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Crop-share or Crop-share/Cash Rental Arrangements for Your Farm

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Contents

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Cropland rental arrangements vary widely across localities and farming areas. This publication's purpose is to help tenants and landlords make sound decisions and develop fair crop-share arrangements. The first section addresses the relative advantages and disadvantages of crop-share leases. Part II addresses basic crop principles, while Parts III and IV concern the development of a fair crop-share lease arrangement. Buildings, pasture, and other cropland are often involved when leasing cropland. How to deal with these parts of the operation is discussed in Part V. Part VI discusses the importance of developing a written agreement. A sample lease form is included at the end of this publication.

Part I
Should a Crop-share Arrangement Be Used?

Landlords and tenants can choose from several types of rental arrangements. In addition to crop share, the lease agreement can be a crop-share/cash, straight cash, or flexible cash arrangement. In addition to leasing, a landlord may hire custom operators to do the field work or "direct operate" by hiring labor to operate the owner's machinery.

Advantages of Crop-share Arrangements

1. Compared to cash rents, less operating capital may be "tied up" by the tenant due to the landlord sharing costs.
2. Management may be shared between an experienced landlord and tenant, resulting in more effective decisions.
3. Sales of crops may be timed for tax management. Likewise, purchased inputs may be timed to shift expenses for tax purposes.
4. Risks due to low yields or prices, as well as profits from high yields or prices, are shared between the two parties.
5. Unlike cash leases, a "material participation" crop- or livestock-share lease satisfies the predeath qualified use or "equity intent" test requirement for special-use valuation for federal estate tax purposes. A crop- or livestock-share lease does not satisfy all predeath eligibility requirements. A cash-rent lease will not work. Also, the landlord may build a Social Security base through "material participation." [1]

Disadvantages of Crop-share Arrangements

1. Landlord's income will be variable because of yield and price variation and changes in shared production-input costs. This may be a particularly important concern for landlords in retirement.
2. Accounting for shared expenses must be maintained.
3. Marketing decisions must be made by the landlord, except for nonmaterial participation crop-share leases.
4. The need for tenant and landlord to discuss annual cropping practices and to make joint management decisions is greater.
5. As prices or technology change, the lease should be reviewed for fairness. Sharing arrangements may need to be changed.
6. A "material participation" crop- or livestock-share lease may reduce Social Security benefits in retirement. [1]

Part II
Establishing a Crop-share Arrangement

Farming is a business involving the combination of land, machinery, labor, management, and other inputs to produce crops. Each of these inputs is owned or contributed by different parties. Payment for the inputs should be proportional to the value contributed toward production. Equitable payment to each party is the reason for developing a fair lease. An equitable lease should be developed using some basic rules or principles. There are five important principles to follow:

1. Variable expenses that increase yields should be shared in the same percentage as the crop is shared.
2. Share arrangements should be adjusted to reflect the effect new technology has on costs and returns.
3. Both the landlord and tenant should share total returns in the same proportion as they contribute resources.
4. Tenants and landlords should be compensated at the termination of the lease for the undepreciated balance of long-term investments.
5. Communication should be maintained between the landlord and tenant.

Principle No. 1. Variable expenses that increase yields should be shared in the same percentage as the crop is shared.

[1] Crop share rental income is excluded from self-employment income unless the landlord "materially participates" in the production of agricultural products or production management. Material participation is necessary to build a Social Security base and may be necessary if special use valuation is to be used for federal estate tax purposes. However, material participation may cause Social Security payments to be decreased for persons eligible for Social Security payments.

Variable inputs are those used in production, such as seed, fertilizer, herbicides, insecticides, fuel, harvesting, drying, and hauling. Some inputs, such as fertilizer, are directly yield-increasing. Sharing these costs in the same percentage as the crop encourages the parties to use optimal amounts of the input so as to maximize net returns to the total business operation. Table 1 illustrates this principle.

For the most profitable production, fertilizer should be added until the marginal cost of the last unit just equals the marginal return. As illustrated in Table 1, an owner-operator would apply three units of fertilizer to achieve a 125-bushel yield, since at that point the added crop value would equal the added $25 cost of the third unit of fertilizer.

With a 50-50 share arrangement, the tenant and landlord also will find the most profitable use to be three units of fertilizer since the $25 fertilizer cost also will be shared 50-50. Thus, the $12.50 of added cost will equal the $12.50 added return for the tenant or landlord.

However, if the tenant were required to pay all of the fertilizer cost but receives only 50 percent of the crop, the most profitable use of fertilizer would be two units (see Table 1). From an economic standpoint, failure to share yield-increasing inputs in the same proportion as yields are shared tends to reduce yields and resultant income.

In contrast, the failure to share non-yield-increasing variable expenses will not likely affect earnings. For example, failure to share the cost of fuel for tillage or harvest operations will not be likely to cause the tenant to avoid performing these operations. Thus, if the landlord and tenant wish to adjust variable contributions so as to operate on a certain percentage basis, inputs that are not yield-related should be used to make the needed adjustments.

Principle No. 2. Share arrangements should be adjusted to reflect the effect new technology has on costs and returns.

Substitution occurs when one input can be used to replace another input. For example, chemical weed control may replace cultivation. If such substitution occurs, a determination must be made concerning whether the landlord or tenant will pay for the chemicals. The answer to this question depends on the type of inputs involved.

1. Yield-increasing inputs — These inputs should be shared by the landlord and tenant in the same percentage as the crop is shared.
2. True substitution inputs — These inputs should be paid by the party responsible for the item in the original lease.
3. Inputs that are both yield-increasing and substitution — The lease needs to address this situation.

Principle No. 3. Both the landlord and tenant should share total returns in the same proportion as they contribute resources.

If a landlord contributed 50 percent of total resources and the tenant 50 percent, then a 50-50 sharing of the crop would be equitable. All inputs should be valued, including management and risk.

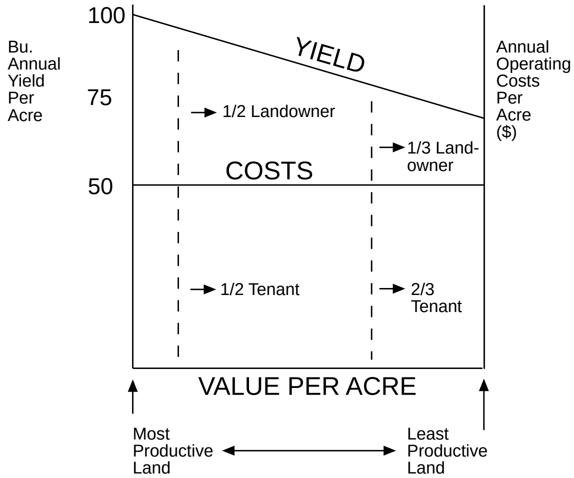
For high-priced, productive land, the landlord's share of the crop should be increased because the tenant's costs (machinery, labor, and management) tend to be similar on either high-priced, productive land or low-priced, less-productive land. (See Figure 1). For example, if the tenant's operating expense represents two-thirds of the total expense on less-productive land with the expected yield equal to 75 bushels, the tenant's share of the crop would be 50 bushels. On more productive land, the tenant's expenses may represent only 50 per-

Table 1. *Effect of Fertilizer Cost-share Arrangement on Most Profitable Level of Fertilizer Use*

Units fertilizer per acre	Crop yield (bushels per acre)	Crop value per acre ($2.50 per bushel)	100% of added crop value	Fertilizer cost per added unit	50% of added crop share
0	70	$175.00			
			$62.50	$25.00	$31.25
1	95	$237.50			
			$50.00	$25.00	$25.00 [1]
2	115	$287.50			
			$25.00	$25.00 [2]	$12.50 [3]
3	125	$312.50			
			$20.00	$25.00	$10.00
4	133	$332.50			
			$ 5.00	$25.00	$2.50
5	135	$337.50			
			($20.00)	$25.00	($10.00)
6	127	$317.50			

[1] Tenant will apply only two units of fertilizer when paying all of the fertilizer costs and receiving 50 percent of the crop.
[2] Owner-operator will apply 3 units of fertilizer.
[3] Tenant and landlord will apply 3 units of fertilizer when sharing fertilizer cost in same proportion as the crop.

Figure 1. *Effects of Land Quality and Farm Costs on Crop-share Rental Arrangements*



cent of the total expense. Therefore, if the expected yield was 100 bushels, the tenant's share of the crop would still be 50 bushels. But, the proportionate share of the crop also would decrease to 50 percent.

Historically, crop-share leasing has been influenced strongly by customary arrangements in the area. Similarly, customary share arrangements change little over time, even though the relative values of land, machinery, labor, and management have changed markedly.

Thus, it is important the landlord and tenant establish their contributions according to the actual operation, rather than on the basis of customary arrangements in the area.

Principle No. 4. Tenants and landlords should be compensated at the termination of the lease for the undepreciated balance of long-term investments.

If a fair compensation arrangement cannot be developed, then the party that will likely control a particular investment at the termination of the lease should make the contribution with regard to that asset. For example, the landlord usually pays for lime applied to cropland because the value lasts for several years. If the tenant pays for the lime application, the lease should provide for a method of calculating the payment to the tenant for the unused portion of the lime if the lease is terminated before the total value of the lime is recovered.

Principle No. 5. Communication should be maintained between the landlord and tenant.

If the lease does not follow the first four leasing principles, the farming operation may not be functioning at maximum economic efficiency. This may result in one party gaining at the expense of the other.

However, strict adherence to these four principles will not achieve an equitable lease agreement if excellent communication does not exist between the tenant and landlord. Therefore, securing a good tenant and making necessary adjustments to the lease agreement by the landlord so as to make it an attractive business operation may well be the key to the landlord maximizing profits.

In turn, the tenant needs to have a lease agreement that provides for an excellent working relationship with the landlord; and thus allows for the utilization of all the farm's resources to achieve maximum economic returns.

Part III

Developing a Fair Crop-share Lease Arrangement

The next step is to apply the principles in determining a fair crop-share arrangement for the operation, whether it be for a single crop, separate parcel, or whole farm. Such an approach must separately consider each of the following five components: (1) cropland rented on shares, (2) cropland rented for cash, (3) pasture, (4) service buildings, and (5) the house.

Thus, the cropland lease can be developed regardless of improvements and pasture. Although improvements and pasture are usually cash-rented, the land and investments may be considered when developing the crop-share lease.

The Crop Approach

The crop approach may be used when establishing a new lease arrangement or testing existing arrangements.

Worksheet 1 provides information for establishing a fair and equitable crop-share arrangement. The underlying principle of Worksheet 1 is that both parties should share in the total returns in the same proportion as their contributions.[2]

The worksheet helps determine input expenses and an equitable division of the crop between the landlord and tenant.

The worksheet can be used to analyze any particular situation in either of two ways:

1. Contribution approach. The percentage contribution of each party is determined. The parties then share other operating expenses and crops in the same percentage.
2. Desired-share approach. The parties specify a given percentage share basis, and they adjust their contributions to fit this percentage.

[2] Government payments and other income should be shared in the same proportion as the crops.

The major task with either approach is to establish fair values and annual use charges for the various contributions. The following discussion will outline this valuation process, illustrated in Worksheet 1.

Land: Land is valued at its current fair-market value for agricultural purposes. The influence of location near cities and other nonagricultural influences on value is ignored.

Interest on land: A practical "bargaining" rate of interest tends to be approximately 5 to 7 percent for four primary reasons:

1. The current value of real estate is used rather than the purchase price.
2. Upon sale of the farm, the net dollars available to loan out at a higher rate of interest would be lower than the fair-market value because of income taxes and sale expenses.
3. Historic returns to land have been in the 4 to 6 percent range as an annual return above all charges, except land.
4. Returns to owning land may include capital gains as well as the annual income from renting the land.

Note: Cash rental rates for the area can be used to estimate the annual land charge.

Real estate taxes: The actual taxes due annually should be used.

Worksheet 1. *Crop Approach to Crop-share Arrangements*

Crop: Corn **Acres:** 160 **Location:** NE 1/4

Line	Total or Per-acre Value		Rate or Life	Annual Charge[1]	Landlord	Tenant
1. Land	$ 900	x	.06	$ 54.00	$ 54.00	$
2. Real-estate Tax		x	.005	$ 4.50	$ 4.50	$
3. Land Maintenance		x	.005	$ 4.50	$ 4.50	$
4. Crop Machinery[2]	$ 266	x	.05	$ 13.30	$	$ 13.30
5. Depreciation		÷	10 Yr.	$ 26.60	$	$ 26.60
6. Repairs		x	.06	$ 15.96	$	$ 15.96
7. Insurance		x	.0025	$ 0.67	$	$ 0.67
8. Taxes		x		$	$	$
9. Labor	2.0 Hrs.	x	$ 9.00 /Hr.	$ 18.00	$	$ 18.00
10. Management[3]	$ 1,166	x	.01	$ 11.66	$	$ 11.66
11. Fertilizer	*ENTER ONLY CHARGE FOR ITEMS NOT SHARED*			$	$	$
12. Seed				$ 17.81	$	$ 17.81
13. Fuel and Oil				$ 8.00	$	$ 8.00
14. Herbicides				$	$	$
15. Insecticides				$	$	$
16. Harvesting[4]				$	$	$
17. Drying				$	$	$
18. Hauling[4]				$	$	$
19. Crop Insurance				$	$	$
20. Other — Maint.				$ 2.50	$ 2.50	$
21. Lime, Ins.				$ 9.15	$ 9.15	$
22.				$	$	$
23. TOTAL COSTS (lines 1 through 22)				$ 186.65	$ 74.65	$ 112.00
24. Percent Crop Share (line 23 Landlord or Tenant ÷ line 23 Total or per-acre charge)				100 %	40 %	60 %
USE LINES 25 THROUGH 29 TO ADJUST TO DESIRED SHARE						
25.	*ADD ITEMS PREVIOUSLY SHARED TO OBTAIN ADJUSTED SHARES*			$ 0	$ (13.06)	$ 13.06
26.				$	$	$
27.				$	$	$
28.				$	$	$
29.				$	$	$
30. ADJUSTED TOTAL (line 23 + lines 25 through 29)				$ 186.65	$ 61.59	$ 125.06
31. Percent Crop Share (line 30 Landlord or Tenant ÷ line 30 Per-acre charge)				100 %	33 %	67 %

[1] Obtain "Annual Charge" by multiplying, or dividing, the total or per-acre value by rate or life.
[2] Interest charge should be computed on "average" investment in crop machinery.
[3] Management charge based on investment in land and crop machinery.
[4] Harvesting and hauling cost may be included in crop machinery and fuel-oil expenses.

Land development: The average dollars spent annually for lime, conservation practices, and other land improvements should be used.

Crop machinery: The value of machinery should be the average value of a good line of machinery necessary to farm in the area. The value should not be the cost of a new line of machinery. Likewise, the value cannot be the actual cost to the tenant (as land cannot be the original cost to the landlord) because the tenant may have a very large investment of machinery spread over a few acres. In turn, the tenant may have old, serviceable machinery that has a low value. Machinery values can be obtained from local county agents or state Extension services.

Machinery depreciation: Depreciation years for machinery are 7 to 10 years remaining useful life.

Machinery repairs, taxes, and insurance: Farm records indicate repairs are 5 to 8 percent of the original machinery value. The charge for taxes and insurance should be from 0.25 to 1 percent.

Machinery interest: The current interest costs on the average machinery value (usually one-half the original value) should be used.

Labor: Labor can be contributed solely by the tenant or by both the tenant and landlord. (Caution should be used to not form a partnership when considering contribution of labor and management by the landlord. That is, if specific amounts of labor are to be contributed by the tenant and landlord to handle the farm's crop production, a partnership agreement may have been formed rather than a lease agreement between the landlord and tenant.) Each party is given credit by placing a value on labor contributed to the business.

Note: Average custom rates for tillage, planting, and harvesting operations can be used to estimate the annual charges for machinery and labor.

Placing a value on labor is a bargaining process between the parties entering the leasing arrangement. A guide for estimating the value of labor is the going wage rate paid to farm employees within the community. Most farm operators are certainly worth more than the value of an average employee because of their management, but management is valued separately from labor.

Management: Management is an important contribution to a successful leasing agreement. The function of management may or may not be shared. Experienced landlords may make substantial contributions to the management of the farm business. Inexperienced or absentee landlords may contribute nothing to management.

If the landlord contributes to management, credit needs to be given. If the tenant bears all management responsibility, a value should be placed on this management function.

The value of management is largely a result of bargaining between the landlord and tenant. Two alternatives are possible:

1. A possible guide is 1 to 2.5 percent of the average capital managed in the business. The average capital managed is equal to the market value of the land and value of machinery.
2. Professional farm managers commonly charge 5 to 10 percent of adjusted gross receipts. (In the case of crop production, gross receipts equal total crop receipts.)

Either procedure will provide an estimated value for management. However, a value equal to 1 to 2.5 percent of average capital managed is a more stable figure than a percentage of gross receipts because prices and yields for commodities vary greatly from year to year. [3]

Custom rates: Harvesting, hauling, spreading fertilizer, and other operations are often custom-hired. These charges can be entered in the worksheet.

Note: If custom hiring is done, the crop machinery investment should be adjusted, as less machinery investment is needed when custom work is part of the operation.

Approach No. 1 — Contributions Approach

With this approach, the percentage contribution of each party is determined, and the parties share other operating expenses and crops in the same percentage.

In the Worksheet 1 example, the crop-share percentage based on the estimated contributions of the landlord and tenant would be 40-60, with all operating expenses not listed shared on the same basis. [4] The resultant crop-share percentage derived with this worksheet will **not** equal a customary share arrangement percentage such as 33-67, 40-60, or 50-50 in most actual cases. As such, the landlord and tenant may negotiate a fair annual-use charge for the various contributions. The negotiation process provides a means of arriving at a charge for each contribution that is acceptable to both parties.

[3] If the landlord materially participates, the rent will be self-employment income counting towards building a Social Security base but also may reduce Social Security benefits in retirement. The income may allow qualifications for the use-value method of valuing the estate. The solution may be a nonmaterial participation crop-share lease.

[4] Line 33 of Worksheet 1 will probably not represent the total costs of both parties. In the example, values for such inputs as fertilizer, herbicide, and insecticide were not listed since these items were shared in the same percentage as the crop. As an alternative method, a set crop-share percentage does not need to be specified, therefore all operating expenses would be listed on lines 22 through 32.

However, intelligent bargaining can only occur if the contributions of each party are known.

Approach No. 2 — Desired-share Approach

With this approach, the parties specify a given percentage share basis (say, 33-67) and then adjust the contributions to fit this percentage.

In Worksheet 1, lines 25 through 29 are used to add items previously shared (lines 11 through 12 that are blank) to increase or decrease the contributions of the landlord and tenant as the means of achieving the specific share arrangement. As an example, the landlord and tenant may desire a 33-67 crop-share percentage arrangement.

In the Worksheet 1 example, both parties initially shared the cost of herbicides and insecticides since lines 14 and 15 are blank. The landlord's chemical expense was $13.06 with a 40-60 share percentage. To achieve a specified crop-share arrangement, the tenant may agree to pay the total cost of chemicals. Thus, on line 25, the chemical expense of $13.06 was subtracted from the landlord's contribution with the same amount added to the tenant's total to achieve the desired 33-67 share arrangement.

The "desired-share approach" will violate the principle that yield-increasing inputs, such as fertilizer, should be shared in the same percentage as the crop. Consequently, this approach should be used on a limited basis.

Part IV

Whole-farm Approach — Testing the Crop-share Lease

Crop-share leasing often is handled on a whole-farm basis. That is, all crops are shared between the landlord and tenant on the same basis. For example, if the crops raised were wheat, corn, soybeans, and alfalfa, the crops would be shared on the same basis, such as 50-50 or 40-60, for the whole-farm approach.

Valuing the Worksheet Items — Whole-farm Approach

A worksheet example of the whole-farm approach is shown. The crop approach discussed previously applies to the completion of this worksheet with two exceptions:

1. Costs or values are for the total farm operation.
2. The costs are totalled for the expected acres of all crops. That is, operating costs are different for wheat, corn, grain sorghum, soybeans, alfalfa, etc. For example, seed costs for each crop may be wheat at $17.60; corn at $25.15; soybeans at $12; and grain sorghum at $4.50. Thus, if the total 640 acres shown in Worksheet 2 are planted to wheat, total seed costs would be $11,264. If the total 640 acres are planted to corn, the total cost would be $16,095. In turn, if 320 acres of each crop are planted, the seed costs would total $13,680.

Part V

Establishing Rents for Other Cropland, Pasture, and Buildings

Other cropland: See NCR-75, *Fixed and Flexible Cash Rental Arrangements For Your Farm.*

Pasture: See NCR-149, *Pasture Rental Arrangements For Your Farm*. The per-acre, per-head, or total rent for pasture should be entered as part of the crop share/cash lease, along with the stocking rate and any other restrictions.

House: The house should be rented for an amount based on the market rate for the area. The house is sometimes provided free to the tenant. Tenant and landlord should agree on payment of utilities and maintenance costs. If the house is rented out to someone working on the farm, it is a farm building depreciable over 20 years. Otherwise, it is depreciable residential property and is depreciated over a 27.5-year period.

Service buildings: Service buildings may be divided into two classes: useful and nonuseful buildings. The nonuseful buildings should not be included in the lease. An example would be an old chicken coop which is useless to the tenant.

Useful buildings contribute to the farm operation through grain, hay, or machinery storage or livestock production. The rental value should give the landlord a return on the building's investment. The return should be based on the following ownership costs: depreciation, interest, repairs, taxes, and insurance. (The "DIRTI five"). Table 2 can be used to determine the rental value for each useful building. See NCR-214, *Rental Agreements for Farm Machinery, Equipment, and Buildings*.

Table 2. *Service Building Rental Charge*

Item		Annual charge
Building	____________	
Investment	$ ____________	$ ________
Depreciation	________ yrs	$ ________
Interest	_________ %	$ ________
Repairs	_________ %	$ ________
Taxes	_________ %	$ ________
Insurance	_________ %	$ ________
Total rental value		$ ________

Part VI

Putting the Agreement in Writing

A copy of a crop-share cash lease agreement form is included in this publication. Some of the advantages of a written agreement are:

1. It encourages a detailed statement of the agreement that assures a better understanding by both parties.
2. It serves as a reminder of the terms originally agreed upon.
3. It provides a valuable guide for the heirs if either the tenant or landlord dies. The agreement should be carefully reviewed each year to ensure the terms of the agreement are still applicable and desirable.
4. It serves as documentation for tax purposes.

Every lease should include certain items. These are the names of the parties involved, an accurate description of the property being rented, the beginning and ending dates of the agreement, the amount of rent to be paid, a statement of how and when the rent is to be paid, and the signatures of the parties involved.

These minimal provisions alone, however, fail to meet all the requirements of a good lease. These provisions provide no guidance on how the land is to be used, nor do they outline possible problem areas and solutions. No indication of the rights and responsibilities of either party are provided.

Worksheet 2. *Whole-farm Approach to Crop-share Arrangements*

Crop: Whole farm **Acres:** 640 **Location:** NE

Line	Total or Per-acre Value		Rate or Life	Annual Charge [1]	Landlord	Tenant
1. Land	$ 576,000	x	.06	$ 34,560	$ 34,560	$
2. Real-estate Tax	________	x	.005	$ 2,880	$ 2,880	$
3. Land Maintenance	________	x	.005	$ 2,880	$ 2,880	$
4. Crop Machinery [2]	$ 160,640	x	.05	$ 8,032	$	$ 8,032
5. Depreciation	________	÷	10 Yr.	$ 16,064	$	$ 16,064
6. Repairs	________	x	.06	$ 9,638	$	$ 9,638
7. Insurance	________	x	.0025	$ 402	$	$ 402
8. Taxes	________	x		$	$	$
9. Labor	1,104 Hrs.	x	$ 9.00 /Hr.	$ 9,936	$	$ 9,936
10. Management [3]	$ 736,640	x	.01	$ 7,366	$	$ 7,366
11. Fertilizer				$	$	$
12. Seed				$ 10,785	$	$ 10,785
13. Fuel and Oil				$ 4,896	$	$ 4,896
14. Herbicides	*ENTER ONLY CHARGE*			$	$	$
15. Insecticides				$	$	$
16. Harvesting [4]	*FOR ITEMS NOT SHARED*			$	$	$
17. Drying				$	$	$
18. Hauling [4]				$	$	$
19. Crop Insurance				$	$	$
20. Other — Maint.				$ 1,600	$ 1,600	$
21. Lime, Ins.				$ 2,828	$ 2,828	$
22.				$	$	$
23. TOTAL COSTS (lines 1 through 22)				$ 111,867	$ 44,748	$ 67,119
24. Percent Crop Share (line 23 Landlord or Tenant ÷ line 23 Total or per-acre charge)				100 %	40 %	60 %
USE LINES 25 THROUGH 29 TO ADJUST TO DESIRED SHARE						
25.				$ 0	$ (7,832)	$ 7,832
26.	*ADD ITEMS PREVIOUSLY SHARED*			$	$	$
27.				$	$	$
28.	*TO OBTAIN ADJUSTED SHARES*			$	$	$
29.				$	$	$
30. ADJUSTED TOTAL (line 23 + lines 25 through 29)				$ 111,867	$ 36,916	$ 74,951
31. Percent Crop Share (line 30 Landlord or Tenant ÷ line 30 Per-acre charge)				100 %	33 %	67 %

[1] Obtain "Annual Charge" by multiplying, or dividing, the total or per-acre value by rate or life.
[2] Interest charge should be computed on "average" investment in crop machinery.
[3] Management charge based on investment in land and crop machinery.
[4] Harvesting and hauling cost may be included in crop machinery and fuel-oil expenses.

A good lease should clearly identify the property being rented. If the landlord wishes to reserve the use of certain improvements on the land, these reservations should be stated clearly in the lease.

Absent a statutory or constitutional limitation, the duration of the lease can be any length of time agreed upon by the parties. Most leases are for at least one full year. Tenants sometimes request leases for more than one year, particularly if they must invest more capital in equipment or improvements needed on the farm being rented.

In general, most transactions involving real estate require a contract in writing to be enforceable. In most states, oral leases for not more than a year are enforceable.

Landlords, as well as tenants, should enter long-term leases only after very careful consideration. It should be remembered that the lease is a contract — a contract that "marries" the parties to undesirable and desirable provisions alike. Often, it is better to include an automatic renewal clause and a provision for compensation for unexhausted improvements made by the tenant.

The sample lease contained in this bulletin provides for most concerns of both the tenant and landlord. The parties can cross out or omit unwanted provisions. (Both parties must initial these lease changes.) Before provisions are eliminated, the landlord and tenant should remember that one of the functions of a written lease is to anticipate possible developments and to state how to handle such problems if they actually do develop.

Worksheet. *Crop-share Arrangements*

Crop: **Acres:** **Location:**

Line	Total or Per-acre Value		Rate or Life	Annual Charge[1]	Landlord	Tenant
1. Land	$ _______	x		$	$	$
2. Real-estate Tax		x		$	$	$
3. Land Maintenance		x		$	$	$
4. Crop Machinery[2]	$ _______	x		$	$	$
5. Depreciation		÷	Yr.	$	$	$
6. Repairs		x		$	$	$
7. Insurance		x		$	$	$
8. Taxes		x		$	$	$
9. Labor	Hrs.	x	$ /Hr.	$	$	$
10. Management[3]	$	x		$	$	$
11. Fertilizer				$	$	$
12. Seed				$	$	$
13. Fuel and Oil				$	$	$
14. Herbicides	*ENTER ONLY CHARGE*			$	$	$
15. Insecticides				$	$	$
16. Harvesting[4]	*FOR ITEMS NOT SHARED*			$	$	$
17. Drying				$	$	$
18. Hauling[4]				$	$	$
19. Crop Insurance				$	$	$
20. Other — Maint.				$	$	$
21. Lime, Ins.				$	$	$
22.				$	$	$
23. TOTAL COSTS (lines 1 through 22)				$	$	$
24. Percent Crop Share (line 23 Landlord or Tenant ÷ line 23 Total or per-acre charge)				%	%	%
USE LINES 25 THROUGH 29 TO ADJUST TO DESIRED SHARE						
25.				$	$	$
26.	*ADD ITEMS PREVIOUSLY SHARED*			$	$	$
27.				$	$	$
28.	*TO OBTAIN ADJUSTED SHARES*			$	$	$
29.				$	$	$
30. ADJUSTED TOTAL (line 23 + lines 25 through 29)				$	$	$
31. Percent Crop Share (line 30 Landlord or Tenant ÷ line 30 Per-acre charge)				%	%	%

[1] Obtain "Annual Charge" by multiplying, or dividing, the total or per-acre value by rate or life.
[2] Interest charge should be computed on "average" investment in crop machinery.
[3] Management charge based on investment in land and crop machinery.
[4] Harvesting and hauling cost may be included in crop machinery and fuel-oil expenses.

Crop-share or Crop-share/Cash Farm Lease

North Central Regional
Publication No. 77 (Revised 1996)

This form can provide the landlord and tenant with a guide for developing an agreement to fit their individual situation. This form is not intended to take the place of legal advice pertaining to contractual relationships between the two parties. Because of the possibility that a farm operating agreement may be legally considered a partnership under certain conditions, seeking proper legal advice is recommended when developing such an agreement.

This lease entered into this ___________ day of _______________________ , 19 __________ , between

_________________________________ , landlord, of ____

____
(address)

_________________________________ , spouse, of ____

____
(address)

hereafter known as "the landlord," and

__________________________________ , tenant, of ____

____
(address)

_________________________________ , spouse, of ____

____
(address)

hereafter known as "the tenant."

I. PROPERTY DESCRIPTION

The landlord hereby leases to the tenant, to occupy and use for agricultural and related purposes, the following described property: __________________
____
____
____
consisting of approximately __________ acres situated in __________________________ County (Counties), _________________ (State) with all improvements thereon except as follows:_____________________
____
____
____
____

II. GENERAL TERMS OF LEASE

A. Time period covered. The provisions of this agreement shall be in effect for ___________ year(s), commencing on the ____________________ day of ________________, 19______. This lease shall continue in effect from year to year thereafter unless written notice of termination is given by either party to the other at least ________ days prior to expiration of this lease or the end of any year of continuation.

B. Review of lease. A written request is required for a general review of the lease or for consideration of proposed changes by either party, at least ____ days prior to the final date for giving notice to terminate the lease as specified in II-A.

C. Amendments and alterations. Amendments and alterations to this lease shall be in writing and shall be signed by both the landlord and tenant.

D. No partnership intended. It is particularly understood and agreed that this lease shall not be deemed to be, nor intended to give rise to, a partnership relation.

E. Transfer of property. If the landlord should sell or otherwise transfer title to the farm, such action will be done subject to the provisions of this lease.

F. Right of entry. The landlord, as well as agents and employees of the landlord, reserve the right to enter the farm at any reasonable time to: a) consult with the tenant; b) make repairs, improvements, and inspections; and c) (after notice of termination of the lease is given) do tillage, seeding, fertilizing, and any other customary seasonal work, none of which is to interfere with the tenant in carrying out regular farm operations.

G. No right to sublease. The landlord does not convey to the tenant the right to lease or sublet any part of the farm or to assign the lease to any person or persons whomsoever.

H. Binding on heirs. The provisions of this lease shall be binding upon the heirs, executors, administrators, and successors of both landlord and tenant in like manner as upon the original parties, except as provided by mutual written agreement.

I. Landlord's lien for rent and performance. The landlord's lien provided by law on crops grown or growing shall be the security for the rent herein specified and for the faithful performance of the terms of the lease. If the tenant fails to pay the rent due or fails to keep the agreements of this lease, all costs and attorney fees of the landlord in enforcing collection or performance shall be added to and become a part of the obligations payable by the tenant hereunder.

J. Additional provisions: ______________________
____
____
____
____
____

III. LAND USE

A. General provisions. The land described in Section I will be used in approximately the following manner. If it is impractical in any year to follow such a land-use plan, appropriate adjustments will be made by mutual written agreement between the parties.

1. Cropland
   a) Row crops _______ acres
   b) Small grains _______ acres
   c) Legumes _______ acres
   d) Rotation pasture _______ acres
2. Permanent pasture _______ acres
3. Other: ___________ _______ acres
   ___________ _______ acres
4. Total _______ acres

B. Restrictions. The maximum acres harvested as silage shall be ________ acres unless it is mutually decided otherwise. The pasture stocking rate shall not exceed:

PASTURE IDENTIF.	ANIMAL UNITS/ACRE
________________	________________
________________	________________
________________	________________

(1000-pound mature cow is equivalent to one animal unit.)

Other restrictions are:

____
____
____
____
____
____
____

C. Government programs. The extent of participation in government programs will be discussed and decided on an annual basis. The course of action agreed upon should be placed in writing and be signed by both parties. A copy of the course of action so agreed upon shall be made available to each party.

IV. CROP-SHARE CASH RENT AND RELATED PROVISIONS

A. General agreement. The tenant agrees to pay as rent for the use of the land the share of crops shown in Table 1 of this section. The tenant also agrees to furnish all labor, machinery, and cash operating expenses except for landlord's share (percent and/ or dollar charge per unit) indicated in Table 1.

B. Other crop-share cash agreements.

1. Operating expenses. Additional agreements relative to the sharing of expenses are as follows:

   ____
   ____
   ____
   ____

2. Storage, landlord's crop. At the landlord's request, the tenant agrees to store as much of the landlord's share of the crops as possible, using storage space reserved by the landlord and not to exceed ______ percent of the storage space not specifically reserved.

3. Delivery of grain. The tenant agrees to deliver the landlord's share of crops at a place and at a time the landlord shall designate, not more than ________ miles distance at the charge shown in Table 1 of this section.

Table 1. — Landlord's Share (% or $) of Crops and Crop Expenses

	Corn example	Corn	Grain sorghum	Small grain	Soy-beans	Hay
SHARE OF CROPS	50%					
SHARE OF CROP EXPENSES:						
Fertilizer:						
Materials	50%					
Application	50%					
Herbicide:						
Materials	50%					
Application						
Insecticide:						
Materials	50%					
Application						
Seed	50%					
Lime, rock phosphate*	100%					
Harvesting (per acre)						
Drying	50%					
Baling						
Delivery to:						
Storage/bushel						
Market/bushel						

*Lime, rock phosphate, and other fertilizers having more than one year of life paid by the tenant should be recorded in the compensation table in Section V-C-2.

Additional agreements are:

____
____
____

4. Cash rent on non-shared items. The tenant agrees to pay cash rent annually for the use of the following non-shared items.

Table 2 — Amount of Annual Cash Rent
(Complete at beginning of lease)

		Total
Pasture		$ ____
Hayland:	____________________	$ ____
	____________________	$ ____
Farmstead:	Dwelling	$ ____
	Service bldgs.	$ ____
Timber and waste		$ ____
TOTAL CASH RENT		**$ ____**

Payment of cash rent: The tenant agrees to pay cash rent as follows:

$ _______ on or before _____ day of ________ (month)
$ _______ on or before _____ day of ________ (month)
$ _______ on or before _____ day of ________ (month)
$ _______ on or before _____ day of ________ (month)

If rent is not paid when due, the tenant agrees to pay interest on the amount of unpaid rent at the rate of _______ percent per annum from the due date until paid.

5. Pasturing. The tenant will prevent damage to cropland and growing crops by livestock.
6. Home use. The tenant and landlord may take for home use the following kinds and quantities of jointly owned crops: ____________________
____
____
____
7. Buying and selling. The landlord and tenant will buy and sell jointly owned property according to the following agreement: ________________
____
____
____
8. Division of property. At the termination of this lease, all jointly owned property will be divided or disposed of as follows: __________________
____
____
____

V. OPERATION AND MAINTENANCE OF FARM

In order to operate this farm efficiently and to maintain it in a high state of productivity, the parties agree as follows:

A. The tenant agrees:

1. General maintenance. To provide the labor necessary to maintain the farm and its improvements during the rental period in as good condition as it was at the beginning. Normal wear and depreciation and damage from causes beyond the tenant's control are excepted.
2. Land use. Not to: a) plow pasture or meadowland, b) cut live trees for sale or personal use, or c) pasture new seedings of legumes and grasses in the year they are seeded without consent of the landlord.
3. Insurance. Not to house automobiles, trucks, or tractors in barns, or otherwise violate restrictions in the landlord's insurance policies without written consent from the landlord. Restrictions to be observed are as follows: ________________
____
____
4. Noxious weeds. To use diligence to prevent noxious weeds from going to seed on the farm. Treatment of the noxious weed infestation and cost thereof shall be handled as follows: _____
____
____
____
5. Addition of improvements. Not to: a) erect or permit to be erected on the farm any nonremovable structure or building, b) incur any expense to the landlord for such purposes, or c) add electrical wiring, plumbing, or heating to any building without written consent of the landlord.
6. Conservation. Control soil erosion according to an approved conservation plan; keep in good repair all terraces, open ditches, inlets and outlets of tile drains; preserve all established watercourses or ditches including grassed waterways; and refrain from any operation or practice that will injure such structures.
7. Damages. When leaving the farm, to pay the landlord reasonable compensation for any damages to the farm for which the tenant is responsible. Any decrease in value due to ordinary wear and depreciation or damages outside the control of the tenant are excepted.
8. Costs of operation. To pay all costs of operation except those specifically referred to in Sections IV, V-A-4, and V-B.
9. Repairs. Not to buy materials for maintenance and repairs in an amount in excess of $ ________ within a single year without written consent of the landlord.

B. The landlord agrees:

1. Loss replacement. To replace or repair as promptly as possible the dwelling or any other building or equipment regularly used by the tenant that may be destroyed or damaged by fire, flood, or other cause beyond the control of the tenant or to make rental adjustments in lieu of replacements.
2. Materials for repairs. To furnish all material needed for normal maintenance and repairs.
3. Skilled labor. To furnish any skilled labor tasks that the tenant is unable to perform satisfactorily. Additional agreements regarding materials and labor are: ____________________________
____
____
4. Reimbursement. To pay for materials purchased by the tenant for purposes of repair and maintenance in an amount not to exceed $ ________ in any one year, except as otherwise agreed upon. Reimbursement shall be made within __________ days after the tenant submits the bill.

5. Removable improvements. Let the tenant make minor improvements of a temporary or removable nature, which do not mar the condition or appearance of the farm, at the tenant's expense. The landlord further agrees to let the tenant remove such improvements even though they are legally fixtures at any time this lease is in effect or within __________ days thereafter, provided the tenant leaves in good condition that part of the farm from which such improvements are removed. The tenant shall have no right to compensation for improvements that are not removed except as mutually agreed.

6. Compensation for crop expenses. To reimburse the tenant at the termination of this lease for field work done and for other crop costs incurred for crops to be harvested during the following year. Unless otherwise agreed, current custom rates for the operations involved will be used as a basis of settlement.

C. Both agree:

1. Not to obligate other party. Neither party hereto shall pledge the credit of the other party hereto for any purpose whatsoever without the consent of the other party. Neither party shall be responsible for debts or liabilities incurred, or for damages caused by the other party.

2. Capital improvements. Costs of establishing hay or pasture seedings, new conservation structures, improvements (except as provided in Section V-B-5), or of applying lime and other longlived fertilizers shall be divided between landlord and tenant as set forth in the following table. The tenant will be reimbursed by the landlord either when the improvement is completed, or the tenant will be compensated for the share of the depreciated cost of the tenant's contribution when the lease ends based on the value of the tenant's contribution and depreciation rate shown in the "Compensation for Improvements" table. (Cross out the portion of the preceding sentence which does not apply.) Rates for labor, power and machinery contributed by the tenant shall be agreed upon before construction is started.

3. Mineral rights. Nothing in this lease shall confer upon the tenant any right to minerals underlying said land, but same are hereby reserved by the landlord together with the full right to enter upon the premises and to bore, search, and excavate for same, to work and remove same, and to deposit excavated rubbish, and with full liberty to pass over said premises with vehicles and lay down and work any railroad track or tracks, tanks, pipelines, power lines, and structures as may be necessary or convenient for the above purpose. The landlord agrees to reimburse the tenant for any actual damage suffered for crops destroyed by these activities and to release the tenant from obligation to continue farming this property when development of mineral resources interferes materially with the tenant's opportunity to make a satisfactory return.

VI. ARBITRATION OF DIFFERENCES

Any differences between the parties as to their several rights or obligations under this lease that are not settled by mutual agreement after thorough discussion, shall be submitted for arbitration to a committee of three disinterested persons, one selected by each party hereto and the third by the two thus selected. The committee's decision shall be accepted by both parties.

Compensation for Improvements Table

			---- Proportion to be contributed by tenant -----				
Type of improvement	Date to be completed	Estimated total cost ($)	Material	Unskilled labor	Mach.	Total value of tenant's contrib. ($)*	Rate of annual depreciation
Irri. Well		$	%	%	%	$	%
Underground Pipe		$				$	
Land Dev.		$				$	
Tailwater Structures		$				$	
Power Lines		$				$	
Other		$				$	

*To be recorded when improvement is completed.

Executed in duplicate on the date first above written:

______________________________	______________________________
(tenant)	(landlord)
______________________________	______________________________
(tenant's spouse)	(landlord's spouse)

STATE OF ______________________________
COUNTY OF ____________________________

On this ____________________ day of _________________________ , A.D. 19__________ , before me, the undersigned, a Notary Public in said State, personally appeared _________________________ , _________________________ , _________________________ , and _________________________ to me known to be the identical persons named in and who executed the foregoing instrument, and acknowledged that they executed the same as their voluntary act and deed.

____
Notary Public

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NCR-75, *Fixed and Flexible Cash Rental Arrangements for Your Farm*
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