

YOUR

LIVESTOCK-SHARE

FARM LEASE

MISCELLANEOUS PUBLICATION NO. 837

U.S. DEPARTMENT OF AGRICULTURE

FARM LEASE PUBLICATIONS

Publications on farm leases available from the Office of Information, U.S. Department of Agriculture, Washington, D.C., 20250, are:

Your Farm Renting Problem, Farmers' Bulletin 2161.

Your Farm Lease Contract, Farmers' Bulletin 2164.

Your Farm Lease Checklist, Farmers' Bulletin 2163.

These bulletins supersede Farmers' Bulletin 1969, "Better Farm Leases," and Miscellaneous Publication 627, "Your Farm Lease."

Lease forms may be obtained from your local County Agricultural Agent.

The following publications, originally developed and distributed by the U.S. Department of Agriculture, are being reproduced at the University of Nebraska under the leadership of the North Central Farm Management Extension Committee:

Your Cash Farm Lease, Miscellaneous Publication 836.

Your Livestock-Share Farm Lease, Miscellaneous Publication 837.

Your Crop-Share-Cash Farm Lease, Miscellaneous Publication 838.

These publications can be purchased in quantity from the University of Nebraska, Department of Information, College of Agriculture and Home Economics, Lincoln, Nebraska 68503.

CONTENTS

Method for Estimating Rent	3
Filling Out the Livestock-Share Farm Lease	7
A. Property Rights	7
B. Land Use and Livestock Production	8
C. Improving, Conserving, and Maintaining the Farm	13
D. Sharing Costs and Returns	14
E. Term of Lease	15
F. Miscellaneous Provisions	16

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your

LIVESTOCK-SHARE

farm lease

by Marshall Harris, agricultural economist

Farm Economics Research Division, Agricultural Research Service

Your livestock-share farm lease may well influence your net income as greatly over a period of years as the productivity of the land, the kind and quantity of fertilizer you use, the quality of your livestock, or the cultural practices you follow in producing your crops. It should be tailored to fit the farm, the landlord, and the tenant. It should set forth clearly the rights, duties, and responsibilities of each party. Some of its provisions must be rigid and inflexible, yet it must provide for change and adaptability to meet the requirements of modern technology in a dynamic economy.

Your farm lease should go a long way in providing for good overall management by outlining clearly the cropping plan and the livestock system to be followed, and the way in which the farm will be operated to maximize net income for the whole farm.

Your farm lease should provide for further development, improvement, and maintenance of the land, buildings, fences, and other structures that are a permanent part of the farm, and for conservation of its soil and water resources. The landlord is in a good position to cash in on all improvements that may be made, whether he continues to rent the farm, operates it himself, or sells it. The tenant may be in an uncertain position regarding added improvements, for unless the lease otherwise provides he must leave most of the improvements he makes on the farm when his lease terminates. However, the lease can be written to assure the tenant reasonable reimbursement for investments that he may leave behind when his occupancy of the farm ends.

Your farm lease can be most effective in the long run only if farm expenses are divided between the two parties on the basis of what each can best contribute to farm production and income is divided in the same proportion as expenses of production are shared. The division of costs and returns is important in a livestock-share lease.

The livestock-share farm lease should be used only when the rental payment is to be in terms of a share of the livestock or livestock products and of crops, if crops are produced for sale. If you do not give a part of the livestock as rent, use either

the cash lease or the crop-share-cash lease. In your agreement, try to attain an equitable sharing; this is not always an equal sharing. A 50-50 share lease is not necessarily superior, because of its equal sharing, to a 40-60 lease. The basic idea is for each party to receive income from the farm in proportion to what he has contributed to production.

Your farm lease will fail, at least partly, to measure up to these requirements unless it provides a reasonable opportunity for longtime planning of the farm business. Adequate planning is possible only if the term or duration of the lease provides assurance of stable and secure occupancy. Consider various renewal, cancellation, and termination provisions in arriving at the one that best fits the particular farm, landlord, and tenant.

Your farm lease may well contain several miscellaneous provisions designed to make most effective the contributions of both landlord and tenant to farm production. Fit these to your particular situation, but safeguard the interests of both parties. Provide incentives for maximum contributions toward attaining a highly productive farm.

In view of the many things you want your farm lease to do, it is advisable to have your lease written. Make a copy for each party. Be sure both copies are alike.

METHOD FOR ESTIMATING RENT

Two of your main decisions in developing a good livestock-share lease are those that concern the amount of rent and the division of expenses between landlord and tenant. If you use the Table for Estimating Rent, take seven major steps:

- Determine the estimated total value (col. 2) of each item under the fixed investment expenses.
- Decide on the estimated interest rate for each fixed investment (col. 3).
- Enter the total annual cost (col. 2 multiplied by col. 3) in column 4.
- Estimate the annual cost of each fixed operating expense (lines 11 to 22), showing the whole farm's costs in column 4.

TABLE FOR ESTIMATING RENT

Item of expense (1)	Esti- mated total value (2) <i>Dollars</i>	Esti- mated interest rate (3) <i>Percent</i>	Estimated annual cost		
			Whole farm (4) <i>Dollars</i>	Landlord's share (5) <i>Dollars</i>	Tenant's share (6) <i>Dollars</i>
I. FIXED EXPENSES:					
<i>A. Fixed investment expenses:</i>					
1. Land					
2. Farm buildings					
3. Tractor, truck, and automobile					
4. Machinery and equipment					
5. Breeding stock					
6. Operating cash					
7.					
8.					
9.					
10. Total section A					
<i>B. Fixed operating expenses:</i>					
11. Labor					
a. Tenant's					
b. Unpaid family					
c. Landlord's					
d. Hired					
12. Depreciation					
a. Buildings, fences, and others					
b. Tractor, truck, and automobile					
c. Machinery and equipment					
13. Repairs					
a. Buildings, fences, and others					
b. Machinery and equipment					
14. Taxes *					
15. Insurance *					
16. Limestone					
17. Rock phosphate					
18. Conservation measures					
19. Management					
20.					
21.					
22.					
23. Total section B					
24. Total section I					
24a. Percent contributed by: Landlord					
Tenant					

TABLE FOR ESTIMATING RENT (Continued)

Item of expense (1)	Estimated annual cost		
	Whole farm	Landlord's share	Tenant's share
	(4)	(5)	(6)
	<i>Dollars</i>	<i>Dollars</i>	<i>Dollars</i>
II. VARIABLE EXPENSES:			
25. Hired labor, including board			
26. Tractor operating costs			
27. Truck operating costs			
28. Automobile, farm operating costs			
29. Machine work hired			
30. Seed			
31. Commercial fertilizer			
32. Pesticides, insecticides			
33. Other crop expenses			
34. Feed			
35. Veterinary and sanitation			
36. Other livestock expenses			
37. Electricity for the farm			
38. Telephone for the farm			
39. _____			
40. _____			
41. _____			
42. Total section II			
43. Grand total: Sections I and II			

Income to be divided

\$ _____

Cash rent on farm dwelling:

Estimated value \$ _____ at _____ percent

\$ _____

Depreciation, insurance, and upkeep (add)

\$ _____

Total dwelling rent

\$ _____

* Include taxes and insurance only if they have been deducted from (or not included in) annual cost of property in column 4, section 4.

- Decide what items of fixed investment and fixed operating expenses and how much of each will be furnished by each party and enter each party's share in columns 5 and 6.

- Divide the total fixed expenses furnished by each party by the total for the farm, line 24, and enter these percentages in line 24a.

- This is the proportion of the variable expenses that should be paid by each party and the proportion of the total farm income that each party should receive.

These steps are discussed in the following paragraphs.

The values to be placed on the fixed investment expenses are important because this group of items makes up a significant portion of total farm expenses. Investments in buildings are likely to be particularly heavy on livestock farms. Estimate the value of each of these items on the basis of *current market value*, or present usefulness for agricultural purposes, as of the beginning date of the lease. Visualize the value that a willing buyer and a willing seller would agree upon. Do not think in terms of a forced sale. Do not depend upon what you paid for the items perhaps several years earlier. **Make separate estimates for the landlord's and tenant's property.**

You may want to develop a worksheet with several of these general categories broken down into specific items. For example, the real estate may be more accurately estimated if land, farm buildings, and the dwelling are treated separately. This separation will be helpful in calculating depreciation for farm buildings on line 12a and in making other calculations. Also, the value of breeding stock should be broken down into the several classes of livestock, and so on.

The estimated interest rate used to calculate the annual cost may well be the going rate of interest in the community for investments with similar returns and risks. If this interest rate is high enough to cover such costs as taxes, repairs, insurance, and depreciation, these items should not be included separately later in the rent table.

For land and buildings, the interest charge might well vary around that paid on a sound real estate mortgage. For livestock, machinery, and tractor, the interest charge might well vary around that paid on a sound chattel mortgage. Usually, this is a slightly higher rate than that paid on a real estate mortgage. Now calculate the interest charge for each item. Place the landlord's share in column 5 and the tenant's share in column 6. The total charge goes in column 4. Add the respective columns and place totals on line 10.

Now, review these fixed investments to determine whether you have included everything necessary to operate effectively under the planned land use and the livestock system. Ask yourself

these questions: Do you need any additional investments to farm efficiently? If your answer is yes, what items are needed, and how best can they be obtained?

In estimating the annual cost of fixed operating expenses, the value of the tenant's labor might well be the going rate for a good full-time hired man living on the farm (line 11a). His management services are taken care of in line 19. Other labor should be calculated in terms of man-labor units at the same rate as the tenant's labor.

Base the annual charge for depreciation on the *estimated life* of each item, using information available from your county agricultural agent or State college of agriculture. Be realistic in estimating the cost of repairs. Usually, these estimates are too low.

Enter taxes and insurance only if you decide that they have not been allowed for in the annual cost of the resources in section A. If they are included in the rent calculations as separate costs, enter only the tax and insurance expenses actually paid.

Base the management estimate on the management services that will actually be rendered.

Divide each item in column 4 between landlord and tenant on the basis of who will furnish it, placing the results in columns 5 and 6. Total each column in line 23.

The total annual cost of the fixed investment expenses and of the fixed operating expenses represent your best estimates of those costs that must be met regardless of how the resources are used in any one year or of the total amount of farm income that will result.

In estimating variable expenses, be sure to provide for all variable costs needed to maximize net returns. Adequate labor is a "must." Do not skimp on seed, feed, fertilizer, fuel, and electricity. Be sure to include insecticides and pesticides. Estimate the quantity of each on the basis of the farm plan to be followed throughout the year. Break each item into its separate parts. Show the quantities of each and use anticipated market prices. Enter your estimate in column 4. Add other items if needed. Use data available from your own farm records and the college of agriculture.

Deciding how these variable expenses should be divided between landlord and tenant (cols. 5 and 6) is very important. The division should give both parties every incentive to contribute to each variable expense up to the point at which another unit added would increase the farm income by the same amount as the cost of the unit.¹

Under a livestock-share lease, *all* of the income from the farm, from crops as well as livestock and

¹ Further details of farm rent determination procedures may be obtained from your county agricultural agent or from the U.S. Department of Agriculture, Washington 25, D.C.

livestock products, is usually divided between the two parties. This appears to be highly satisfactory.

The basic question is, What proportion should each party receive? Usually the income is divided equally, that is, on a 50-50 basis, and the variable operating expenses are shared 50-50. For many farms, this appears to meet the basic incentive criteria adequately. Do not assume, however, that either the equal sharing or the custom of the community is suited to your farm.

Proceed in this way: The totals in line 24 for columns 5 and 6 indicate how the fixed investment and fixed operating expenses are divided. This is recorded in line 24a. Minor adjustments may be made in the fixed operating expenses to give you a round figure, say 45 percent to tenant and 55 percent to landlord, or 50-50 if you prefer. Make these minor adjustments in a few select items; do not make substantial adjustments.

Each variable expense should be divided in the same proportion as the fixed expenses in line 24a. Distribute in this proportion the variable expenses for each item in column 4 between columns 5 and 6. Total variable expenses in line 42. The total farm expenses may then be entered in line 43.

The total farm income should be shared in the same proportion that total farm expenses are shared.

FILLING OUT THE LIVESTOCK-SHARE FARM LEASE

The Livestock-Share Farm Lease (Form AD 563) includes the usual items that are essential for a good farm lease. This lease form should be used only for livestock-share renting.

A sample copy of the Livestock-Share Farm Lease is shown on pages 9 to 12 of this bulletin.

Other good lease forms may be available from your State agricultural college or State department of agriculture.

The Livestock-Share Farm Lease form is not well adapted to cash, crop-share, or crop-share-cash renting. Specific forms are available for these types of renting. You may want to obtain one of them to meet your particular needs. It is important that the provisions of your lease be fully applicable to your farm, and to both landlord and tenant.

In completing the form, fill in each blank space. Either fill in figures, description or similar material, write "NONE" or "NOT APPLICABLE" in the space, or draw a line through the space. You may also want to delete all or a part of some sections. If

so, draw a line through each word to be deleted. Be sure that all copies are exactly alike. Each item of the lease form is discussed below.

The date.—Indicate on the first blank space in the lease the day you enter into the agreement. This usually is the day on which you sign it.

Designating the parties.—Show the name and address of both landlord and tenant. Since either may be a private individual, an estate, a partnership, a corporation, or a government agency, give names and usual business addresses. Make them accurate and complete enough to meet requirements in case a legal notice must be sent.

A. Property Rights

Specify the real estate included in the agreement. You need not describe it as completely as you would do in a deed but it may be in legal terms.

List the county, State, and number of acres in the farm. Give the name by which the farm is known locally, its location on a particular road, or the number of miles in a certain direction from a specified town. If the information can be obtained readily, refer to the real estate described on a particular page in a certain deed book in the appropriate county office.

1. Right of Entry

A right-of-entry provision permits the landlord or his representative to enter upon the farm only for the purposes and under the conditions specified.

Usually the landlord retains no right to come upon the farm unless this privilege is provided in the lease. According to our landlord and tenant law, the lease usually gives the tenant the right to exclude any and all parties except law-enforcement officers from entering upon the farm. He can even exclude the landlord. This is what his possession means. The right of possession is similar in scope to the right of exclusive use. Unless a reservation is made in the lease, this right is presumed to be held by the tenant.

2. No Right to Sublease

In the absence of any provision about subletting, the legal presumption usually is that the tenant can sublease the farm, or any part thereof, if he so desires. But if the landlord desires that the property shall *not* be sublet, he should so state in the lease. The relations of the livestock-share landlord and tenant are so personal that the tenant should not sublet the farm. The subtenant might not be satisfactory to the landlord.

3. Transfer of Farm

A provision in the lease as to transfer of title to the farm is an added safeguard for the tenant. The landlord should agree to offer this protection.

The tenant could safeguard his interests by recording the lease. But most farm leases are not recorded, and recording is not generally necessary.

4. Heirs and Successors

Certain happenings might mean that the responsibilities of either or both parties under the lease would be transferred to another party. If either landlord or tenant should die, his place in the lease contract would be taken by the executor of his will or the administrator of his estate. Both parties might die in a common accident, such as a fire or an automobile wreck, and two new parties would become the landlord and tenant. A debtor of one party could force the sale of his property.

This provision states explicitly that the lease is binding upon those who may take the place of landlord or tenant, or both. They should know specifically all of the provisions in this complex agreement. Therefore, put your agreement in writing.

5. Right to Lease

The landlord should warrant that he has a right to lease the farm; that is, that he guarantees that the tenant's possession and other rights under the lease will not be disturbed. The landlord need not hold title to the property, but he should have, and should affirm that he has, the right to lease the property to the tenant.

6. Rent Additional Land

The restriction on the tenant against using his own time, machinery, and equipment to farm other land or to engage in nonfarm activities is used to assure the landlord that additional activities will not cause the tenant to neglect the farm. A flat prohibition against any and all additional activities appears to be unnecessary. This clause has flexibility: (1) Any number of acres can be entered in the blank and (2) under proper conditions the consent of the landlord can be given. Where livestock-share renting is involved, this provision should be given special attention.

7. Additional Agreements

Show here any additional restrictions, explanations, or qualifications as to the property rights transferred or withheld under the lease. Remember, the several parts of this section on Property Rights should convey a complete and accurate picture of the rights in the farm real estate that are transferred.

B. Land Use and Livestock Production

1. Land Use

Your farm lease should indicate clearly the use that is to be made of the land. This may well be done by designating the crops or uses to which

the land should be put; for example, corn, wheat, tobacco, meadow, or pasture. Indicate in the blanks on the lease form the acreage to be devoted to each. The "acres" column should add up to the total number of acres in the farm.

Specify the fields by number or name, if this is feasible. For some crops, particularly those for which hybrid seed will be used, show the variety of seed. In the next column, indicate the use to be made of fertilizer. Include in this column commercial fertilizer, rock phosphate, and limestone.

The purposes of these provisions are: (1) To encourage efficient use of resources and (2) to safeguard against misunderstanding at a later date.

2. Livestock Production

The kinds and numbers of livestock that will be kept on the farm should be agreed upon. This is a key decision on a livestock-share-rented farm. You may want to show the maximum number or a range in numbers. You may want to specify the breed. Show any special or unusual health, sanitation, or feeding practices in the last column. Applicable practices vary widely from one section of the country to another. Outline the particular requirements of your situation.

3. Acres and Numbers

This provision is widely and appropriately used. It is essential, for the acres and numbers are subject to change within the year and from year to year.

4. Crop and Livestock Adjustments

This provision is designed to provide flexibility in land use and the livestock system only when the desirability of such changes is to the mutual interest of the two parties or the adjustment is made necessary by causes beyond the control of the tenant. This provision should not become a license to nullify provisions 1 and 2.

5. Restriction on Livestock

This is basically a health precaution against diseased livestock being brought on the farm and acts also as a partial safeguard against overgrazing.

6. Home Use

Fill in the blank space in specific terms, listing separately each crop and livestock. Usually, the quantity is in terms of pounds, bushels, or numbers, but you may specify it in dollar value. Make no mention of garden or livestock products that the tenant will grow entirely on his own.

7. Buying and Selling

Disposal or acquisition of a substantial quantity of jointly owned livestock and other property is usually made by mutual agreement for each sale

7. **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:

.....

.....

8. **Division of property.**—At the termination of this lease, all jointly owned livestock or other property will be divided or disposed of as follows:

.....

.....

C. IMPROVING, CONSERVING, AND MAINTAINING THE FARM.—To improve the farm, conserve its resources, and maintain it in a high state of cultivation, the two parties agree as follows:

1. **General maintenance.**—The tenant will maintain the farm during his tenancy in as good condition as at the beginning, normal wear and depreciation and damage from causes beyond the tenant's control excepted.

2. **Good husbandry.**—The tenant will operate the farm in an efficient and husbandlike way, will do the plowing, seeding, cultivating, and harvesting in a manner that will conserve the landlord's property.

3. **Cropping practices.**—The tenant will *not*, without oral consent of the landlord, (a) plow permanent pasture or meadowland, (b) cut live trees for sale or personal uses, but will take for fuel or use on the farm only dead or unmarketable timber designated by the landlord, (c) allow livestock other than his own or jointly owned on stalkfields or stubblefields, (d) burn or remove cornstalks, corncobs, straw, or other crop residues grown on the farm, (e) pasture new seedlings of legumes or grasses in the year they are seeded, and (f) plant legumes on land not known to be thoroughly inoculated without first inoculating the seed.

4. **Livestock practices.**—The tenant will care for the livestock so as to maximize production, will do the breeding, feeding, and watering at the proper time and in the proper manner, and will follow health and sanitation measures and guard against disease.

5. **Manure and crop residue.**—The tenant will spread the manure, straw, or other crop residues on the farm as soon as practicable on fields agreed upon by the two parties, except as follows:

.....

.....

6. **Pasturing.**—The tenant will prevent tramping of fields by stock and rooting by hogs when injury to the farm will be done.

7. **Waste.**—The tenant will not commit waste on, or damage to, the farm and will use due care to prevent others from so doing.

8. **Fire protection.**—The tenant will not, without written consent of the landlord, house automobiles, motortrucks, or tractors in barns, or otherwise violate restrictions in the landlord's insurance policy, which restrictions the landlord shall make known to the tenant.

9. **Replace losses.**—The landlord will replace or repair as promptly as possible the dwelling or any other building that may be destroyed or damaged by fire, flood, or other cause beyond the control of the tenant or make rental adjustments in lieu of replacements.

10. **Noxious weeds.**—The tenant will use diligence to prevent noxious weeds from going to seed on the farm and will destroy the same, and will keep the weeds and grass cut or destroyed on the fields, farmstead, roadside, and fence rows. Treatment of weed infestation and cost thereof shall be handled as follows:

.....

.....

11. **Maintenance of improvements.**—The tenant will keep the buildings, fences, and other improvements on the farm in as good repair and condition as they are when he takes possession, and in as good repair and condition as they may be put during the term of the lease, ordinary wear and tear, loss by fire, or unavoidable depreciation or destruction excepted.

12. **Materials and labor.**—The landlord will furnish materials and the tenant will perform labor for normal maintenance and repairs, except that skilled labor which the tenant himself is unable to perform satisfactorily will be furnished by the landlord. Additional agreements regarding materials and labor:

.....

.....

13. **Purchase of materials.**—The tenant may buy, without further authorization, materials for normal maintenance and repairs in a total amount not to exceed \$..... within each year, and the landlord will credit or reimburse the tenant for such expenditures as follows:

.....

.....

14. **Add improvements.**—The tenant will *not*, without written consent of the landlord, (a) erect or permit to be erected on the farm any nonremovable structure or building, or (b) incur any expense to the landlord for such purpose, or (c) add electrical wiring, plumbing, or heating to any buildings, and, if consent is given, he will make such additions meet standards and requirements of power and insurance companies.

15. **Conservation practices.**—The tenant will control soil erosion as completely as practicable by stripcropping and contouring, and by filling in or otherwise controlling small washes or ditches that may form.

16. **Conservation structures.**—The tenant will keep in good repair all terraces, open ditches, and inlets and outlets of tile drains, preserve all established watercourses or ditches, including grass waterways when seed and fertilizer are furnished by the landlord, and refrain from any operation or practice that will injure them.

17. **Compensation for improvements.**—The two parties will carry out new conservation practices and measures and make other improvements, and share contributions and costs necessary for completion of such practices and improvements as set forth below. The tenant will be reimbursed by the landlord when the practice, measure, or improvement is completed, or the tenant will be compensated for its unexhausted value when he leaves the farm, according to the schedule below:

17 (Cont'd). Compensation for Improvements Table.

CONSERVATION PRACTICE, MEASURE, OR OTHER IMPROVEMENT	DATE TO BE COMPLETED	ESTIMATED COST (DOLLARS)	PERCENT TO BE FURNISHED BY LANDLORD AND BY TENANT						VALUE PLACED ON TENANT'S CONTRIBUTION (DOLLARS)	RATE OF ANNUAL DEPRECIATION (PERCENT)
			MATERIALS		LABOR		MACHINERY			
			L	T	L	T	L	T		

18. **Additional agreements relative to conservation and improvements:**

.....

.....

19. **Review of conservation program.**—A new schedule covering conservation practices and improvements will be prepared each year on an appropriate form which will become a part of this lease when signed by the two parties.

20. Preparing or seeding land.—When the tenant leaves the farm, if the total acreages of prepared or seeded land are greater than at the beginning of his tenancy, he will be compensated by the landlord on the basis of the value of such excess acreages. If such total acreages are less than at the beginning of his tenancy, the tenant will

compensate the landlord on the basis of the value of such deficiency, provided that the deficiency is not due to drought, flood, or other causes beyond the control of the tenant. The acreages at the beginning of this tenancy and the basis of payment are as follows:

PREPARED OR SEEDED	ACRES AT BEGINNING	RATE PER ACRE	PREPARED OR SEEDED	ACRES AT BEGINNING	RATE PER ACRE

21. Removable improvements.—Minor improvements of a temporary or removable nature, not provided for in item 17 of this section, which do not mar the condition or appearance of the farm may be made by the tenant at his own expense. The tenant may at any time this lease is in effect, or within a reasonable time thereafter, remove such improvements, provided he leaves in good condition that part of the farm from which they are removed.

22. Compensation for damages.—When the tenant leaves the farm he will pay the landlord reasonable compensation for any damages to the farm for which the tenant is responsible, except ordinary wear and depreciation and damages beyond the tenant's control.

D. SHARING COSTS AND RETURNS.—All costs and returns shall be divided between landlord and tenant as provided below, unless otherwise specifically stated elsewhere in this lease.

1. Rental rates.—The tenant agrees to pay as rent the shares or quantities of crops and livestock as indicated below:

CROPS, LIVESTOCK, AND IMPROVEMENTS	SHARE OR AMOUNT PAID AS RENT				PLACE OF SALE OR DELIVERY	DATE OF SALE DELIVERY OR PAYMENT
	CROPS OR CASH	OFFSPRING OR INCREASE IN LIVESTOCK HERD	LIVESTOCK SALES	SALES OF LIVESTOCK PRODUCTS		
DWELLING		XXXXXXXXXXXX	XXXXXXXXXXXX	XXXXXXXXXXXX		

2. Additional agreements in regard to rental rates:

.....

.....

3. Expenses.—Expenses, including investments in personal property, shall be supplied by the landlord and tenant as follows, except as indicated in section C:

INVESTMENTS IN PERSONAL PROPERTY	FURNISHED BY		EXPENSES	FURNISHED BY		EXPENSES	FURNISHED BY	
	L	T		L	T		L	T
TRACTOR			LABOR			LIMING MATERIAL		
WORKSTOCK			MAINTENANCE—BUILDINGS			FERTILIZER		
MACHINERY AND EQUIPMENT			MAINTENANCE—FENCES					
			MACHINE REPAIRS					
			FUEL—TRACTOR			SEED		
			FUEL—TRUCK					
			FUEL—OTHER					
			CUSTOM WORK AND HAULING					
			ELECTRICITY					
			TELEPHONE			INSURANCE—BUILDINGS		
			VETERINARY FEES			INSURANCE—CORPS		
			BREEDING FEES					
BEEF CATTLE						TAXES—REAL ESTATE		
FEEDER CATTLE			WEED CONTROL MATERIAL			TAXES—PERSONAL		
HOGS			INSECTICIDES					
SHEEP								
DAIRY			FEED PURCHASED OR SUPPLIED					

4. Additional agreements relative to expenses:

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.....
.....
.....
.....

E. TERM OF LEASE

1. Term.—The term of this lease shall be year(s) from, 19....., to, 19....., and this lease shall continue in effect from year to year thereafter until written notice of termination is given by either party to the other at least months before expiration of this lease or any renewal.

2. Continuous occupancy.—The tenant agrees that he or his agent will possess and occupy the farm continuously during the term of the lease.

3. Surrender of possession.—The tenant agrees to surrender possession and occupancy of the premises peaceably at the termination of the lease.

4. Review of lease.—A request for general review of the lease may be made at least days prior to the final date for giving notice to terminate this lease. Amendments and alterations to this lease shall be made in writing.

F. MISCELLANEOUS PROVISIONS

1. No partnership created.—This lease shall not be deemed to give rise to a partnership relation, and neither party shall have authority to obligate the other without written consent, except as specifically provided in this lease.

2. Government programs.—The farm will be operated in compliance with Government programs as follows:

.....
.....

3. Debts and accidents.—Each party agrees that the other party shall in no way be responsible for the debts of, or liabilities for accidents or damages caused by, the other party.

4. Willful neglect.—Willful neglect, failure, or refusal by either party to carry out any substantial provision of this lease shall give the other party the benefits of any proceedings provided by law.

5. Farm records.—The tenant shall keep a complete financial and production record of the entire farm business, which shall include a complete inventory of all property used in the farm business and a complete record of all purchases and sales related to the farm business. Such records are to be kept on mutually acceptable forms and shall be of such nature as to be usable by landlord and tenant in studying the farm business, in making financial and property settlements, and for purposes related to social security and income tax. Such records shall include appropriate sales statements, receipts, checks, and similar evidence and shall be accessible to the landlord at all times. Accounts between the two parties shall be settled on or about

6. Arbitration of differences.—Any differences between the parties as to their several rights and 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; and the committee's decision shall be accepted by both parties.

7. Additional agreements:

.....
.....
.....
.....

IN WITNESS WHEREOF, the parties have signed this lease on the date first above written.

Witnesses:

..... [SEAL]
(Landlord)
..... [SEAL]
..... [SEAL]
(Tenant)

(Acknowledgment in appropriate form to be attached.)

FARM LEASE

Between

(Landlord)

(Tenant)

USE OF THE FARM LEASE FORM

This form contains suggested provisions for a livestock-share farm lease. Whether particular provisions should be included or modified in your lease depends on the agreements between the parties and whether the provisions are appropriate under the laws of your State. Spaces are provided for writing in particular details or special arrangements that a landlord or a tenant may want. Details of the lease can be changed from year to year.

Additional copies of the form or forms for crop-share-cash or cash renting, and publications that contain suggestions for filling out the lease forms, may be obtained from your County Agricultural Agent.

Prepared by
U.S. DEPARTMENT OF AGRICULTURE

or purchase. The tenant might well be given authority to buy or sell in quantities limited to a specified dollar value per month or per year. This provision is important, for frequent buying and selling occur on many livestock-share-rented farms.

8. Division of Property

State briefly in the blanks provided the way in which jointly owned property will be divided at the end of the lease.

C. Improving, Conserving, and Maintaining the Farm

1. General Maintenance

This is a typical provision on maintenance. It is found in many livestock-share leases in most parts of the country.

2. Good Husbandry

This is a typical provision on caring for crops and is applicable to most rental situations. It is particularly important for share leases.

3. Cropping Practices

These specific items cover six troublesome practices. They are singled out because of their importance and their general applicability. Delete any that do not fit your situation. Rigid adherence to this provision will encourage greater landlord participation in improving pastures and land.

4. Livestock Practices

The provision on livestock practices is an attempt to attain the same standard that the previous items—general maintenance, good husbandry, and cropping practices—claim. Provisions 1, 2, 3, and 4 are nothing more than statements of good faith and appropriate standards. They are designed to attain good husbandry in all farming operations.

5. Manure and Crop Residue

Any exceptions to this provision should be noted in specific terms.

6 and 7. Pasturing and Waste

These two general provisions are frequently included in lease forms to direct attention to important good farming practices.

8. Fire Protection

This is a reasonable fire protection precaution. But the landlord is responsible for making the provisions of his insurance policy known to the tenant.

9. Replace Losses

This provision is designed to protect the tenant so far as is reasonably possible and to assure him that needed buildings will be replaced immediately. It makes more meaningful what is expected of the tenant, as outlined in item 8 of this section. Both

items 8 and 9 indicate the complementary nature of due care on the part of the tenant and prompt action by the landlord.

10. Noxious Weeds

The war against weeds demands special attention in many areas. If needed, indicate in the lease the specific treatment to be used and how costs are to be divided. These matters should be agreed upon when you draw up the lease. Do not wait until the day or week that the treatment should be applied.

11, 12, and 13. Maintenance of Improvements, Materials and Labor, and Purchase of Materials

The maintenance of all physical structures on the farm is important to both landlord and tenant, particularly on livestock-share-rented farms. This is a matter to which daily attention must be given. Such things as a leak in the roof, a broken window, or a loose door, gate hinge, or latch, demand immediate care. A nail here, a staple there, or a few shovelfuls of dirt on a terrace or waterway might save major expense later.

The tenant can be expected, reasonably, to accept fully the responsibility for carrying out such maintenance, and the landlord should furnish the materials. The items to be included in the blank space in 12 are those known to need attention. Agree upon them when you make the lease. Do not put the matter off for later decision. If you do, you encourage misunderstanding. Inclusion of specific maintenance items here does not imply that other skilled labor will not be furnished by the landlord.

Usually the landlord will find it good economy to be liberal on the costs of materials for maintenance (item 13). But the tenant should keep a complete and accurate account of each expenditure.

14. Add Improvements

With the recent emphasis on modern conveniences in the home and labor-saving devices on the farm, some major improvements have been undertaken without complete understanding between landlord and tenant. This provision attempts to safeguard the interests of both parties.

So far as possible, any major needed improvement should be agreed upon when the lease is made. Outline the agreement in items 12 and 17 of this section, using an additional sheet if necessary. The main point is this: The best time to reach agreement on such improvements is when the lease is made. Do not put this off for later negotiation, unless the situation is unusual.

15 and 16. Conservation Practices and Structures

These two provisions are designed to safeguard conservation structures and to encourage conservation practices. They should be adhered to strictly.

17. Compensation for Improvements

This provision affords the two parties a ready means of recording their agreements as to compensation for a wide variety of improvements and conservation measures. Investments may involve limestone, rock phosphate, commercial fertilizer, terraces, grass waterways, buildings, fences, tiling, permanent pastures, meadows, forestation, the water supply, electric wiring, the bathroom, painting, papering, central heating, and many other improvements. Labor-saving devices are important on livestock farms and they should be given special attention in the lease.

The crucial decisions are: (1) What improvements will the tenant make, or cooperate in making, for which he will be compensated for their unexhausted value when he leaves the farm; and (2) how will the various expense items be divided between landlord and tenant. In most instances, the valuation placed on the tenant's contribution can be no more than an estimate. If the tenant is to be reimbursed when the work is completed, the last column may be left blank.

The different costs can be calculated with fair accuracy, and the percentage to be furnished by each party can be determined by discussion, but the rate of depreciation may be difficult to decide.

These arrangements regarding compensation for improvements should not be included in any way in the section on Sharing Costs and Returns, nor is it necessary to divide costs of improvements between tenant and landlord in the same proportion as the farm costs and returns are shared.

Your county agricultural agent, soil conservation supervisor, or college of agriculture might have available specific data that will fit your situation. If not, decide upon a depreciation rate that appears to be reasonable. Much of the success of your farm lease may well depend upon the agreement about such improvements and conservation measures. These items are more important than they were before the conservation movement and the development of modern technology.

18. Additional Agreements Relative to Conservation and Improvements

Any agreements relative to conservation and improvements that cannot be recorded clearly in the table or elsewhere in the lease should be described in item 18 immediately below the table.

19. Review of Conservation Program

The soil and water conservation and development program for the farm is of such importance to successful farming that it should be reviewed at least once each year. Incorporate your specific plans for the next year in a table similar to that in item 17.

20. Preparing or Seeding Land

A provision that all farmwork is to be done at the normal time encourages good tenant farming. This means that the outgoing tenant will do some seeding, some plowing, and a few other things that will benefit directly the incoming tenant. The objective might well be for the outgoing tenant to complete as many of such operations as had been completed when he first occupied the farm. As this is not always possible, the tenant should be paid for any overage and he should stand the cost of any deficiency.

Insert in the lease a record of the number of acres of each type of seeded or prepared land at the time the lease begins and the rate per acre that will be applied to any excess or deficient acreage when the lease is terminated. Include in the rate per acre the tenant's labor and machinery expense and any contribution that he makes toward seed, fertilizer, and similar cash costs.

21. Removable Improvements

Some livestock-share-rented farms do not have enough temporary buildings, fences, or feeding conveniences for good livestock farming. In an instance of this kind, the tenant may be in position to supply some of the needed items at his own expense, provided he can take them with him when he leaves the farm. Under the law of the State, it may be difficult to determine what has become attached to the landlord's property and must be left on the farm, or the law may provide that some improvements made by the tenant are removable. In either instance the tenant should be encouraged to supply any of these minor items. This can be done by assuring him that he can take them with him when he leaves the farm. These items would include no improvement listed in item 17 of this section.

22. Compensation for Damages

Although the tenant agrees in item 7 of this section not to commit waste, he may fail to live up to this agreement. If he fails, he should pay the landlord for the damages. Also, this provision for compensation for damages and the provision that deals with compensation for improvements, item 17, confer similar privileges and impose similar responsibilities on both landlord and tenant.

D. Sharing Costs and Returns

Study the Table for Estimating Rent and the accompanying explanatory material on pages 3 to 7 of this publication. Use the table in estimating expenses, in dividing some of the expenses, and in arriving at the rental rate.

If suggestions are followed in completing the Table for Estimating Rent, much of the informa-

tion called for in the lease form will be readily available and might well be transferred directly to the appropriate provision.

If you follow the suggested procedure, you will be more likely to arrive at an equitable division of costs and returns than if you make no estimate of fixed and variable costs.

1. Rental Rates

The rental rate table in the lease form should show fully what rent is to be paid and so far as possible for what it will be paid. You may need to enter only two items in the first column—crops and livestock. The other columns should be used to specify the share or amount of rent to be paid, where farm products will be sold or delivered, and when farm products will be sold or delivered or rent paid. If the details of place or date of delivery differ for enterprises, list the enterprises separately in the rent table.

2. Additional Agreements (Rental Rates)

Any arrangements that cannot be shown clearly in the rental rate table should be described in the blank spaces immediately below the table.

3. Expenses

Since the landlord and tenant usually share current operating expenses not specifically mentioned elsewhere, it would seem well to show this general responsibility by indicating what each will furnish. Note that personal property investments should be listed in the first column, and cash operating expenses in other columns. The parts furnished by landlord and tenant should be indicated in the designated columns. They may be recorded in dollar value, fractional part as percentages, or as rates per unit, such as per acre, bushel, or bale. Be sure to include all important items. Write needed expense items in the blank spaces and use these spaces to make more specific any general items appearing above. For example, you may need to show specifically what seed expenses and custom work will be paid by the landlord.

4. Additional Agreements (Expenses)

Describe in item 4 any expense that cannot be recorded clearly in the operating expense table.

E. Term of Lease

1. Term

We have left the term of the lease for consideration last. The length of the term for which the lease is drawn should be decided in light of the land use and livestock systems, the steps to be taken to improve, conserve, and maintain the farm, and how costs and returns are to be shared. It is only after these matters have been decided that the two

parties are in position to discuss the length of the lease term.

The basic objective is to make the term of the lease fit the farming that will be done. Sound land use, conservation of land and water, development of good herds and flocks, and maximization of net income are possible only when longtime planning is practical. Yet the two parties may have many impelling reasons for not wanting to be tied up for a number of years.

A situation in which longtime planning is reasonably possible may be created by a long-term lease—3 to 7 years or longer—or by a lease that continues in effect from year to year until written notice of termination is given well in advance of the lease year. The term should fit the farm, the landlord, and the tenant. Regardless of whether the lease is for a term of years or continues automatically from year to year in the absence of a notice of termination, the termination process should give both landlord and tenant the time necessary to make other arrangements for the coming year. This may be only a few months, perhaps 4 to 6, or it may be a year or more. For most livestock-share rental situations, the notice might well be at least 9 months.

The period for which the lease is drawn should be shown in the blank spaces. Show the number of years and the date that the tenant's occupancy is to begin and end, using month, day, and year. If the lease is to continue automatically from year to year in the absence of termination notice, indicate when notice of termination is to be given, showing the number of months before the last date (the expiration date) entered in the first part of this item.

2. Continuous Occupancy

The tenant or his agent should physically occupy the farm during the entire lease period, particularly when farm buildings are included. This is necessary to protect the landlord's property and in some instances to make effective insurance on buildings. If the tenant plans to be away on vacation, he should make necessary arrangements with the landlord.

3. Surrender of Possession

The law usually requires the tenant to surrender possession at the end of the lease. This is a specific reminder and covenant to that effect.

4. Review of Lease

The same reason for putting your lease agreement in writing applies equally to putting all amendments and alterations in writing.

Record adjustments agreed to during the year on a separate sheet of paper to be signed by both parties. Many discussions held and decisions made during the year do not alter the original lease. Do not record all of these decisions. Write only those that change the written provisions of the lease.

In case either party wishes to make major changes for next year, he should notify the other party at least a month and preferably 2 months before the time specified for notice of termination in item 1 of this section.

F. Miscellaneous Provisions

1. No Partnership Created

Most landlords and tenants do not want their lease to create a partnership relation. They may have many reasons for this but one is overriding. They do not want to be responsible for the acts of the other party, as they would be in a partnership. If you wish a partnership, get a lawyer to draft a partnership agreement. It differs from a lease.

This provision will be ineffective in its purpose if the two parties operate as do partners and not like landlord and tenant. Be sure that the way you carry out your business transactions will help to make this provision effective. Your livestock-share renting operation is more nearly like a partnership than most other types of renting. Be particularly cautious about forming a partnership, unless you want one.

2. Government Programs

The landlord and tenant should discuss the various Government programs that are applicable to the farm. Soil conservation, acreage allotment, marketing agreement, reforestation, farm improvement, production or commodity loan, rural telephone and electrification, small watershed and other programs should be considered. Programs related to water supply command the particular attention of many livestock farmers. Write in the blank space your agreement as to how you will work together in cooperating with each specific program. This is the agreement between landlord and tenant; it need not indicate the details of their agreement with the Government agency. List the program and how costs and benefits will be shared, when applicable. Use a separate sheet if necessary.

Consideration should be given to the way in which benefits or taxes for social security are affected by the lease. For provisions of the law, see your Social Security representative.

3. Debts and Accidents

This agreement may be effective only as between the two parties. It may bind only those who sign

the lease and their successors. It is most effective where the "no partnership provision" is effective. Ordinarily, it does not apply to third parties, even if the lease is recorded.

4. Willful Neglect

This provision calls to the attention of both parties the privilege of enforcing the agreement.

5. Farm Records

Provide for adequate farm records. They are essential for the successful operation of the farm. The tenant should keep records on the entire farm. The records that he makes available to the landlord may be confined to those in which the landlord has a direct financial interest. The annual summary should be made as soon as is reasonably possible after the end of the lease year or as specified in the lease.

6. Arbitration of Differences

Your lease should be completed in such a way that the likelihood of misunderstanding will be reduced to a minimum. This can be accomplished best by studying each provision, filling out each blank, and arriving at an equitable division of receipts and expenses. But conditions that could not be anticipated may arise, and good men may disagree. If this should happen, a practical way of settling the difference is to leave the decision to an arbitration committee. This clause is included in many farm leases used throughout the country. Its value lies partly in its presence rather than in the number of differences submitted to arbitration.

7. Additional Agreements

This blank space is provided for any special provisions not covered elsewhere in the lease.

8. Signing the Lease

The lease should be signed in duplicate by both parties. In some States, it should be witnessed by two disinterested parties. In some instances, the landlord's wife should sign the lease also. Landlord and tenant should each keep a signed copy. It is seldom necessary to record your lease or file it in the county office in which documents of this kind are recorded. Each of you may want to refer to the lease from time to time during the year, and in case of renewal you will want to use it. If the lease is terminated, adhere strictly to the notice provision.

Just before the lease is signed, do two things: (1) Use Farmers' Bulletin 2163, Your Farm Lease Checklist, to assure yourself that all pertinent items are covered, and (2) read the lease carefully to see that its provisions present your agreement accurately.