Committee at: [www.aglease101.org](http://www.aglease101.org).

- NCFMEC-01A, Cash Farm Lease (with flexible provisions)
- NCFMEC-02A, Crop Share Farm Lease
- NCFMEC-03A, Pasture Lease
- NCFMEC-04A, Farm Building or Livestock Facility Lease
- NCFMEC-05A, Farm Machinery Lease for Non-commercial Transactions
- NCFMEC-06A, Livestock Rental Lease

Detailed publications describing each type of lease agreement are available at the same website.

### Specifying Payment

The lease forms contain several key features. A table is provided for specifying the amount, date, and method for making cash rent payments. Simply fill in the blanks. It also has a section for describing flexible or variable rent provisions.

### Crop Share Division

For a crop share lease, there is a table for recording how various costs are to be divided between the tenant and owner, and how the crop and other payments should be split.

### Flexible Cash Leases

Some farm leases call for the final rental rate to be determined by a formula that takes into account the actual yields attained and the actual selling prices available during the marketing season. Details about how the rent will be determined each year can be included in the “Flexible Cash Rent” section on the Iowa Farm Lease, or in a separate document. Including an example or two is helpful.

### Investments by Tenants

Sometimes tenants want to invest in long-term improvements such as buildings, grain bins, conservation structures, and even lime. However, they are concerned about losing their investment should the lease be terminated early. Most leases contain a section where these expenditures can be recorded, along with a schedule for reimbursing the tenant for the remaining value of the asset should the lease be terminated before the useful life of the investment is over.

Several supplements to a farm lease are also available for recording long-term investments.

- File C2-07, [Lease Supplement for Investing in Improvements on a Rented Farm](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-07.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c2-07.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-07.pdf)
- File C2-08, [Lease Supplement for Obtaining Conservation Practices and Controlling Soil and Nutrient Loss](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-08.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c2-08.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-08.pdf)
- File C2-29, [Lease Supplement for Drainage](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-29.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c2-29.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-29.pdf)

These lease supplements provide extra space to fully describe improvements and practices, and how their costs will be borne.

### Environmental Considerations

The lease may also contain language and additional space for many different situations, including environmental considerations such as planting wildlife habitat, following an approved conservation plan, and cleaning up disposal sites for hazardous wastes and containers.

The time it takes to complete a written lease contract can prevent many problems down the road. It is simply a good business practice.