

Another common procedure is for the partner with the most acres to reimburse the other owner for the extra use. To calculate the amount of compensation, multiply the custom rate by the number of acres by which one owner's share exceeds half the total. As noted above, the custom rate should be reduced by 20 to 30 percent if labor and fuel are furnished by each owner.

In example 2, Al pays Chris \$21 per acre (75 percent of a \$28 custom rate) for each acre on which he uses the combine in excess of half the total. In this example, half of the 1,500 total acres is 750. Al's acres exceed this by 250, so the total payment from Al to Chris would be \$21 X 250 acres, or \$5,250.

Example 2.

Al and Chris purchase a used combine jointly, each paying half of the purchase cost of \$150,000.

The combine is used on 1,500 acres, 1,000 by Al and 500 by Chris.

Both furnish their own fuel and labor; repair costs are divided equally.

1. Assume that the remaining costs, excluding fuel and labor, are equal to 75 percent of the custom rate.
 $\$28/\text{acre} \times 75\% = \$21/\text{acre}$
2. Al's ownership share is 50 percent. Half the total acres is 750. However, Al uses the combine on 250 extra acres, beyond this.
 $1,000 \text{ acres} - 750 \text{ acres} = 250 \text{ acres}$
3. Al pays Chris \$18 for each extra acre.
 $\$21/\text{acre} \times 250 \text{ acres} = \$5,250.$

If the jointly owned implement is not self-propelled and is pulled behind each operator's personal tractor, the rental value of the tractor also should be subtracted from the custom rate. Average custom rates and tractor rental charges can be found in *Iowa Farm Custom Rate Survey*.

Example 3.

Al and Chris also purchased a no-till soybean drill for \$30,000 - each paying half. Al used it on 400 acres, Chris on 200 acres. Each supplied the tractor to pull it, a driver and fuel. They agreed on a custom rate charge of \$15 per acre.

1. Multiply the custom rate by 75% to exclude fuel and labor.
 $\$15/\text{acre} \times 75\% = \$11.25/\text{acre}$
2. They used a 175-horsepower tractor to pull the drill. The average rental rate for tractors is \$.20 per horsepower-hour, so the hourly charge is:
 $175 \text{ hp} \times \$0.20 = \35.00 per hour
3. At the rate of 7 acres drilled per hour, the tractor charge per acre is:
 $\$35.00 / 7 \text{ acres per hour} = \5.00 per acre
4. The charge for the use of the drill is:
 $\$11.25 - \$5.00 = \$6.25 \text{ per acre}$
5. Half the total acres (Al has 50 percent ownership) on which the drill was used is 300. Al used it on 100 acres more than this, so he pays Chris \$625.00.
 $\$6.25 \times 100 \text{ acres} = \625.00

Actual Costs

In cases where some costs are divided differently than others, a complete list of actual costs and who paid them is needed.

Again, assume that Al combines 1,000 acres and Chris 500 acres, and they have equal ownership of the combine. They both supply their own fuel and labor, but Chris stores the combine and does all the repairs and maintenance (Example 4). At the end of the year, all costs are totaled and redivided in proportion to the number of acres on which each one used the machine. In the example, the total cost of interest, depreciation, insurance, housing, and repairs amounts to \$28,500 for the year, or \$19.00 per acre. In order for the expenses to be divided in proportion to usage, that is, \$19,000 for Al and \$9,500 for Chris, Al must pay Chris \$7,375.

Example 4.

Al and Chris purchase a used combine jointly, each paying half of the \$150,000 cost. Al harvests 1,000 acres, Chris harvests 500 acres. They both provide labor and fuel for their own acres, but Chris stores the combine and performs or pays for all repairs.

	Total	Al	Chris
1. Investment or current value of machine	\$150,000	\$75,000	\$75,000
2. Annual interest charge (5%)*	7,500	3,750	3,750
3. Depreciation (10%)*	15,000	7,500	7,500
4. Insurance (½ %)	750	375	375
5. Housing (½ %)	750	0	750
6. Fuel, lubrication (each pays their own)	—	—	—
7. Repairs and maintenance	4,500	0	4,500
8. Labor (both supply their own)	—	—	—
9. Total of costs not shared in proportion to use (sum of lines 2 through 8)	\$28,500	\$11,625	\$16,875
10. Annual use (acres, hours, etc.)	1,500	1,000	500
11. Cost per acre or hour (line 9/line 10)	\$19.00	—	—
12. Cost to each owner (line 10 x line 11)	—	\$19,000	\$9,500
13. Reimbursement (line 9-line 12) ** (Al pays Chris \$7,375)	—	\$-7,375	\$+7,375

* Principal and interest payments can be substituted for depreciation and interest charges.

**The owner(s) for which line 13 is negative pays that amount to the owner(s) for which line 13 is positive.

... and justice for all

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