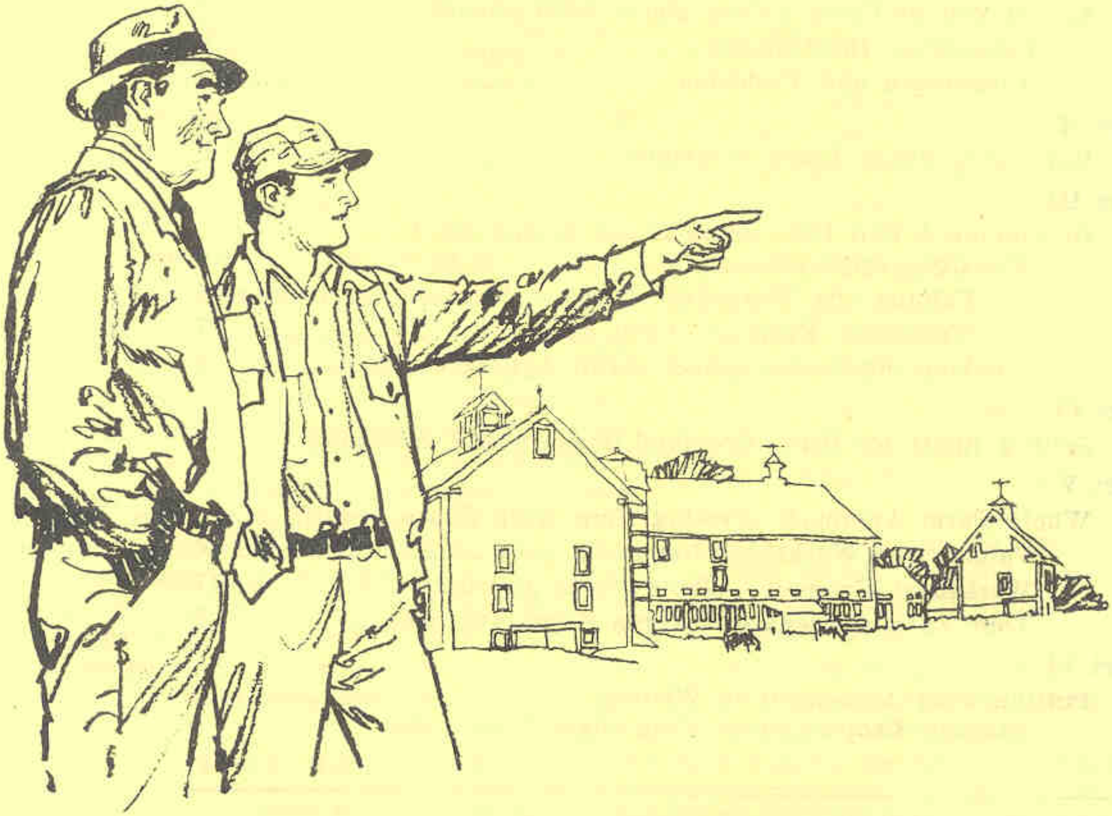
Crop Share or Crop Share-Cash Rental Arrangements For Your Farm



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Crop Share or Crop Share-Cash Rental Arrangements For Your Farm[1]

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Example Crop-Share or Crop-Share Cash Lease

A complete listing of the North Central Regional publications in this series is:

1. Crop Share or Crop Share Rental Arrangements For Your Farm, NCR-105.
2. Fixed and Flexible Cash Rental Arrangements For Your Farm, NCR-75.
3. Livestock Share Rental Arrangements For Your Farm, NCR-107.
4. Irrigation Crop-Share and Cash Rental Arrangements For Your Farm, NCR-148.
5. Pasture Rental Arrangements For Your Farm, NCR-149.

The following NCR lease forms are also available:

1. Crop Share or Crop-Share Cash Farm Lease, NCR-77.
2. Cash Farm Lease (With Flexible Provisions), NCR-76.
3. Livestock Share Farm Lease, NCR-108.
4. Irrigation Crop-Share or Crop-Share-Cash Farm Lease, NCR-106.
5. Pasture Lease, NCR-109.

[1]This publication was prepared to be used with the "Crop Share or Crop-Share Cash Farm Lease" form NCR No. 77. Both are a result of efforts by an ad hoc committee appointed by the NCR Extension Farm Management Committee to review and revise lease materials originally published by USDA in 1961.

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Introduction

The kinds of land rental arrangements used vary widely in each locality and from one farming area to another. What is desirable or fair for one farm, tenant or landowner may not be acceptable for others. To help tenants and landowners make sound decisions and develop fair crop share rental arrangements is the purpose of this publication.

The first section examines the question: Should you be using the crop share arrangement? Part II discusses some basic crop share principles. How to test and develop a fair crop-share agreement follows for specific crops or the whole farm. Lastly we show an example farm lease and some of the considerations which should be included in the lease.

Part I

Should You be Using a Crop Share Arrangement?

Landowners and tenants can choose from several types of rental arrangements. In addition to crop-share, you can choose from crop share-cash, livestock share, cash or flexible cash arrangements. (Livestock Share, Cash and Flexible Cash and Irrigation leasing are discussed in other regional publications available from your state and county extension service.) The landowner also has the additional options of hiring custom operators for the field work or direct operating with hired labor.

A comparison of landowner involvement under the various arrangements is shown in Table 1.

Advantages of Crop-Share Arrangements

1. Less operating may be 'tied up' by the tenant due to the landowner sharing costs compared to cash rents.
2. Management may be shared between an experienced landowner 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 and/or price, are shared between the two parties as well as profits with high yields or prices.
5. Landowner 'material participation' may be proved more easily for 'use value estate purposes' than under cash or flexible cash leasing.
6. The landowner may build a social security base by 'material participation.'

Problems of Crop-Share Arrangements

1. Landowner income will be variable because of yield and price variation as well as changes in shared input production costs.
2. Accounting for shared expenses must be maintained.
3. Marketing decisions must be made by landowner.
4. The need for tenant and landowner to discuss annual cropping practices and become involved, together in management, on a continuing basis.
5. As prices change, the lease should be reviewed for fairness. Sharing arrangements may need to be changed.

Table 1. Landowner Involvement Under Various Rental Arrangements

	Method of Operation						
	Cash Rent					Direct Operation	
	Fixed	Flexible	Crop Share Cash	Lvstk. Share	Custom Operated	Crops Only	Lvstk. & Crops
Capital Required:							
Investment	x	x	xx	xxx	x	xxxx	xxxxx
Operating	x	x	xx	xxxx	xxxx	xxx	xxxxx
Mgt. Involvement	x	x	xxx	xxxx	xxxx	xxxx	xxxxx
Mkt. Responsibility	x	x	xxx	xxxx	xxxx	xxxx	xxxxx
Risk	x	xx	xxx	xxxx	xxxx	xxxx	xxxxx
Financial Return	xx	xx	xxx	xxxx	xxxx	xxxx	xxxx
Variability in Ret.	x	xx	xxx	xxxx	xxx	xxx	xxxxx
Material Participation[1]	not usually	not usually	varies[2]	very likely	yes	yes	yes

[1]Under present social security and federal estate tax laws owners may find themselves in a paradoxical situation. In order to draw social security payments, material participation must be avoided; but if current use value is to be used for estate tax purposes, some material participation may be necessary.

[2]Crop share rental income is generally excluded from 'self-employment income'—material participation (IRS 1402 (a) (1); however, material participation may be desirable. The landowner-tenant arrangement should be clearly shown as part of the written lease.

Part II

Crop-Share Basic Lease Principles

Farming is a business in which land, labor, and capital are combined through the application of management. Where each of these factors are owned or contributed by different parties, the payment for each factor must be equal to their value as an input in production. This is the job of developing an equitable and fair lease. A good lease, therefore, must be developed using some basic rules or principles. Five important principles follow: (Each will be examined in detail later with their application).

1. Variable Expenses which are yield increasing should be shared in the same percentage as the crop share.
2. As new technologies are adopted, share arrangements need to be adjusted to reflect their impact upon costs and returns.
3. Each party should share in total returns in the same proportion as they contribute resources.
4. Tenants and/or landowners should be compensated at the termination of the lease for the unexhausted portion of longer-term investments.
5. Communication must be maintained between landowner and tenant.

Principle No. 1—Variable expenses which are yield increasing should be shared in the same percentage as the crop share.

Variable inputs or expenses are those used when production takes place: seed, fertilizer, herbicides, insecticides, fuel, harvesting, drying, hauling, etc. Some of these such as fertilizer, are directly yield increasing. Let's look at the classic example of fertilizer. Sharing such a cost in the same percentage as the crop is shared, encourages the parties to use that amount of the input which maximizes net returns to the total operation. The application of this principle is illustrated in Table 2.

For most profitable production, fertilizer should be added until the added cost of the last unit just equals the added return. For example, a rational owner-operator would apply three units of fertilizer to achieve a 90 bushel yield, since at that point the added crop value (of which he received 100 percent of the added value) would equal the added $20 cost of the third unit of fertilizer.

With a 50/50 share arrangement (where they share in 50 percent of the added crop, see last column in table), the tenant (and landowner) will find it profitable to also use three units of fertilizer since the $20 fertilizer cost will also be shared 50/50. Thus, the $10 of added cost will equal the $10 added return for the tenant or landowner. However, if the tenant were required to pay all of the fertilizer cost, but receive only 50 percent of the crop, he would find it profitable to use only two units of fertilizer (see Table 2). Failure to share yield increasing inputs in the same proportion as yields are shared would then tend to reduce yields and resultant income.

On the other hand, failure to share non-yield increasing variable expenses will not likely affect earnings. For example, it is unlikely that failure to share the cost of fuel for tillage or harvest operations will cause the tenant to avoid performing these operations. Thus, if landowners and tenants wish to adjust variable contributions so that they can operate on a certain

Table 2: Affect of fertilizer cost share arrangement on most profitable level of fertilizer use.

Units Fertilizer Per/Acre	Crop Yield Bu. Per/Acre	Crop Value Per/Acre at $2/bu.	100% of Added Crop Value	Fertilizer Cost Per Added Unit	50% of Added Crop Value (tenant share)
0	35	$ 70			
			$ 50	$20	$ 25
1	60	$120			
			$ 40	$20	$ 20*
2	80	$160			
			$ 20	$20**	$ 10***
3	90	$180			
			$ 16	$20	$ 8
4	98	$196			
			$ 4	$20	$ 2
5	100	$200			
			$—4	$20	$—2
6	98	$196			

* Tenant paying for all of fertilizer uses 2 units (80 bu. yield)

** Owner operator applies 3 units of fertilizer (90 bu. yield)

*** Tenant and landowner sharing costs uses 3 units (90 bu. yield) percentage basis then they should attempt to make the adjustment with those inputs that are not yield related.

Principle No. 2—As new technologies are adopted, share arrangements need to be adjusted to reflect their impact upon costs and returns.

Substitution inputs are those inputs that can replace some other input. Examples are chemical weed control replacing cultivation. In some cases, chemicals may replace much of the total tillage operation. Who should pay for the chemicals? Three situations affect who should pay.

Yield-Increasing Items—These items should be shared between the landowners and the tenant.

True Substitution Items—These items should be paid by the party responsible for the item in the original lease.

Both Yield—Increasing and True Substitution Items—In this case, the lease should be redeveloped as discussed later in this publication.

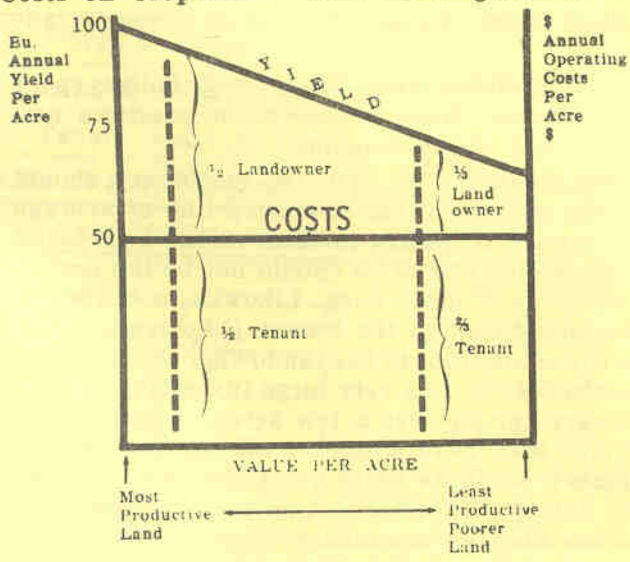
Principle No. 3—Each party should share in total returns in the same proportion as they contribute resources.

This principle implies that if a landowner contributed 50 percent of total resources and the tenant 50 percent, then a sharing of the crop 50/50 would be fair. All inputs should be valued including management and risk.

A tenant's operating costs may be essentially the same on poor land as it is on good land.

The general relationship among these items is that on the higher priced land, the landowner's share of the crop increases. (See Figure 1.) This is because the tenant's costs (machinery, labor and management) tend to be nearly the same on high priced productive land compared to lower priced less productive land.

Figure 1: Effects of Land Quality and Farm Costs on Crop-Share Rental Arrangements.



For example, if the tenant's operating expense represents ⅔ of the total expense on a less productive farm and the expected yield is 75 bushels, then the tenant's share of the crop would be ⅔ or 50 bushels. On better farms, the tenant's expenses may represent 50 percent of the total. Thus, if the expected crop is 100 bushels, he again would receive about 50 bushels as his share of the crop, but now his proportionate share has dropped to 50 percent of the crop.

A major problem with crop share leasing is that crop share percentages are influenced strongly by customary arrangements in the area. As a result, good farms have rented for about the same share of the crop as poor ones. A further problem is that these customary share arrangements change little over time even though the relative values of land, machinery, labor and management may change markedly.

Thus, landlords and tenants should determine their relative contributions according to the situation they find themselves in, rather than on the basis of what has been or what is custom for the area. Worksheets for making this determination are contained in parts III and V.

Principle No. 4—Tenants and/or landlords will be compensated at the termination of the lease for the unexhausted portion of longer-term investments.

If such arrangements cannot be provided, then the person who will likely control this item at the termination of the lease should make the contribution. For example, lime on cropland is usually paid by the landowner as its application lasts several years. If the tenant applies and pays for the lime 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 value of the lime is recovered.

Principle No. 5—Good landlord-tenant communications will cover up a multitude of "economic sins."

If your lease does not follow the above five leasing principles, your farming operation may not produce at its maximum economic efficiency or one party is gaining at the expense of the other.

However, strict adherence to these five principles will be for naught if the people/managerial part of the equation is not right. Therefore, securing a good tenant and making necessary adjustments to the lease arrangements so as to make it an attractive situation for him may well be the key to maximum profits.

Part III

Developing a Fair Crop-Share Lease Arrangement

The next step is to apply the above principles in determining a fair crop share arrangement for your situation, whether it be for a single crop, a separate parcel, or a whole farm. Such an approach must consider separately each of the following 5 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. Usually the improvements and pasture will be cash rented. However, in some instances, they may be considered when developing the crop share. (See: Whole Farm Approach)

The Crop Approach

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

Worksheet 1 is designed to aid you in establishing a fair and equitable crop share arrangement for your situation. It is based on the principles discussed in Part II, particularly the notion that each party should share in the total returns in the same proportions as their contributions.

The worksheet provides the answer to two problems:

1. How should the **crop be shared** between landowners and tenant?
2. How should the **cost of shared inputs** be divided between the landowner and tenant?

(How to value each of the items shown on the worksheet is discussed later.)

The worksheet is so constructed that you can analyze your situation in one of two ways:

Approach No. 1 — Contributions approach. Here, you determine the percent contribution of each party; then share other operating expenses and the crop in the same percentage. (Line 24 and 25 worksheet 1).

Approach No. 2 — Desired share approach. Here, you specify that you want to share on a given percentage basis (say, 33/67) and then you adjust contributions to this percentage. This approach may violate principle No. 1 if yield increasing inputs, such as fertilizer, are not shared in the same share as the crop. (Lines 26-33 Worksheet 1).

Sharing Variable Expenses: Table 2 and the discussion of it indicated why variable yield increasing expenses should be shared. Now, you may want to change the lease by considering some items not shared (Line 12-22). In our example, we have entered seed, harvesting and hauling on lines 26-30. Adding these items (Line 26-30) to line 23 results in adjusted contribution provided by each party.

The adjustment now shows a ⅓-⅔ lease whereby previously the lease was 50-50. Both are fair and equitable. Now the tenant pays for all of the seed, harvesting, and hauling which was previously shared on a 50-50 basis between the two parties. However, the tenant now received ⅔ rather than ½ of the crop. The larger share of the crop is to pay for his higher costs with the adjusted lease. Other costs such as fertilizer are now shared ⅓-⅔.

Of course, the major task with either approach is to establish fair values and annual use charges for the various contributions. The following discussion of the items in worksheet 1 will illustrate this valuation process. A blank worksheet is also provided for your use.

Land: Land should be **the fair market value for agricultural purposes.** The influence of location near cities and other non-agricultural influences on value should be ignored.

Interest on Land: A practical "bargaining" rate of interest may approximate 3 to 5 percent because:

1. A present market value of the real estate is used rather than the purchase price. (In most cases, the present value will be higher.)
2. In the event the farm was sold, 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, sale expenses, etc.
3. Land values have continued to climb at the rate of 4 to 7 percent per year (higher in 1973-79) and will probably continue to increase in the future. With the anticipated land appreciation added to a 3 to 5 percent return, the land owner would receive a desirable return on his investment.

Real Estate Taxes: The actual taxes due annually.

Land Maintenance: The average dollars spent annually for lime, conservation practices and other land improvements.

Machinery: The value of machinery should be the average value of a good line of average machinery necessary to farm in the area being considered. The value should not be the cost of a new line of machinery. Likewise, it cannot be the actual cost to the tenant (like land cannot be the actual cost to the landowner) because the tenant may have a very large investment of machinery spread over a few acres. Likewise, the tenant may have a line of old serviceable machinery which he keeps using thru his mechanical ability. Therefore, it seems most practical to use average machinery value. These values can be obtained from your local county agent. Most state extension services provide cost guides and budgets which can be used.

Worksheet 1 Crop Approach to Crop-Share Arrangements

Crop grown ______________________ **Year** ________

Item	Value		Charge	Annual Charge	Landowner	Tenant
1 Land	$ 1,000	×	4 %	$ 40	$ 40	$
2 Real Est. Tax	XXXX		XXXX	$ 4	$ 4	$
3 Land Maintenance	XXXX		XXXX	$ 3	$ 3	$
4 Crop Machinery	$ 90		XXXX	XXXX	XXXX	XXXX
5 Depreciation	XXXX	÷	6 yrs.	$ 15.00	$	$ 15.00
6 Repairs	XXXX	×	5 %	$ 4.50	$	$ 4.50
7 Insurance	XXXX	×	1 %	$ .90	$	$ .90
8 Personal Taxes	XXXX	×	1 %	$ .90	$	$ .90
9 Interest	XXXX	×	10 %	$ 9.00	$	$ 9.00
10 Labor	hrs. 2	×	3.50 /h	$ 7.00	$	$ 7.00
11 Management	$ 1,090 (Line 1 + Line 4)	×	2 %	$ 21.80	$ 7	$ 14.80
12 Fertilizer				$	$	$
13 Seed				$	$	$
14 Fuel				$ 6	$	$ 6
15 Herbicides	ENTER ONLY			$	$	$
16 Insecticides	CHARGE FOR			$	$	$
17 Harvesting	ITEMS			$	$	$
18 Drying	**NOT**			$	$	$
19 Hauling	SHARED			$	$	$
20 Crop Insurance				$ 4	$ 4	$
21 Other				$	$	$
22				$	$	$
23 TOTALS (Line 1 thru Line 22)				$ 116.10	$ 58	$ 58.10
24 Landowner Share of total				XXXX	50 %	XXXX
25 Tenant Share of total				XXXX	XXXX	50 %

Line 24 and 25 indicate how to share the crop and how to share the cost of shared inputs.

Use lines 26-30 to adjust to a desired share.

Item		Annual Charge	Landowner	Tenant
26 Seed	ADD ITEMS	$ 19	$	$ 19
27 Harvesting	PREVIOUSLY	$ 25	$	$ 25
28 Hauling	SHARED	$ 12	$	$ 12
29	TO OBTAIN	$	$	$
30	ADJUSTED SHARES.	$	$	$
31 Adjusted Total (Line 23 + 26 thru 30)		$ 172.10	$ 58.00	$ 114.10
32 Landowner % Share of Adjusted Total		XXXX	33 %	XXXX
33 Tenant % Share of Adjusted Total		XXXX	XXXX	67 %

Worksheet 1a Your Farm Crop Approach

Crop grown ______________________ Year ________

Item	Value		Charge	Annual Charge	Landowner	Tenant
1 Land	$	×	%	$	$	$
2 Real Est. Tax	XXXX		XXXX	$	$	$
3 Land Maintenance ...	XXXX		XXXX	$	$	$
4 Crop Machinery	$		XXXX	XXXX	XXXX	XXXX
5 Depreciation	XXXX	÷	yrs.	$	$	$
6 Repairs	XXXX	×	%	$	$	$
7 Insurance	XXXX	×	%	$	$	$
8 Personal Taxes	XXXX	×	%	$	$	$
9 Interest	XXXX	×	%	$	$	$
10 Labor	hrs.	×	/h	$	$	$
11 Management	$	×	%	$	$	$
	(Line 1 + Line 4)					
12 Fertilizer				$	$	$
13 Seed				$	$	$
14 Fuel				$	$	$
15 Herbicides	ENTER ONLY			$	$	$
16 Insecticides	CHARGE FOR			$	$	$
17 Harvesting	ITEMS			$	$	$
18 Drying	NOT			$	$	$
19 Hauling	SHARED			$	$	$
20 Crop Insurance				$	$	$
21 Other				$	$	$
22				$	$	$
23 TOTALS (Line 1 thru Line 22)				$	$	$
24 Landowner Share of total				XXXX	%	XXXX
25 Tenant Share of total				XXXX	XXXX	%

Line 24 and 25 indicate how to share the crop and how to share the cost of shared inputs.

Use lines 26-30 to adjust to a desired share.

26	ADD ITEMS	$	$	$
27	PREVIOUSLY	$	$	$
28	SHARED	$	$	$
29	TO OBTAIN	$	$	$
30	ADJUSTED SHARES.	$	$	$
31 Adjusted Total (Line 23 + 26 thru 30)		$	$	$
32 Landowner % Share of Adjusted Total		XXXX	%	XXXX
33 Tenant % Share of Adjusted Total		XXXX	XXXX	%

Machinery Depreciation: Depreciation should be assigned as to average conditions following the logic of the above Machinery Value discussion. Depreciation years for machinery depreciation are 4-6 remaining useful life (16-25% other average value.)

Machinery Repairs: Farm records indicate repairs are 5-8% of average value.

Insurance and Taxes: The charge for these two items should be from .5% to 1½%.

Interest: The current interest costs on the machinery value should be used because machinery depreciates rather than appreciates as does real property.

Labor: Labor can be contributed solely by the operator or it may be provided by both the operator and the landowner. (Caution should be used to not form a partnership when considering contribution of labor and management by the landowner.) Each individual is given due credit by placing value on labor contributed to the business.

Placing a value on labor is a bargaining process between individuals entering the leasing arrangement. A guide for estimating the value of labor is a 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 contributions which is valued separately in the next section.

Management: Management is an important contribution to a successful leasing agreement. The job of management may or may not be shared. Experienced landowners may make substantial contributions to the management of the farm business. But inexperienced or absentee landowners may contribute nothing to management. If landowners contributed to management, they should receive credit accordingly. If the operator bears the management responsibility in the choice of crops, input methods, and so forth, he should receive all the credit for management.

Placing a value on management becomes largely a bargaining proposition between individuals entering into the leasing agreement. Two alternatives are possible:

1. A possible guide is 1½% to 2½% of the average capital managed in the business. The average capital managed is derived by adding together the fair market value of the land, and average value of the machinery.
2. Professional farm managers commonly charge 7 to 10 percent of adjusted gross receipts. (In the case of crop production, gross receipts are the crop receipts or production × price/unit.)

Either procedure will provide an estimated total value for management. However, using the 1½ to 2½ percent of average capital managed is a more stable figure than a percent gross receipts because prices and yield for commodities vary greatly from year to year.

Custom Rates: Harvesting, hauling, spreading fertilizer and other operations are often custom hired. These charges can be entered on line 12-22 on the worksheet. **Note:** If custom hiring is done, the crop machinery investment should be adjusted on Line 4 of the worksheet.

Part IV

Setting Rents for Other Cropland, Pasture and Buildings

Other Cropland: Cash and Flexible Cash rents are discussed in North Central Regional Publication No. 75, "Fixed and Flexible Cash Rental Arrangements for Your Farm."

Pasture: Pasture leases are discussed in other publications. The per acre, per head, or total rent for the pasture should be entered as part of the crop-share cash lease along with the stocking rates and any other restrictions.

House: The house should be rented for the amount which it could command from the market rate for the locality involved. Sometimes the house is provided due to bargaining on the other resources.

Service Buildings: Service buildings may be divided into two classes. Useful buildings and non-useful, outdated buildings. The non-useful buildings should not be a part of the lease. Examples are old chicken houses or dairy parlors which cannot be used for any good purpose in modern agriculture.

The useful buildings which contribute to the farm operation for grain, hay, or machinery storage or livestock production should give the owner a return on his investment. The return should be based on the "DIRTI" five. That is; Depreciation, Interest, Repairs, Taxes, and Insurance.

The DIRTI five may be applied to Table 4 for each useful building.

You can arrive at investment by figuring: (Replacement Cost) — (Depreciation) = (Investment).

Table 4. Service Building Rental Charge

Building Identification	× (Rate) or ÷ (Life) =	Annual Charge
Investment $______		
Depreciation		$
Interest		$
Repairs		$
Taxes		$
Insurance		$
Total Rental Value		$______

Part V

Whole Farm Approach— Testing Your Crop Share Lease

In some areas, crop-share leasing is by the whole farm. That is, all crops are shared between the landowner and tenant on the same share basis. For example, crops raised might be corn, soybeans, wheat, and alfalfa. With the whole farm approach, each of the crops would be shared on the same basis. The share arrangement might call for all 1/3-2/3, it might be 2/5-3/5, or 50-50. Regardless of how the arrangement is developed, the shares are the same for each crop.

Valuing the Worksheet Items— "Whole Farm Approach"

The discussion following the 'crop-approach' is applicable to the whole farm approach with two exceptions:

1. Each cost or value is for the total farm operation.
2. The costs are averaged for the expected crop acres of each crop. That is operating costs are different for wheat, corn, soybeans, and alfalfa. For example, seed costs may run—wheat, $4; corn, $20; soybeans, $7; and alfalfa, $4 (on an annual basis). If all wheat were planted on the 500 acre worksheet example, the total seed cost would be (500 ac. × $4 = $2,000). If all corn were planted, the seed cost would be (500 ac. × $20 = $10,000). If 250 acres of each crop (corn and wheat) were planted the seed costs would be $6,000.

See Part IV for setting rental rates for pastures, houses and service buildings.

Part VI

Putting Your Agreement in Writing

It is highly desirable to put the terms of your rental agreement in writing. A copy of a crop-share-cash lease agreement form is contained in the last part of this publication.

Some of the advantages of a written agreement are:

1. It encourages a detailed statement of the agreement which assures a better understanding by both parties.
2. Later, 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.

If the agreement is placed in writing, it should be carefully reviewed each year to be sure the terms of the agreement are still applicable and desirable.

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 the requirements of a good lease. They provide no guidance on how the land is to be used and make no attempt to anticipate possible problem areas nor their solutions. Nor do they provide any indication of the rights and responsibilities of either party.

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

The duration of the lease can be any length of time the parties agree on. 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. Landlords, especially, should enter long-term leases only after very careful consideration. Remember that the lease is a contract; it "marries" the parties to undesirable as well as the good provisions. Often it's better to include an automatic renewal clause and a provision for compensation to the tenant for unexhausted improvements made by him.

The example lease contained in this bulletin provides for most of the concerns of both the tenant and landlord. The parties can cross out or omit unwanted provisions. But before they decide to eliminate such provisions, they 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 2 Whole Farm Approach to Crop-Share Arrangements

No. Crop Acres 500 **Year** ______

Item	Value		Charge	Annual Charge	Landowner	Tenant
1 Land	$500,000	×	4 %	$ 20,000	$ 20,000	$
2 Real Est. Tax	XXXX		XXXX	$ 2,000	$ 2,000	$ 9
3 Land Maintenance	XXXX		XXXX	$ 1,500	$ 1,500	$
4 Crop Machinery	$ 45,000		XXXX	XXXX	XXXX	XXXX
5 Depreciation	XXXX	÷	6 yrs.	$ 7,500	$	$ 7,500
6 Repairs	XXXX	×	5 %	$ 2,250	$	$ 2,250
7 Insurance	XXXX	×	1 %	$ 450	$	$ 450
8 Personal Taxes	XXXX	×	1 %	$ 450	$	$ 450
9 Interest	XXXX	×	10 %	$ 4,500	$	$ 4,500
10 Labor	hrs. 1,000	×	3.50 /h	$ 10,900	$	$ 3,500
11 Management	$545,000 (Line 1 + Line 4)	×	2 %	$	$ 3,500	$ 7,400
12 Fertilizer	ENTER ONLY CHARGE FOR ITEMS **NOT** SHARED			$	$	$
13 Seed				$	$	$
14 Fuel				$ 3,000	$	$ 3,000
15 Herbicides				$	$	$
16 Insecticides				$	$	$
17 Harvesting				$	$	$
18 Drying				$	$	$
19 Hauling				$	$	$
20 Crop Insurance				$ 2,000	$ 2,000	$
21 Other				$	$	$
22				$	$	$
23 TOTALS (Line 1 thru Line 22)				$58,050	$29,000	$29,050
24 Landowner Share of total				XXXX	50 %	XXXX
25 Tenant Share of total				XXXX	XXXX	50 %

Line 24 and 25 indicate how to share the crop and how to share the cost of shared inputs.

Use lines 26-30 to adjust to a desired share.

Item		Annual Charge	Landowner	Tenant
26 Seed	ADD ITEMS PREVIOUSLY SHARED TO OBTAIN ADJUSTED SHARES.	$ 9,500	$	$ 9,500
27 Harvesting		$ 12,500	$	$12,500
28 Hauling		$ 6,000	$	$ 6,000
29		$	$	$
30		$	$	$
31 Adjusted Total (Line 23 + 26 thru 30)		$86,050	$29,000	$57,050
32 Landowner % Share of Adjusted Total		XXXX	33 %	XXXX
33 Tenant % Share of Adjusted Total		XXXX	XXXX	67 %

Worksheet 2a Your Whole Farm Approach

Crop grown ______________________ **Year** ________

<table>
<tr><th>Item</th><th>Value</th><th></th><th>Charge</th><th>Annual Charge</th><th>Landowner</th><th>Tenant</th></tr>
<tr><td>1 Land ....</td><td>$</td><td>×</td><td>%</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>2 Real Est. Tax ....</td><td>XXXX</td><td></td><td>XXXX</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>3 Land Maintenance ...</td><td>XXXX</td><td></td><td>XXXX</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>4 Crop Machinery ....</td><td>$</td><td></td><td>XXXX</td><td>XXXX</td><td>XXXX</td><td>XXXX</td></tr>
<tr><td>5 Depreciation ....</td><td>XXXX</td><td>÷</td><td>yrs.</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>6 Repairs ....</td><td>XXXX</td><td>×</td><td>%</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>7 Insurance ....</td><td>XXXX</td><td>×</td><td>%</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>8 Personal Taxes .....</td><td>XXXX</td><td>×</td><td>%</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>9 Interest ....</td><td>XXXX</td><td>×</td><td>%</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>10 Labor ....</td><td>hrs.</td><td>×</td><td>/h</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>11 Management ....</td><td>$</td><td>×</td><td>%</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td></td><td colspan="3">(Line 1 + Line 4)</td><td></td><td></td><td></td></tr>
<tr><td>12 Fertilizer ....</td><td colspan="3" rowspan="11">ENTER ONLY CHARGE FOR ITEMS NOT SHARED</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>13 Seed ....</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>14 Fuel ....</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>15 Herbicides ....</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>16 Insecticides ....</td><td>$</td><td>$</td><td>$</td></tr>
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<tr><td>19 Hauling ....</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>20 Crop Insurance ....</td><td>$</td><td>$</td><td>$</td></tr>
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<tr><td>22</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td colspan="4">23 TOTALS (Line 1 thru Line 22) ....</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td colspan="4">24 Landowner Share of total ....</td><td>XXXX</td><td>%</td><td>XXXX</td></tr>
<tr><td colspan="4">25 Tenant Share of total ....</td><td>XXXX</td><td>XXXX</td><td>%</td></tr>
<tr><td colspan="7">Line 24 and 25 indicate how to share the crop and how to share the cost of shared inputs.</td></tr>
<tr><td colspan="7">Use lines 26-30 to adjust to a desired share.</td></tr>
<tr><td>26</td><td colspan="3" rowspan="5">ADD ITEMS PREVIOUSLY SHARED TO OBTAIN ADJUSTED SHARES.</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>27</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>28</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>29</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>30</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td colspan="4">31 Adjusted Total (Line 23 + 26 thru 30) ....</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td colspan="4">32 Landowner % Share of Adjusted Total ....</td><td>XXXX</td><td>%</td><td>XXXX</td></tr>
<tr><td colspan="4">33 Tenant % Share of Adjusted Total ....</td><td>XXXX</td><td>XXXX</td><td>%</td></tr>
</table>

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