



Farm Lease Letter

Letter No. 3

CROP SHARE LEASE

July 2000

The crop share lease is widely used in Iowa. Under this type of lease the landlord and tenant each receive a share of the crop in return for their contribution of land, labor, and capital.

Under the crop share lease, the amount of rent varies with the share of the crop, yield, landowner production expenses and selling price. Individuals with marketing skills may enhance income.

It's a time for decisions

IMPORTANT DECISION-MAKING IDEAS

- How will the crop be shared?
- Who determines what the cropping plan will be and the level of technology to be used?
- Participation in government programs? How are these benefits divided?
- How will expenses be shared?

- Who determines what the cropping plan will be and the level of technology to be used?
- How much rent for hay and pasture?
- Will there be a rent paid for buildings and facilities, and if so, how much?
- If the landlord's and tenant's grain is stored in common storage, who determines when the crop should be sold?
- How will the tenant be reimbursed for unused benefits (such as fertilizer or lime carryover, or co-owned facilities) which he provided if the lease is terminated?

COMMON PROVISIONS

The following are not intended to indicate what leasing provisions should be. They only report typical provisions of leases in existence. Each provision should be considered in light of its impact on the total lease.

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...and justice for all

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Although each expense item is examined separately, an individual lease must be considered in its entirety. The concession by a party on one expense item may be compensated by an advantage on another.

The most common crop share lease for crop and soybeans is a 50-50 division, where each party receives half of the crop produced and pays half of selected input expenses. Typically the landowner provides the land, perhaps some facilities including upkeep and repairs. The tenant furnishes the labor, most of the management, machinery and equipment, fuel and machinery repairs.

An oats crop is usually divided equally between tenant and owner. Sometimes the tenant receives 60% and the owner 40%. The oat seed, fertilizer and grass seed expenses are usually shared equally by tenant and owner. The oat harvesting expense is usually incurred by the tenant.

Other sharing arrangements may be offered in a crop share lease. It is important to evaluate each lease alternative by looking at the value of the land, the cost of inputs, expected yields and prices to determine if it will work for you.

Transition payments received on share rented land are normally divided on the same basis as the crops are divided.

The cost of fertilizer application is either shared by landlord or provided entirely by the tenant. The cost of herbicide application is often incurred by the tenant.

Crop harvesting expense is typically provided by the tenant. The landlord often furnishes the corn drying facility if the dryer is part of the storage unit and receives some compensation. A portable dryer may

be owned jointly or either party may own it and charge the other for its use. Dryer fuel and power costs are usually shared.

The tenant is usually responsible for hauling the landlord's grain to market. The tenant may be reimbursed for hauling longer distances.

For further information on the typical sharing of costs in your area, contact your Extension Farm Management Specialist.

WHAT IS A FAIR LEASE?

A crop share lease is usually considered to be fair if the crop production is shared in the same proportion as the contributions for producing the crop are shared.

Determining fairness of a given lease requires a listing of the total contributions to the production of the crop. These costs are then divided between landlord and tenant so as to credit each party with their contribution. Each party's contribution when divided by the total of the contributions by both parties provides the percentage contribution provided by the landlord and tenant. Listing of the contributions of the cash expense items such as seed, fertilizer, pesticides, etc., is straightforward. Valuing the annual contributions of land, labor, machinery and management is more difficult.^{1/} These factors should be evaluated carefully as they have a great deal of effect on the final outcome of these calculations. This test for equity requires that landlord and tenant each have reasonable knowledge of their own and the other party's contributions to the business.

The following example may be used as a guide to the procedure. Enter the figures for your situation on page 4 to estimate the fairness of your lease.

Corn
135 Bushels per acre

<u>Cost Item</u>	<u>Landlord</u>	<u>Tenant</u>
Seed	\$ 13.00	\$ 13.00
Fertilizer & lime	25.00	25.00
Chemicals	0.00	30.00
Crop insurance	2.50	2.50
Machinery	0.00	44.00
Drying	10.00	10.00
Interest on operating capital & misc.	5.00	10.00
Labor & management	----	30.00
Land	125.00	----
Total	\$180.50	\$164.50
Percent	52%	48%

Soybeans
45 bushels per acre

<u>Cost Item</u>	<u>Landlord</u>	<u>Tenant</u>
Seed	\$ 9.00	\$ 9.00
fertilizer & lime	13.00	13.00
herbicides	0.00	30.00
crop insurance	3.00	3.00
machinery	-----	37.00
Interest on operating capital & misc.	5.00	8.00
labor & management		25.00
land	125.00	-----
Total	\$155.00	\$125.00
Percent	55%	45%

LEVEL OF RENT

The rent received by the landlord under a cropshare lease is dependent on crop yields, operating costs and crop prices. Incomes of both parties are directly affected by the ability of the tenant to achieve high yields at the lowest possible cost per unit of production. The marketing abilities of the landlord are also important in determining the level of rent received under a crop share lease.

The worksheet on the next page may be used to evaluate your lease situation.

^{1/} Valuing the annual contribution of land involves answering the question "What is the value of the land for agricultural purposes this year?" This may be based on potential annual earnings to the landlord in other uses or under other types of leases. Or, it may be based on an amount, which the tenant expects to recover the other costs of production including his labor and management. The value reached by these methods may not be the same.

The contribution of machinery to the lease can be based on the expected cost of operating the machinery and recovery of the portion of the ownership costs attributable to the farming operation under the lease.

Contributions of labor and management may be based on potential returns to those resources other uses.



CROPSHARE LEASE EVALUATION FORM

<u>Cost Item</u>	_____ Crop	_____ Bushels per Acre	
	Total	Landlord	Tenant
Seed	\$ _____	\$ _____	\$ _____
Fertilizer & Lime	\$ _____	\$ _____	\$ _____
Chemicals	\$ _____	\$ _____	\$ _____
Crop Insurance	\$ _____	\$ _____	\$ _____
Machinery	\$ _____	\$ _____	\$ _____
Interest on Operating Capital	\$ _____	\$ _____	\$ _____
Miscellaneous	\$ _____	\$ _____	\$ _____
Labor & Management	\$ _____	\$ _____	\$ _____
Land	\$ _____	\$ _____	\$ _____
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Column Totals	\$ _____	\$ _____	\$ _____
Percent 1/	100%	_____ %	_____ %

To use the above worksheet, enter the dollar value of each item either paid or contributed for use by each party to the lease. The footnote 1/under "Level of Rent" in this letter provides further discussion of valuing land and machinery.

1/ To determine the tenant's and landowner's contributions, divide the total of each column by the total of the Total column.