Livestock-Share Rental Arrangements For Your Farm

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Myron Bennett[2]

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[1]*This publication was prepared to be used with the "Livestock-Share Farm Lease" form NCR 108. 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.*

[2]*Agricultural Economist in Farm Management, University of Missouri-Columbia, Columbia, Missouri. The author, chairman of the ad hoc committee in 1979, received valuable assistance from other committee members: Don Pretzer, Kansas State University, and Ken Thomas, University of Minnesota.*

Livestock-Share Rental Arrangements for Your Farm

The kinds of farm rental arrangements 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. The purpose of this publication is to help tenants and landowners appraise and develop equitable livestock-share rental arrangements.

Those involved can choose from several rental arrangement alternatives. In addition to livestock-share arrangements, livestock can be sold and the land rented out on a crop-share basis or for cash. Normally, a livestock-share arrangement involves the total farm business because specialized buildings, hay land, and pasture land are a part of livestock production. To use all his resources, the landowner has to seek a tenant who is interested in livestock. Otherwise, his only choice is to hire someone to care for the livestock. Usually, wages alone are not enough incentive to attract top-notch management for livestock production.

Answering some economic questions is important when considering a livestock sharing agreement. Answers to these questions should be agreed upon at the very beginning. These considerations are:

- Who will be "top man" in the decision-making role or will management decisions be shared equally? Managing a livestock operation is more complicated than a cropping operation and does require a more disciplined level of management. This may be the first important decision to be made.
- Is the business venture advantageous to both parties, particularly in terms of earnings and development of a more profitable business? Business goals for a livestock operation should be firmly established.
- Is the business large enough to provide adequate earnings to each party? The best way to determine this is to develop a projected cash flow for the business.
- Will the agreement encourage the most profitable use of the business's assets (land, labor, and capital) and production technology? Long-range farm planning can help analyze this question. Livestock leases should last for more than one year because it usually takes time to develop a profitable livestock operation.
- Will beginning and ending inventories be involved in determining annual business earnings? If so, who will keep the records and what type of accounting system will be used? Inventories are an important concern because crop production is fed or inventoried as livestock feed rather than being sold. Thus, annual profit cannot be accurately determined without the use of accrual (inventory) accounting procedures. Also, both parties should agree when final annual settlement is to be made.

The livestock type of agreement is more complicated than cash or crop-share rental agreements. This may be why livestock-share arrangements are not as widely used.

As a Landowner, Should You Have a Livestock-Share Rental Arrangement?

If you as a landowner plan to rent, you must choose from various types of rental arrangements. The first consideration for a livestock arrangement is the farm itself. Does it have characteristics suitable for livestock farming? For example, if the topography of the land is rolling and rough and it is best suited for forage production (hay and pasture), the farm has the characteristics of a beef or dairy farm, which tends to eliminate alternative leasing arrangements such as crop-share or cash renting for grain production. If expensive, specialized livestock buildings are on the farm, these facilities suggest a livestock sharing arrangement in order to recapture past investments.

Some landowners do not want to physically operate a farm business but they want to continue to build social security credit. To do this, they have to prove they are materially participating in production. The livestock-share lease is a good way to prove this point (see Table 1). Actually, it is more difficult to prove non-participation with a livestock sharing arrangement.

The degree of involvement is important to landowners. Some landowners want to be directly involved with the farm while others do not. A comparison of involvement is made in Table 1. Factors other than material participation that landowners are concerned with are capital, management, risk, and return. The number of X's shown reflects the landowner's involvement with each of these factors for different arrangements. For example, considerably more management involvement is required for livestock-share arrangements than for any other type of share rental arrangement. Only custom or direct operation of the business by the landowner requires more management input than the livestock share.

Deciding which type of rental arrangement (shown in Table 1) to use is not easy as each has advantages and concerns. Here are some additional points to consider while making a decision.

Advantages of livestock-share agreement to landowner

1. Provides an opportunity for the landowner to become inactive or retire and still keep his business interest.
2. Enables the landowner to use past capital investments (buildings, facilities) and share the work load and management responsibilities.
3. Helps a young farmer begin farming.
4. Motivates a common interest in the total business on an annual rather than a seasonal basis. Livestock production requires attention throughout the year whereas crop production tends to be seasonal.
5. Provides more flexibility in the operation and management of the total business. Tenant can be fully employed. Also, marginal cropland can usually be used more efficiently with a crop rotation compatible with the topography and type of soil.

Disadvantages

1. Requires more operating capital than used with cash or crop-share agreements. Also, more investment capital is required because of the added investment in livestock buildings and livestock equipment.
2. Complicates marketing as must keep current on both crop and livestock markets.
3. More variability in annual income can be anticipated resulting from both crop and livestock production.
4. Requires decisions on how to share farm earnings.
5. Complicates the agreement for an older farmer who wants to retire on social security because it is difficult to prove he is not materially participating in the business.

As a Tenant, Should You Consider a Livestock Sharing Arrangement?

The characteristics of a livestock sharing arrangement can definitely be helpful to you as a tenant.

Advantages of livestock-share agreement to tenant:

1. Livestock sharing arrangement provides an opportunity for a young farmer with limited capital to gain control of a business large enough to provide full employment and hopefully a satisfactory income. It also is a basis for organizing the business to maximize profits by fully utilizing available resources.
2. Weather and market risks are shared on both crops and livestock.
3. It can provide an opportunity for a young farmer to gain management "know-how" from an experienced, successful landowner.

However, there are some concerns you should think about:

1. Who keeps farm records and what type of records are to be used?
2. Who is responsible for payment of bills and other transactions?
3. How can expenses and sales be shared according to each party's contribution to production?
4. How can the variability in annual returns due to livestock marketing cycles be reduced?

Establishing a Fair Share Arrangement

A good rental arrangement provides a way for two or more people to pool their resources to form a business. The objective is to manage the business on a profitable basis. Unprofitable arrangements do not last long.

Both parties want an "equitable" and "fair" agreement. It will be if it identifies the contributions supplied by each party and shares income and cash production costs in the same proportion as contributions are shared. Contributions are associated with the three basic resources—land, labor, and capital. Management is also a contribution as it controls the use of these resources.

Estimating and Assigning Values to Contributions

Contributions can be both variable and fixed. Variable contributions are production costs such as fertilizer, seed, feed, chemicals, and machinery repairs and fuel. Fixed contributions are costs such as depreciation, taxes, insurance, repairs, and interest associated with permanent investments and other major resources used in farm production.

The first step toward developing a fair lease is to list the basic contributions associated with resources and investments. These are land and improvements, machinery, livestock, labor, capital, and management. The major objective is to assign dollar values to each contribution.

Examples 1 and 2 illustrate procedures for assigning dollar values and giving credit to the party providing each business contribution.

- Example 1 illustrates a 60-40 type of arrangement—60% income to tenant and 40% to the landowner. The tenant provides all the breeding livestock, machinery, labor, and management. The landowner provides only the real estate and an annual application of lime.

Table 1. Landowner Involvement Under Various Rental Arrangements

	Method of Operation						
						Direct Operation	
	Cash Rent		Crop Share	Lvstk.	Custom	Crops	Lvstk.
	Fixed	Flexible	Cash	Share	Operated	Only	& 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	very likely	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.

EXAMPLE 1
DEVELOPING OR TESTING YOUR RENTAL ARRANGEMENT

Item	CONTRIBUTION			EACH PARTY'S SHARE	
	Cost or value	Rate	Value of annual contrib.	Tenant	Landowner
LAND AND BUILDINGS					
1. Interest (3-6% of valuation)	520,000	4%	20,800		20,800
2. Real estate tax			2,500		2,500
BUILDINGS, FENCES, AND OTHER PERMANENT IMPROVEMENTS					
3. Depreciation (4-10% of replacement value)	Depreciation Records		2,800		2,800
4. Repair (2-4% of replacement value)	Average Annual Cost		1,600		1,600
5. Insurance			400		400
POWER AND MACHINERY (Cost Basis of Machinery $70,000-Salvage $10,000)					
6. Interest (8-10% of new cost plus salvage value ÷ 2)	40,000	10%	4,000	4,000	
7. Depreciation (10-14% of new cost less salvage value)	60,000	12%	7,200	7,200	
8. Repair (4-6% of new cost)	70,000	4%	2,800	2,800	
9. Insurance			200	200	
LIVESTOCK					
10. Interest (8-10% of current value)	35,000	10%	3,500	3,500	
11. Depreciation, if any (breeding stock only)			300	300	
12. Insurance			180	180	
13. PERSONAL PROPERTY TAX			600	600	
LABOR AND MANAGEMENT					
14. Operator 12 months			9,000	9,000	
15. Family help ____ months	400 hrs.	2.50	1,000	1,000	
16. Hired labor 600 hrs.	600 hrs.	3.50	2,100	2,100	
17. Management (10% of gross)			10,000	10,000	
18. CASH RENT (paid by landowner to tenant)			--	--	
19. SUBTOTAL—major contributions (add Lines 1 through 18)			68,980	40,880	28,100
OTHER CASH COSTS					
20. Cash cost of boarding hired labor					
21. Purchased feed for productive livestock					
22. Other livestock expense					
23. Machine work hired					
24. Seed, plants					
25. Twine and baling wire					
26. Fertilizer and chemicals					
27. Tractor fuel			4,000	4,000	
28. Miscellaneous Lime			2,000		2,000
29. TOTAL EXPENSES (add Lines 19 through 28)			74,980	44,880	30,100
30. PERCENT OF TOTAL CONTRIBUTION				59.8%	40.1%

- Example 2 exemplifies a 50-50 type of arrangement whereby the landowner is contributing more to production. The breeding livestock is jointly owned, the cost of hired labor is shared 50-50, and the landowner shares a portion of the management responsibilities.

The blank work form on page 11 is available for use as you develop your livestock-share lease. A method of developing a livestock-share arrangement is illustrated in Example 1. Example 1, the work form, is discussed by sections to illustrate the major divisions.

Land and Buildings

The estimated value of land and buildings should be based on current market value for agricultural use. Normally, high values because of industrial or residential use should be avoided.

Sales of comparable farms (in size and productivity) in the area are a good guide. Due to continued escalation of land values, the market value used may need to be on the conservative side (Line 1, $520,000). The reason: If the farm is sold, the net dollars available to loan would be less than the market value because of income taxes and sales expenses. Any portion of a farm rented out for cash should not be included in the market value of the total farm.

Interest on investment in land and buildings is calculated and credited to the landowner. With today's inflated market values, a rate of return of 3% to 6% seems to be a reasonable guide (Line 1, 4% on interest contribution of $20,800 to the landowner). The business should have the potential of producing the rate of return used to calculate the contribution, interest on the investment. If not, the rate used is not reasonable. Any debt against the farm makes no difference. Remember, land values continue to climb and will probably continue to increase. For example, with a conservative land appreciation of 4% to 7% added to a 3% to 6% return from actual production, the landowner receives a desirable return from his investment in real estate.

Real estate taxes. The figure used for taxes should be the actual real estate taxes paid ($2,500 on Line 2 credited to landowner).

Cost of Maintaining Improvements

Depreciation on permanent improvements can be calculated on the basis of an estimated cost of replacing the buildings, wells, fences, and other improvements with new improvements designed to do the same job. Or, if reasonable, actual depreciation of these investments can be transferred from the landowner's depreciation schedule.

A horse barn currently used to store hay and grain is a good example to illustrate the cost basis procedure. The cost of constructing a building capable of storing a similar amount of hay and grain can be a guide for estimating depreciation. The estimated cost of the replacement building divided by its years of useful life provides a guide for the depreciation contribution.

Possible obsolescence is also important while estimating depreciation. The rate of depreciation should reflect probable obsolescence as to the length of time the building may last. For example, highly specialized buildings such as confinement hog buildings should be written off over a relatively short period of time because of anticipated obsolescence. Because of changing technologies, ten years or less may be the practical life period for specialized buildings.

Unused buildings, such as garages, ear corn storage, tenant houses, or even modern production buildings (hog houses), may not have any practical use for the present operation. Depreciation for these unused buildings should not be considered as part of the landowner's contribution.

Placing a value on depreciation as well as other contributions discussed later should be a joint decision by both parties. Usually more than one method of arriving at values is discussed, so it becomes a "team" decision as to which procedure is best for your specific farm business (Line 3, $2,800).

Repairs. The value entered for repairs should reflect an average repair cost over the lifetime of the improvement. Annual repair costs will amount to about 1% to 4% of the new cost. If the landowner has several years of records available, an average of actual costs can be used with some adjustment for inflation (Line 4, $1,600 credited to landowner). If repair costs are to be shared, credit is not given to either party because the costs will be shared at the same rate as other operating costs are shared.

Insurance charges should reflect the actual annual cost of insurance on insurable permanent improvements, such as buildings (Line 5, $400).

Interest contribution is not calculated on buildings because interest was charged on the total value of real estate (land and improvements) on Line 1 of the work form. Contributions associated with buildings not used in the farm business (cash rented to others or those reserved by the landowner) should be omitted.

Costs of Maintaining Machinery and Equipment

Costs associated with supplying machinery and equipment for a farm operation include the "DIRTI" five: "D"—depreciation, "I"—interest, "R"—repairs, "T"—taxes, and "I"—insurance. In some cases, these costs can be transferred from farm records and depreciation schedules.

Cost information based on actual experience on the farm will not be available when two parties are contemplating working together for the first time. Estimates will have to be made when the lease is first developed. Guides are provided on the work form for making these estimates. After a year or so of actual experience, adjustments may need to be made.

The value used as a basis for estimating these costs can be the estimated new cost of the machinery needed to do the required work economically and satisfactorily.

EXAMPLE 2
DEVELOPING OR TESTING YOUR RENTAL ARRANGEMENT

Item	CONTRIBUTION			EACH PARTY'S SHARE	
	Cost or value	Rate	Value of annual contrib.	Tenant	Landowner
LAND AND BUILDINGS					
1. Interest (3-6% of valuation)	520,000	4%	20,800		20,800
2. Real estate tax			2,500		2,500
BUILDINGS, FENCES, AND OTHER PERMANENT IMPROVEMENTS					
3. Depreciation (4-10% of replacement value)	Depreciation Records		2,800		2,800
4. Repair (2-4% of replacement value)	Average Annual Cost		1,600		1,600
5. Insurance			400		400
POWER AND MACHINERY (Cost Basis of Machinery $70,000-Salvage $10,000)					
6. Interest (8-10% of new cost plus salvage value ÷ 2)	40,000	10%	4,000	4,000	
7. Depreciation (10-14% of new cost less salvage value)	60,000	12%	7,200	7,200	
8. Repair (4-6% of new cost)	70,000	4%	2,800	2,800	
9. Insurance			200	200	
LIVESTOCK					
10. Interest (8-10% of current value)	35,000	10%	3,500	1,750	1,750
11. Depreciation, if any (breeding stock only)			300	150	150
12. Insurance			180	90	90
13. PERSONAL PROPERTY TAX			600	400	200
LABOR AND MANAGEMENT					
14. Operator 12 months			9,000	9,000	
15. Family help ____ months	400 hrs.	2.50	1,000	1,000	
16. Hired labor 600 hrs.	600 hrs.	3.50	2,100	1,050	1,050
17. Management (10% of gross)			10,000	7,000	3,000
18. CASH RENT (paid by landowner to tenant)			--	--	--
19. SUBTOTAL—major contributions (add Lines 1 through 18)			68,980	34,640	34,340
OTHER CASH COSTS					
20. Cash ccst of boarding hired labor					
21. Purchased feed for productive livestock					
22. Other livestock expense					
23. Machine work hired					
24. Seed, plants					
25. Twine and baling wire					
26. Fertilizer and chemicals					
27. Tractor fuel			4,000	4,000	
28. Miscellaneous			2,000		2,000
29. TOTAL EXPENSES (add Lines 19 through 28)			74,980	38,640	36,340
30. PERCENT OF TOTAL CONTRIBUTION				51.5%	48.5%

Another practical guide is to use a value for machinery equal to the average value of a good line of machinery necessary to operate similar farms within the community.

Interest rate (rate of return) used should be similar to the rate charged for machinery loans (8% to 12%). Machinery, unlike land, tends to depreciate. The estimated replacement cost plus salvage value divided by 2 (Line 6, \$40,000) (or the average undepreciated value of machinery) times the interest rate (10%) can be used as a basis for estimating the interest on machinery (Line 6, \$4,000 credited to tenant).

Depreciation is available on depreciation schedules or can be calculated based on estimated replacement cost. The rate of depreciation will vary depending on the machine and its use. A range of 10% to 14% is usually reasonable if based on new costs, or 16% to 25% on the average machinery investment (Line 7, \$7,200 to tenant).

Repairs can be estimated on the same replacement cost. Repairs will average 3% to 4% of new cost or 4% to 8% on the average investment (Line 8, \$2,800).

Insurance costs, if any, should be figured on going rates and average investments for machinery (Line 9, \$200.)

Livestock

Interest (rate of return) should be calculated on the basis of the estimated market value at the beginning of the leasing period or the actual cost when purchased. Use the going rate of interest for intermediate type loans (8% to 12%). (On Line 10, the tenant receives credit of \$3,500—\$35,000 times 10%.)

Depreciation is a contribution only when breeding livestock is involved and when the cost or value at the beginning of the leasing period exceeds the expected selling price (salvage value). For example, a bull purchased for \$1,000 may bring only \$600 as a meat animal when his usefulness as a breeding animal has expired. Assuming he might be used for four years, the annual depreciation would be \$1,000 minus \$600 or \$100 per year. In Example 1, depreciation from purchased breeding stock amounts to \$300 (see Line 11).

Replacements for breeding herd. If replacements for the breeding herd are raised, both parties share death losses and the sales of cull breeding stock. However, if the individual who owns the breeding herd provides replacements from off the farm, the sales of cull breeding animals are not shared.

Personal Property Tax

Personal property tax can be estimated based on past records or on the basis of the tax assessment schedule. Estimate and pro-rate personal tax according to ownership of crop machinery, crop and livestock equipment, and crops and livestock on inventory available for assessment (Line 13, \$600).

Operator's Labor

A value is placed on the operator's labor. Going wage rates within the community can be used as a guide.

If farm wages are used, consideration should be given to the probability that most tenants are better than average employees. A value based on farm wage rates does not include an allowance for the operator's contribution in the form of management (see discussion of management).

Only that portion of the tenant's time devoted to production on the farm involved should be considered as a contribution (Line 14, \$9,000). Time utilized with another job or another rented farm must not be a part of the operator's total labor contribution. An active landowner may contribute labor. If he does, he should receive credit for work contributed to production.

Family Labor

Work done by the operator's family (wife or children) while working with farm enterprises should be valued on the basis of what it would cost to hire the work done (Line 15, \$1,000).

Hired Labor

Dollars spent for labor to work with farm enterprises from which the income will be shared should be included as a contribution for the individual paying employees (Line 16, \$2,100 paid by tenant).

Management

Management is very important and is difficult to evaluate. It may or may not be shared. Experienced, local landowners may make substantial contributions to management. Inexperienced or absentee landowners may contribute little or nothing toward management. There are two guides for placing a value on management. These are:

1. 7% to 10% of adjusted gross income (gross sales less cost of purchased feeder animals and feed). Professional farm managers commonly use this procedure for their services. For example, 10% of an estimated gross income of \$100,000 equals an annual management contribution of \$10,000 reported on Line 17.
2. 1.5% to 2.5% of average capital managed. The average capital managed is derived by adding the value of real estate, average value of machinery, and value of breeding stock. For example, in Example 1 the average capital managed is \$595,000 (\$520,000 land and buildings, \$40,000 machinery, and \$35,000 livestock). With this guide, the value of management might be \$11,900 (\$595,000 × 2%). Through negotiation, the two parties will agree on a value for management of \$10,000 (Line 17). This may be credited 100% to the tenant or shared, such as \$7,000 to the tenant and \$3,000 to the landowner. This is negotiated, too.

In many cases, tenants have most of the responsibility for management. The better the tenant, the more he has to offer from a management standpoint. He should receive credit accordingly.

Cash Rent

If the tenant pays the landowner cash rent for use of buildings (tenant house, barns, etc.), the amount should be entered in the tenant's column as a contribution. It should be deducted from the landowner's column. Any cash rent paid by the tenant increases his contribution and reduces the landowner's. If applicable, use Line 18 for this entry.

Subtotal—Major Contributions

Line 19 provides an opportunity to evaluate dollar contributions credited thus far to each party (tenant $40,880 and landowner $28,100).

Other Cash Costs

Lines 20 through 28 provide an itemized list of cash costs that can be associated with one of the major resources. For example, when the tenant buys fuel to operate machinery, he is credited for this cost (Line 27, $4,000). Likewise, the landowner receives credit for the annual purchase cost of lime (Line 28, $2,000).

Total Contribution

Total dollars listed on Line 29 of Example 1 are the sum of each party's contributions. Percentagewise, the tenant's $44,800 is 60% of all contributions and the landowner's contribution of $30,100 is 40%.

Division of Other Cash Costs and Income

The percentages calculated on Line 30 become a guide for dividing future business income and production—60% to tenant and 40% to landowner. These percentages are also a guide for sharing cash production costs such as purchased livestock feed, fertilizer, seed and chemicals. Therefore, these cash costs and farm sales are to be shared 60-40.

In our example, the tenant provides the machinery, cost of operating the machinery, breeding livestock, labor, and 100% of the management. The landowner contributes the land, buildings, buys $2,000 worth of lime annually, and pays real estate taxes and building repairs and insurance.

The total estimates reported on Line 19 and Line 29 should be re-examined after a year or two of operation. This will either substantiate the estimates used or suggest how to adjust contributions.

50-50 Livestock Sharing Arrangement

Normally, a 50-50 livestock sharing arrangement is desirable because it is easier to share income, cash expenses, and risk. The two parties could use the data in Example 1 and through negotiation change the 60-40 arrangement into a 50-50 arrangement which is illustrated in Example 2 work form, page 7.

The major difference is that the landowner agrees to purchase 50% of the breeding stock, pay 50% of the hired labor, and convinces the tenant he contributes 30% or $3,000 of the management. In addition, the landowner agrees to pay 50% of the insurance and property tax associated with ownership of the livestock. As a result, the landowner's contributions increase and the tenant's decrease.

With this type of arrangement, the production is shared equally and all other cash production costs are shared 50-50. Care should be taken to prevent these shifts from leading to divided interests and later to dissatisfaction on the part of one party or the other. Do not destroy practical, sound decisions and agreements to reach a pre-determined share arrangement such as the change from 60-40 to 50-50.

Putting Your Agreement in Writing

The process of developing the lease is usually a "give and take" situation. No one will receive everything he wants. It's those little things that "bug" people that should be discussed openly. If these problems are solved, it's easier to get along later.

Your livestock share lease should:

- Outline in detail the way the farm is to be operated. The cropping plan and livestock system to be followed should be stated in the lease.
- Contain incentives to make efficient use of both party's contributions to production.
- Consider long-time plans for the development and expansion of the farm business. Adequate planning is possible only if the term and duration of the lease provides a basis for a reasonably secure occupancy. Long-time plans normally include investments for land improvement, building construction and other improvements. The landowner is usually in a better position than the tenant to recover the cost of permanent improvements, whether he continues to rent the farm, operates it himself, or sells it. If the tenant shares the costs of these investments, the lease must include provisions for reimbursing the tenant for his portion left behind upon termination of the agreement. Reimbursement can be based on a pre-arranged amortization plan included in the lease.

You should put your rental agreement in writing. A copy of a livestock-share rental agreement form is included in this publication.

Some good reasons for having a written agreement are:

1. It encourages detailed thought and joint decisions to develop statements for the agreement which assure 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 landlord or the tenant dies.

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

As a minimum, every lease should include the names of the parties involved, an accurate description of the property being rented, beginning and ending dates of the agreement, the amount of rent or share of production to be paid, a statement of how and when it will be paid, and the signatures of the parties involved.

In addition to these minimum provisions, a good lease will state clearly what each party is to furnish, how expenses will be shared, limitations on the use of land, possible problem areas, how problems will be solved, and the rights and responsibilities of each party.

The duration of the lease can be any length of time the parties agree upon. Most leases are for at least one year. Because livestock-share arrangements often involve a single farm, tenants may be asked to invest in more equipment and/or breeding livestock. As a result, tenants sometimes request a lease for more than one year. Both parties should remember the lease is a contract—it "marries" both parties to undesirable as well as desirable provisions. This makes it highly important to include an automatic renewal clause and a provision for compensation to the tenant for unexhausted improvements he was requested to make in order to enter the arrangement.

Be concerned about long-term leases because they tend to be a "one-way street." This is reason enough to develop strategies for keeping ownership of assets clearly defined, and develop precise methods of sharing or dividing assets upon termination of the lease.* Practically speaking, it is easier for a tenant to break a long-term lease than for a landlord to do so.

The example lease contained in this bulletin provides methods of handling most of the problems and concerns of both the tenant and landlord. Unwanted provisions can be crossed out or omitted. Before they are eliminated, remember one of the functions of a written lease is to anticipate possible developments and to state how to handle such problems if they do develop.

**See Section II-A of the example lease. The second sentence states the automatic renewal clause. Section VI-C-1 provides for compensating the tenant for unexhausted improvements. Section VIII-B outlines procedures for dividing unused production upon termination of the lease.*

Work Form

DEVELOPING OR TESTING YOUR RENTAL ARRANGEMENT

Item	CONTRIBUTION			EACH PARTY'S SHARE	
	Cost or value	Rate	Value of annual contrib.	Tenant	Landowner
LAND AND BUILDINGS					
1. Interest (3-6% of valuation)					
2. Real estate tax					
BUILDINGS, FENCES, AND OTHER PERMANENT IMPROVEMENTS					
3. Depreciation (4-10% of replacement value)					
4. Repair (2-4% of replacement value)					
5. Insurance					
POWER AND MACHINERY					
6. Interest (8-10% of new cost plus salvage value ÷ 2)					
7. Depreciation (10-14% of new cost less salvage value)					
8. Repair (4-6% of new cost)					
9. Insurance					
LIVESTOCK					
10. Interest (8-10% of current value)					
11. Depreciation, if any (breeding stock only)					
12. Insurance					
13. PERSONAL PROPERTY TAX					
LABOR AND MANAGEMENT					
14. Operator ______ months					
15. Family help ______ months					
16. Hired labor ______ hrs.					
17. Management (10% of gross)					
18. CASH RENT (paid by landowner to tenant)					
19. SUBTOTAL—major contributions (add Lines 1 through 18)					
OTHER CASH COSTS					
20. Cash cost of boarding hired labor					
21. Purchased feed for productive livestock					
22. Other livestock expense					
23. Machine work hired					
24. Seed, plants					
25. Twine and baling wire					
26. Fertilizer and chemicals					
27. Tractor fuel					
28. Miscellaneous					
29. TOTAL EXPENSES (add Lines 19 through 28)					
30. PERCENT OF TOTAL CONTRIBUTION					

Livestock Share Farm Lease

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 is entered into this __________ day of ______________________________, 19_____, between

______________________________________, landlord, of ______________________________________

____
(address)

______________________________________, spouse, of ______________________________________

hereafter known as "the landlord," and
____
(address)

______________________________________, tenant, of ______________________________________

____
(address)

______________________________________, spouse, of ______________________________________

hereafter known as "the tenant."
____
(address)

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 IIA.

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, he will do so subject to the provisions of this lease.

F. Right of entry. The landlord reserves the right for himself, his agents, his employees, or his assigns 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 plowing, 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 agreements between the parties.

1. Cropland
   a) Row crops ________ acres
   b) Small grains ________ acres
   c) Legumes ________ acres
   d) Rotation pasture ________ acres
2. 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 IDENTIFICATION:

________________ ________ acres/animal unit
________________ ________ acres/animal unit
________________ ________ acres/animal unit

(1,000 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 shall 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. LIVESTOCK PRODUCTION AND SHARING ARRANGEMENTS

A. It is agreed the tenant and landlord will engage in the production of livestock. Real property including land and the type and number of livestock to be contributed to production by each party are reported in Table 1.

Table 1—Contributions of Property to be Furnished by Each Party

		Share furnished by Landlord %	Share furnished by Tenant %
1. Land and fixed improvements at beginning of this lease described in Section I		________	________
2. Fixed improvements constructed during period of this lease:			
Materials and skilled labor		________	________
Hauling materials to farm		________	________
Farm labor		________	________
________________		________	________
________________		________	________
3. Livestock:	Approximate number to be kept		
Breeding: ________	________	________	________
________	________	________	________
________	________	________	________
Replacements: ________	________	________	________
________	________	________	________
________	________	________	________
Feeders: ________	________	________	________
________	________	________	________
________	________	________	________
4. Machinery and equipment: (crop, livestock, etc.)			
________________		________	________
________________		________	________
________________		________	________
________________		________	________
________________		________	________
________________		________	________
5. Portable farm buildings:			
________________		________	________
________________		________	________

B. Annual operating expenses shall be supplied by the landlord and tenant as reported in Table 2 except as discussed in Section VI.

Table 2—Percentage Share of Operating Expenses to be Furnished by Each Party

	(L)	(T)
1. Crop Expenses:		
• Fertilizer	______	______
• Lime	______	______
• Seed	______	______
• Herbicide	______	______
• Crop insurance	______	______
• Other supplies	______	______
• Other: ______	______	______
2. Livestock Expenses:		
• Feed purchased	______	______
• Veterinary	______	______
• Breeding fees	______	______
• Medicines and drugs	______	______
• Feed grinding and mixing	______	______
• ______	______	______
• ______	______	______
3. Fuel:		
• Tractor	______	______
• Truck	______	______
• Harvesting	______	______
• Crop drying	______	______
• Feed processing	______	______
• Heating buildings	______	______
4. Electricity	______	______
5. Telephone	______	______
6. General hired labor	______	______
7. Custom:		
• Hauling crops and livestock	______	______
• Harvesting:		
Corn	______	______
Small grain	______	______
Soybeans	______	______
______	______	______
______	______	______
8. Insurance:		
• Buildings	______	______
• ______	______	______
9. Taxes	______	______
10. Interest:		
• Operating capital	______	______
• Intermediate term loans	______	______
11. Other	______	______

C. Additional agreements in regard to livestock production.

1. Breeding replacements shall be furnished as follows:

____

____

____

2. Sale of breeding stock shall be shared as follows:

____

____

3. Other breeding stock provisions are:

____

____

D. Neither landlord or tenant shall have the authority to bind the other in any contract with third parties. Expenses other than those reported in Tables 1 and 2 shall be shared as follows:

____

____

E. Buying and selling. The tenant shall consult with the landlord regarding time, price, sales agency, and similar matters regarding the purchase and sale of livestock, feed, and crops whenever the transaction exceeds $__________ in value. Additional agreements are as follows:

____

____

F. Livestock restrictions. Neither the tenant nor the landlord shall bring to the farm livestock not included in the agreement without express written permission of the other party.

Additional agreements relative to livestock are:

____

____

G. Equipment and machinery replacements. The cost of additional and replacement livestock equipment and machinery will be shared as follows:

____

____

____

____

V. DIVISION OF INCOME AND CASH RENT ON NON-SHARED ITEMS

A. Division of income. The tenant shall pay rent to the landlord for the use of the landlord's property described in this lease (Table 1) an amount equal to ________ percent of the gross income. Gross income shall consist of the proceeds from the sale or exchange of all grain, forages, livestock, and other products produced under the provisions of this lease, except for:

____

____

____

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

Table 3—Amount of Annual Cash Rent
(complete at beginning of lease)

Farmstead: Dwelling	$________
Service buildings	$________
Timber and waste	$________
Other: ________________	$________
________________	$________
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 due date until paid.

VI. 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 unskilled labor necessary to maintain the farm and its improvements during his tenancy 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, c) pasture new seedlings of legumes and grasses in the year they are seeded without consent of the landlord.

3. Insurance. Not to house automobiles, motor 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 as completely as practicable; 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 he leaves the farm, to pay the landlord reasonable compensation for any damages to the farm for which he, 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, VI-A-4, and VI-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 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 repair.

3. Skilled labor. To furnish any skilled labor for tasks which the tenant himself 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. To 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. He 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. 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 long-lived fertilizers shall be divided between landlord and tenant as set forth in the following table. The tenant will be re-imbursed by the landlord either when the improvement is completed, **or** the tenant will be compensated for his share of the depreciated cost of his contribution when he leaves the farm based on the value of the tenant's contribution and depreciation rate shown in the following 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.

Compensation for Improvements Table

Type of improvement	Date to be completed	Estimated total cost (dollars)	Proportion to be contributed by tenant			Total value of tenant's contrib. (dollars)*	Rate of annual depreciation
			Material	Unskilled labor	Mach.		
			%	%	%		%

* To be recorded when improvement is completed.

2. 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 he may suffer 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.

VII. FARM RECORDS AND FINANCIAL SETTLEMENTS

A. Records of joint interest shall be kept by ___________ and shall be made available to the landlord/tenant (cross out one) upon request. Financial and production records shall include a complete inventory of all property used in the farm business. Inventories shall be recorded and financial records summarized by ________ day of ______________ (month) or at intervals mutually agreed upon. Specify:

____

____

B. The record system to be used shall be:

____

____

C. All joint receipts and disbursements shall be handled through ______________________ bank as follows:

- Receipts: ______________________________
- Disbursements: __________________________

D. Cash financial settlement shall be made by the ______ day of each month or at intervals mutually-agreed upon. Specify:

____

____

____

VIII. ARBITRATION OF DIFFERENCES AND DIVISION OF PROPERTY

A. 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.

B. Division of property. Upon termination of this lease, unused production shall be divided as follows:

1. Feed grain and supplies. All grain, silage, other feeds, and all co-owned supplies including straw and other bedding materials shall be divided by measure or value, whichever is more equitable, with the landlord and tenant each receiving title to his respective share as reported in Section V-A.

2. Livestock. If the livestock are owned equally (50-50), the tenant shall divide each class of livestock, as cows, steers, calves, hogs, etc., into two groups and the landlord shall take his choice of the two groups of each. In case the groupings cannot be made equal, a difference in monetary value shall be assigned before the choice is made and added to the choice.

3. Undivided interest of co-owned property. If both parties mutually agree not to accept the above described plan for dividing co-owned classes of property including livestock, it is agreed the tenant shall set a value on the entire amount of the respective co-owned classes of property on the basis of which he will either sell his undivided interest or buy that of the landlord, at the option of the landlord; or the co-owned property may be disposed of by private or public sale arranged for that purpose at a reasonable time and place.

4. Home use. The tenant and landlord may take annually for home use the following kinds and quantities of jointly owned crops, livestock, and/or livestock products:

____

____

____

Executed in duplicate on the date first above written:

______________________________ (tenant)

______________________________ (landlord

______________________________ (tenant spouse)

______________________________ (landlord spouse)

STATE OF ______________________ }
COUNTY OF ____________________ } SS:

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)

Issued in furtherance of Cooperative Extension work, Acts of Congress of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture and Cooperative Extension Services of Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. John O. Dunbar, Director, Cooperative Extension Service, Kansas State University, Manhattan.