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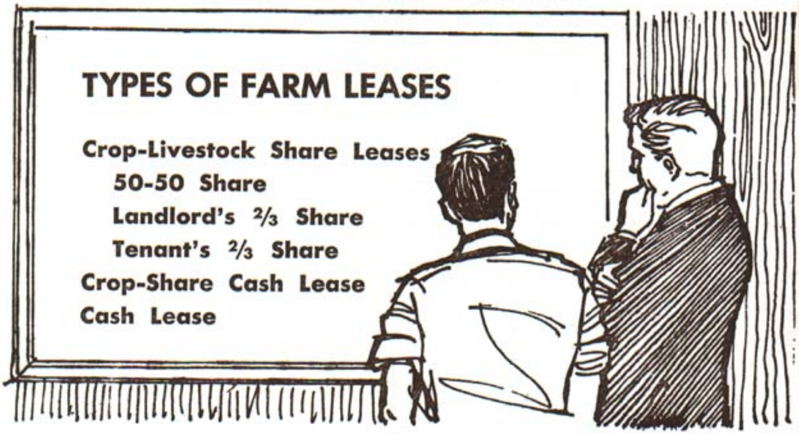
Farm Rental Agreements

By E. B. Hill, Department of Agricultural Economics



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SUCCESS IN RENTING FARMS

depends on having a satisfactory lease agreement on a productive farm with a business large enough that under efficient management will provide a satisfactory return for both parties.

It is necessary for both landlord and tenant to have an understanding of and a respect for the other's problems and viewpoints. Each party must have tolerance in dealing with the other. Many difficulties are the result of the lack of understanding and communication. This can be at least partially eliminated by a written lease agreement that is kept current and by regular visits to the farm to make settlements and discuss current and proposed farm operations.

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Farm Rental Agreements

by E. B. Hill*

Agricultural Economics Department

Farm rentals serve useful purposes. For a young man with limited capital, renting offers a chance to farm. For the owner, or the investor who likes a farm, it provides a reasonably safe investment and the opportunity to help some capable young farmer to farm and eventually become a farm owner. It adds flexibility in the farming business by enabling farmers to expand or decrease the size of their business as they see fit.

Michigan has about 8,000 farm tenants. In addition, about 26,000 part-owner farmers rent some of the land they operate. Because of changing practices and economic conditions on Michigan farms, the traditional farm rental arrangement frequently needs adjustment to make it more equitable between landlord and tenant. Just what these adjustments should be is not well established. As a result, there are differences in opinions as to the provisions to include to make a farm lease fair to both parties.

This bulletin presents some ideas for preparing fair and workable farm leases in Michigan. If a rental plan is to be mutually satisfactory, the size and productivity of the farm, the provisions of the lease, and the management must be such that the tenant and his family receive an adequate income for their efforts and investment. Likewise the landlord should receive a reasonable financial return on his investment and management plus some personal satisfaction. In some situations a poor job of farming leaves little or no income to split. In other cases, the low income may be the result of unfavorable weather conditions, too small a business, or too poor a farm.

THE FARM LEASE

A written lease agreement is strongly recommended. It serves three purposes:

(1) It stimulates the landlord and tenant to consider and study all parts

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of the lease arrangement and agree on the provisions of the lease before rather than after the farm is leased.

(2) It provides a clearer understanding between the parties concerned and also more security for each.

(3) It should result in a more efficient farm with greater profit to both parties. The written lease also may be an aid to a landlord who wishes to qualify for social security benefit payments.[1]

Requirements of a Legal Lease

A written lease should contain five essentials:

(1) The names of the parties, to the lease.

(2) A description of the property that is to be leased.

(3) The date and length of time for which the lease is to be in effect.

(4) How much and in what manner the rent is to be paid.

(5) The signatures of the parties concerned.

In addition, the lease should specify the contributions and duties of each party. If on a share basis, the lease should state how the income is to be divided and how expenses are to be shared.

Oral leases covering a period of one year or less are legal. One of their major difficulties is validation and, in case of disagreement, determining which party is legally in the right.

Terms of a Lease

The terms of a lease are of major importance, particularly with respect to:

(1) what each party contributes in the form of capital investments,

(2) the sharing of expenses,

(3) the division of income.

Suitable terms for the crop and livestock share leases are presented in Table 1 and are discussed on pages 12 to 16. The usual terms for a crop-share cash lease and for a cash lease are discussed on pages 16 and 17.

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[1]Copies of lease forms for farm, field, and orchard rentals can be obtained from the Cooperative Extension Service Office in your county or from the Agricultural Economics Department, Michigan State University. With such a form, a person can prepare or have prepared by an attorney a lease that best fits his own particular situation. In obtaining lease forms for actual use, it would be well to procure three or more copies; one to use as a work sheet, one copy for the landlord, one for the tenant, and perhaps one for the lender if desired.

Even though a farm lease may be equitable, that is, have a "fair" division of expenses and income, both the landlord and the tenant can go broke under the terms specified if the net farm income is inadequate for the capital and effort involved. For example the usual 80- to 160-acre units are too small to work out well for either the landlord or the tenant on the usual rental terms. It used to be possible to set up a fairly workable rental agreement on a dairy farm with 20 to 25 cows. Now such a set-up would probably not provide enough net income for both parties.

Fairly good Michigan farms of 180 to 360 acres, with buildings and other facilities adequate for the type of farming to be followed, are in good demand by renters on a share basis. However, a small farm, or one with poor buildings or with average to lower grades of soils is becoming increasingly difficult for the owner to rent as a unit on a share basis. In such situations, if the owner does not wish to sell his farm, he may either rent it for cash or rent out the fields on a crop-share or cash basis. The dwelling may be rented separately from the land.

Criteria for an equitable share lease are:

(1) Income should be shared in approximately the same proportion as the "fixed" expenses and interest allowances are provided by the landlord and tenant.

(2) "Variable" expenses should be shared in the same proportion as income is shared. It is usually possible to make adjustments and concessions in the contributions of some basic items such a capital investments and in "fixed" expenses so that the proportions contributed by the landlord and tenant correspond to the desired division of income.

COOPERATION IN MANAGEMENT

The extent of cooperation between the two parties in management on a rented farm depends much upon the type of lease and the ability, personality, and wishes of the landlord. If a landlord is not well informed with respect to efficient farming, he should get an able tenant and give him free rein to do the job. Or, he could employ a professional farm management service to represent him in operating the farm.

The possibility of the landlord's participation in management is least in a cash lease and greatest in a crop and livestock share lease. In all rental situations, the best results are obtained through willing and cordial cooperation between both parties. The smart and able tenant, therefore, will do all he can to maintain a keen and eager interest in the farm and in the farming operations on the part of the landlord.

Since government farm programs are a part of the operation of many rented farms, it is highly important that the landlord and tenant cooperate in the decisions relating to which programs are to be entered into as well as the observance of the rules relating to the participation in such programs. It is well also to discuss *before* rather than *after* participation, how the program payments will be divided.

The Farm Map as an Aid

Outline maps of the farm, 8½ by 11 inches in size, showing field arrangement and acreages are excellent aids in landlord participation in management. They serve to record (1) the tile drainage system, (2) soil tests by fields by years, (3) dates and amounts of lime applications, (4) dates, amounts and analysis of fertilizer applications, (5) the plans for the year's crops and soils programs, and (6) the yearly records of crop yields. Both the landlord and the tenant should each have a set of such maps. This is easily possible by using a sheet of carbon paper between two blank maps when preparing the record. A plentiful supply of these maps should be kept on hand for current and future uses.

Effect of Social Security Regulations

The rental agreement should contain statements with reference to the landlord's participation or lack of participation in management and in the farming operations. Most landlords, before the age 62, or possibly 65, render substantial services in the farming operation. Thus, their rental incomes are considered as self-employment income on which they must pay Social Security taxes. Most landlords also wish to become eligible to receive benefit payments, should they become disabled or wish to retire at age 62 or older.

As of 1963, a landlord may draw Social Security benefits, if from 62 to 72 years of age, and still receive income from the farm as long as he does not render any substantial services. If he does render such services, he can earn $1,200 per year without reduction of Social Security benefits. He loses $1 of benefits for every $2 of earnings over the permitted $1,200 up to $1,700. On all earnings over $1,700, his benefits are reduced dollar for dollar. After age 72, Social Security payments are not affected by how much he earns. Social Security regulations, however, are subject to change by Congress and thus in 1964 and subsequent years the provisions may be different from those here stated for 1963. The landlord who wishes to retire should consult with officials at the nearest Social Security Field Office to determine if his rental plan will entitle him to receive Social Security benefits.

Regardless of his total yearly earnings, however, a person may get benefit checks for any month in which he neither earns more than $100 in wage employment nor performs substantial services in self-employment. For example, if a farmer earns $2,500 in a year but works in only 4 months, he would get benefit checks for at least 8 months of the year.

The following may be used as a general guide for determining whether a landlord is materially participating in the farming operations. He is materially participating if (1) he has an arrangement for his participation and (2) he meets the requirements of one of the following tests:[2]

Test No. 1 – Does any three of the following – (a) Inspects the production activities periodically; (b) advises and consults with his tenant periodically; (c) furnishes at least half of the machinery and livestock used in producing the crop; and (d) advances, pays or is responsible for at least half of the direct costs of producing the crop.

Test No. 2 – Regularly and frequently makes, or takes an important part in making, management decisions substantially contributing to or affecting the success of the farm business.

Test No. 3 – Works 100 hours or more, spread over five weeks or more in activities connected with producing the crop.

Test No. 4 – Does things which, considered in their total effect, show that he is materially and significantly involved in the production of the farm commodities.

SETTLEMENTS

Each farm rental situation should include three kinds or periods of settlements: (1) the beginning settlement; (2) the current monthly, quarterly, or semi-annual settlements; and (3) the ending settlement.

The Beginning Settlement

As soon as the new tenant has moved to the farm at the beginning of the lease period, it is important that a careful inventory be made of the amount and value of all farm personal property owned by each party. This inventory should serve as a basis for adjusting the investments and contributions of both parties at the start of the rental period, in accordance with the provisions of the lease.

[2] Social Security Administration Publication 33d and Internal Revenue Service Publication No. 363, Jan. 1961. "*Farm Rental Income*, How Does it Affect Social Security Payments?" Available from any Social Security Field Office.

This is the time to make any needed adjustments between landlord and tenant to bring both parties' contributions of livestock, machinery and equipment, feed, straw, growing crops, and supplies in agreement with the provisions of the lease. This may be done by purchase and sale. If the adjustment is made by purchase and sale, both parties would be well advised to check with the register of deeds to learn if any of the property involved has a chattel mortgage on it.

Current Settlements

Current settlements and farm visits are very important to minimize misunderstandings. Also frequent farm visits often put the landlord or his agent in a position to help make important management decisions. The frequency and timing of such visits and current settlements depends primarily on the type of lease and the type of farming. For a crop and livestock share lease, current settlements should be made monthly and at approximately the same date each month. Good farm records help in making current settlements. In all instances, settlements should be made on the basis of sales statements and receipted expense bills. It is important to ascertain that farm expenses are paid currently or when due.

In making current settlements, the landlord and tenant should use a record form for the receipts and expenses involved. A suggested form for such a purpose is presented on page 7. In using such a form, it may be necessary to group similar items purchased in any one day, in order to get the month's financial record in the spaces provided on a single page. A copy of the settlement transactions should be provided for each party. In addition, the receipt of any money that changes hands as a result of the settlement process can be acknowledged at the bottom of the form. The blank space on the form may be used for making any calculations involved in the settlement and also for recording any receipts or expenses not shared on the usual basis.

The Ending Settlement

At the termination of the lease, an accounting must be made between the landlord and tenant. The first step is to take an inventory showing the amounts and values of the jointly owned property such as livestock, machinery, equipment, feed, straw, crops and supplies. The division of such property could be accomplished by sale or by the tenant's removal of his share from the farm.

Division of Livestock – One procedure is for the tenant to divide the livestock into groups of as nearly equal value as can be done. The landlord and tenant then by a flip of a coin determine by chance which party gets which animal or animals, having previously designated one animal or group as "head" and one as "tail." Or the tenant could sort the livestock into groups with the landlord having first choice of each group. If it is impossible to divide each kind of livestock into lots of equal value (in case of an odd number of animals or animals of unequal value), then a cash adjustment can be made to make the two lots of equal value.

CURRENT SETTLEMENT Names Smith and Miller Date July 21, 1963

RECEIPTS

Date	Item	Quantity & price	Total	Deduction	Net	Landlord	Tenant
6/16	Milk, base	29,670 @ 4.44	$1,317.34	$121.47	$1,392.18	$696.09	$696.09
	(27) surplus	6,059 @ 3.24	196.31				
6/13	Calf 1	100 lbs	26.54		26.54	13.27	13.27
	Cow 1	1,570 lbs	257.70		257.70	128.85	128.85
	Sows 4	1,865 lbs	232.08		232.08	116.04	116.04
TOTAL RECEIPTS			$2,029.97	$121.47	$1,908.50	$954.25	$954.25

EXPENSES

Date	Item and Quantity	Total	Landlord	Tenant
June 6	Feed and grinding	$40.57	$20.29	$20.28
	Twine, 10 bales	86.50	43.25	43.25
9	Feed and grinding	34.25	17.12	17.13
13	Feed and grinding	34.19	17.10	17.09
"	Strainer pads	1.69	.84	.85
15	D. H. I. A.	15.15	7.57	7.58
17	Electric bill	41.94	8.25	33.69
19	Artifical service	5.00	2.50	2.50
21	Feed and grinding	23.53	11.77	11.76
24	Fly spray	7.75	3.87	3.88
27	Feed and grinding	20.83	10.42	10.41
28	Feed and grinding	25.15	12.58	12.57
TOTAL EXPENSES		$336.55	$155.56	$180.99

Receipts and expenses not included above:

SUMMARY

Item	Landlord	Tenant
Receipts	$954.25	$954.25
Expenses	155.56	180.99
Balance	$798.69	$773.26

Other calculations:

Received $________ from ________ for payment on the settlement of above date.

____
Signature

SOME ADDITIONAL CONSIDERATIONS

Among the important factors in the success of a prospective farm rental arrangement are the parties' reasonableness and willingness to negotiate. Honesty, however, outranks both of these important considerations.

The Landlord

A tenant should check carefully the past history and performance of the landlord's participation in and support of the farm business operations.

In a successful landlord-tenant arrangement, the landlord should be willing and financially able to do what is needed to make the land productive and the buildings and other facilities adequate for the type of farming to be followed. The soil should be tested. If lime is needed, the landlord should provide it. The landlord should be willing to share in the purchase of adequate amounts of commercial fertilizer.

Many farms have or need tile drainage. The landlord and tenant need to cooperate to keep present drains in good working order. The landlord should make every effort to put in additional tile lines where needed.

The Tenant and His Wife

A landlord should check the past history and performance of the tenant and his wife with particular reference to (1) the tenant's credit standing, (2) his managerial and financial ability, (3) his wife's ability as a home-maker, and (4) her interest in the farm and farm operations. The tenant and his family are mainly responsible for the successful operation of the farm. The efficient handling of farm and personal finances is an important feature of any successful farm operation.

The misuse of credit, for both personal and farm use, by a tenant sometimes causes difficulty. Many tenants not only require chattel loans but also operational credit with elevators, gas distributors, and merchants. Credit operations are of special concern with young farmers who are trying to run a farm, raise a family and maintain a high level of living. This sometimes results in a person getting so much credit in so many places that his debt load gets beyond his ability to pay.

How well the wife likes the farm and her interest in the farm operations are key items. It is usually best, at least from the standpoint of farm operations, if the tenant's wife does not have an off-farm job. In addition, it is highly desirable that she know the provisions of the lease agreement.

In all types of farm leases, the tenant is expected: (a) to conduct the farming operations in an efficient manner; (b) to devote his full time to the operation of the farm unless otherwise agreed; (c) to provide labor for the minor repairs and upkeep of buildings, fences and drains; and (d) to keep weeds under control.

Description of the Farm

In the rental agreement, it is important to describe correctly the property to be rented. This description should include (a) the correct location of the property and the acreage of the land involved, and (b) any exceptions or reservations of land and buildings owned by the landlord which might be considered part of the property being rented, but which are to be excluded from the lease contract. It is necessary to list under "exceptions or reservations" any fields of growing grain crops, such as winter wheat or barley, which the previous tenant has the right to return and harvest.

Period of the Lease

Continuity of operation by the same tenant is highly desirable if he is reliable and an efficient farmer. However, mutual agreement to a long term – for example, a 3-year or 5-year lease – does not insure satisfactory continuity. Much depends on the good will and mutual satisfaction of both parties. If either party is dissatisfied with the other, it does not make sense to continue the lease beyond a one-year lease period.

For most situations, a one-year lease with an automatic renewal clause is recommended. It provides an opportunity at the end of each year to make any desirable adjustments in the agreement. The renewal clause should provide for automatic continuation of the lease from year to year, unless written notice to terminate is given by either party on or before an agreed date, for example, 60 to 90 days before the annual expiration date.

Renting Additional Land

On a good farm of adequate size there is usually no need for renting additional land. Some farms, however, may be too small or otherwise inadequate to attract an efficient tenant unless nearby land is available for rent. In such cases it may be desirable to rent additional land. In such rentals, the landlord may or may not participate. The tenant may wish to operate "outside" land on his own initiative and at his own expense as a supplementary cash crop enterprise. If, however, such crops are returned for use on the landlord's farm, the landlord with a crop and livestock share lease should pay at a current settlement date for his share of the crop so returned. In some instances, the landlord cash rents the extra land and shares in the crops produced. The agreement with reference to this item should be included in the lease contract.

Handling Growing Crops at Start and End of Lease

The two methods used in handling a growing crop, such as wheat or winter barley, at the beginning and end of the lease are: *Plan (A)* – the tenant buys a share of the growing crops at the beginning of the lease; and at the termination of the lease, the tenant sells his share to the landlord; or *Plan (B)* – the tenant returns to the farm after the termination of the lease to harvest the crop in accordance with the provisions of the lease. One advantage of Plan (A) is that the business dealings between the landlord and tenant terminate at the end of the lease, rather than holding over into the next harvest season.

The Annual Inventory

An annual inventory of farm property is a sound business practice on any farm. It is especially desirable on a rented farm and particularly for jointly owned property. However, all farm property should be included, both landlord's and tenant's. Such an inventory should show numbers, amounts and values of the included items. The best time to take such an inventory is at the time of the December settlement. It might even be good business to include in the lease agreement a provision stating the intent to take an annual farm inventory in December of each year. The annual inventory, unfortunately, seems to be a neglected practice on many rented farms. Farm account records on a rented farm are also highly desirable. At the end of the year the financial and production records of the rented farm should be analyzed and studied in an effort to improve management and income. Farm record books are available from all county Cooperative Extension Service offices and from most country banks.

TYPES AND USUAL TERMS OF FARM LEASES

The most common types of farm leases in Michigan are (1) the crop and livestock share lease, (2) the crop-share cash lease, and (3) the cash lease. Some farms are operated under an income-sharing farm operating agreement in which the owner furnishes all machinery, equipment and livestock while the farm operator receives wages plus a share of the net farm income. Since this type of operation is not common in Michigan, it will not be discussed in this bulletin. However, suggested forms for setting up this type of agreement are available at the Cooperative Extension Service office in your county or from Michigan State University.

Table 1—Provisions Suitable for Crop and Livestock Share Farm Leases in Michigan. (Provisions based on a study of farm rental records)

ITEM	50 - 50		Landlord's ⅔		Tenant's ⅔	
	Landlord	Tenant	Landlord	Tenant	Landlord	Tenant
Investments						
Farm	All	—	All	—	All	—
Power and field machinery	—	All	All	—	—	All
Gutter cleaner, silo unloader	All	—	All	—	All	—
Bulk tank and heaters	Varies	Varies	All	—	—	All
Milker equipment	—	All	All	—	—	All
Cattle: Cows and bulls	Varies	Varies	All	—	—	All
Young stock	½	½	⅔	⅓	⅓	⅔
Swine and sheep	½	½	⅔(b)	⅓(b)	⅓(b)	⅔(b)
Poultry	Varies	Varies	Varies	Varies	Varies	Varies
Feed and crops on hand	½	½	⅔	⅓	⅓	⅔
Expenses						
"Fixed" Expenses—						
Labor, usual farm labor	—	All	—	All	—	All
Power and field machinery	—	All	All	—	—	All
Gutter cleaner, silo unloader	Varies	Varies	All	—	—	All
Bulk tank and heaters	Varies	Varies	All	—	—	All
Milker equipment	—	All	All	—	—	All
Bldg's, fences, drains:						
Major repairs	All	—	All	—	All	—
Minor repairs: Mat'ls.	All	—	All	—	All	—
Labor	—	All	—	All	—	All
Lime for field use	All	—	All	—	All	—
Cow depreciation (a)	Varies	Varies	All	—	—	All
"Variable" expenses (c)						
Crop exp., seed, fertilizer	½	½	⅔	⅓	⅓	⅔
Combining, baling, silo filling	½	½	⅔	⅓	⅓	⅔
Corn picking	Varies	Varies	⅔	⅓	⅓	⅔
Gas and oil	½	½	⅔	⅓	⅓	⅔
Electricity, farm share	½	½	⅔	⅓	⅓	⅔
Feed, grinding, bedding	½	½	⅔	⅓	⅓	⅔
Livestock exp., veterinary	½	½	⅔	⅓	⅓	⅔
Milk hauling	½	½	⅔	⅓	⅓	⅔
Income (c)						
Crops: Usual field crops	½	½	⅔	⅓	⅓	⅔
Cattle, net increase	½	½	⅔	⅓	⅓	⅔
Dairy products	½	½	⅔	⅓	⅓	⅔
Poultry:						
If owned in common	½	½	⅔	⅓	⅓	⅔
If owned by tenant	—	All	—	All	—	All
Swine	½	½	⅔	⅓	⅓	⅔
Sheep	½	½	⅔	⅓	⅓	⅔
Other	½	½	⅔	⅓	⅓	⅔

(a) *Allowance for cow depreciation would need to be considered only on farms where the cows are not owned on a 50-50 basis.*
(b) *Swine and sheep ownership could well be shared as indicated, to make it easier to divide the income from such stock when sold.*
(c) *The goal is for "variable" expenses and income to be divided in same proportion as interest on capital investments and "fixed" expenses are shared. See the Appendix for illustrations and results of different sharing plans.*

On non-poultry farms, where facilities for keeping a small poultry flock are available, the tenant is often allowed to keep up to a specified number of hens and get all the income from them. The tenant is usually allowed to feed the hens from the undivided home grown grain but he is required to pay for such purchased feed as he may wish to use.

Concessions and adjustments are often made within the general patterns of the share leases described in this bulletin. Landlords in attempting to attain equity or fairness in a lease sometimes do so by assuming the entire cost or a higher proportional cost than his share of income for some of the "variable" cost items such as fertilizer, grass and legume seed. These types of concessions may lead to inequity and inefficient use of resources as well as conflicts between landlord and tenant. As a general rule, the best place in a lease to make concessions or adjustments is in the area of capital investments and "fixed" expenses. If, however, the equalizing concession calls for the landlord's paying for more than the usual share of a certain "variable" expense such as fertilizer, then the amount or percentage of such payment should be stated rather than the landlord paying for all the fertilizer used.

The "50-50" Type of Crop and Livestock Share Lease

The most common share lease in Michigan is the "50-50" type of crop and livestock share lease. While the general pattern for this lease is shown in Table 1, there are many variations in actual practice, depending upon the individual farm situation. Through the use of Table 1, together with some of the suggestions made in this bulletin, a landlord and a tenant should be able to work out an agreement that will be fair and satisfactory to both parties. Good judgment and a willingness to bargain are important ingredients in preparing a suitable lease for a particular farm situation.

In some situations in a "50-50" type of lease, the landlord makes extra contributions when needed to make his total interest charges and "fixed" expenses comparable to those of the tenant. In some instances, he may provide all instead of one-half of the dairy cows, or provide the bulk milk-tank and heating equipment in the milk house. Or, he may furnish a gutter cleaner or a silo unloader or other labor-saving equipment. And in some cases the landlord pays the tenant $1.00 or $1.25 a load when green forage is chopped daily.

If the landlord provides all the cows, the tenant still shares in the young cattle. In such a plan, the lease agreement usually states a specified amount which the landlord will pay for the tenant's half-share in a two-year old heifer, at the time of her first calving, if she is to be retained in the herd as the property of the landlord.

In some situations where the landlord's interest charges and "fixed" expenses are not reasonably comparable to the contribution of the tenant, the income division has been changed from the "50-50" plan to a "45-55" plan. If the 50-50 income split is modified, then the "variable" expenses should also be shared in the same proportion as the income is shared. This appears logical since most of these items are closely associated with income. Consequently to help obtain optimum use of such items and to avoid conflicts of interest, their cost should be shared in the same proportion as income is shared. See Table 5 in the Appendix for an illustration of the idea presented in this paragraph.

Table 4 and the accompanying discussion in the Appendix illustrate and describe a procedure for judging the equitability of a farm lease. In the example shown in Table 5, and only for the purpose of determining the total contribution of each party, allowances were made for a 4 percent interest on the present agricultural value of the farm real estate and $3,600 for the value of the tenant's own labor and management. The figures shown in the table are based on a two-year average of the records of a southern Michigan rented dairy farm. On this farm and using the allowances cited above, the landlord contributed 45.8 percent and the tenant 54.2 percent of the total "fixed" expenses and interest charges. Thus, in this illustration the assumption was that the farm income and "variable" expenses should be divided 45 percent to the landlord and 55 percent to the tenant. On this very well managed dairy farm, and using these assumptions, the result would be a return of 4.85 percent on the landlord's real estate and $4,319 for the labor and management of the tenant.

The summary figures for five alternatives or modifications of the "50-50" type of farm lease are shown in some detail in the Appendix. These alternatives range from ones that favor the landlord to ones that favor the tenant. The purpose of showing these five alternatives is to present what the results to landlord and tenant may be under different plans. All these alternatives are based on the figures presented in Table 5.

Special Machinery and Equipment – In most "50-50" crop and livestock share farm leases, the landlord and the tenant share in the cost of special machine operations such as combining, baling, silo filing, corn picking, and field shelling. On some rented farms, special machines such as a baler, combine harvester, corn picker, or field sheller are owned jointly by landlord and tenant and thus no charge is made to the landlord for the use of such machines.

The question often arises on how to handle these expenses when the tenant owns the special machine. The farm is entitled to the tenant's labor without charge on all farm operations, except for work on construction of or major repairs on farm improvements. Also, if the tenant and the landlord share in the gas and oil used in these machines, those items should be taken into consideration in reaching an agreement for compensating the tenant. One practice is for the tenant to charge less for special machine operations than would be paid a custom operator from off the farm. The landlord then pays the tenant one-half of the reduced rate.

In some situations, the bulk milk tank is owned on a 50-50 basis with the tenant being reimbursed at the termination of the rental agreement for his share of the undepreciated value of the tank. In some cases where the landlord furnishes a gutter cleaner or silo unloader, the tenant agrees to pay for part or all of the repairs to keep such equipment in operation.

Machine Fuel and Oil for Farm Use – In most "50-50" crop and livestock share leases, the tractor fuel and oil is either shared or an acre payment is made. To avoid getting involved in keeping accurate accounts of fuel and oil costs, some landlords make a flat payment to the tenant of for example \$1.00 to \$1.50 per tillable acre in the farm as a contribution toward such costs. The tenant collects and receives the refunds on the federal and state tax on gas used for farm purposes. This procedure is especially appropriate in case the tenant operates additional land for his own gain.

The Landlord's 2/3 Share Lease

In this type of lease, the landlord provides the farm, all the machinery and equipment, all the machinery and equipment expense, all the mature cattle and two-thirds of the young stock and feed. The tenant provides all the labor, one-third of the young stock and feed, and one-third of all "variable" expenses. Swine and sheep breeding stock should be owned on a 2/3-1/3 basis to make it easier to divide the income from the sales of such stock.

Farm income, including livestock increase, is divided 2/3 to the landlord and 1/3 to the tenant. The "increase" in cattle is divided 2/3-1/3 at the time of sale, or if it is retained in the breeding herd, the landlord buys the tenant's one-third interest in the heifers at the time of freshening so that he will continue to own all the cows.

Using the total farm figures cited in Table 5 of the Appendix and with division of contributions, expenses and income as shown in Table 1 for the landlord's 2/3 share farm lease, the landlord contributes 71.4 and the tenant 28.6 percent of the "fixed" expense and interest charges. This is reasonably close to a 2/3-1/3 ratio and thus it seems fair to share income and all "variable" expenses on a 2/3-1/3 basis. In such an arrangement, the landlord's rate earned on his investment in real estate would be 4.24 percent and the tenant's return for his labor and management would be $4,624 (see Table 2).

Table 2—Summary figures for a landlord's ⅔ tenant's ⅓ crop and livestock share lease using total farm figures from Table 5 and with division of contributions, expenses and income as shown in Table 1.

ITEM	Total farm		Landlord ⅔		Tenant ⅓	
Gross income, divided ⅔-⅓		$21,801		$14,534		$ 7,267
Interest: Real estate at 4%	$2,002		$2,002		—	
Cows at 6%	495		495		—	
Other personal, 6%	1,358		1,132		$ 226	
Depreciation on cows, 10%	825		825		—	
Other "fixed" expense	9,381		5,586		3,795	
"Variable" expense, ⅔-⅓	6,595	$20,656	4,373	$14,413	2,222	$ 6,243
Profit or loss		1,145		121		1,024
Basic contributions (a)		5,602		2,002		3,600
Returns		$ 6,747		$ 2,123		$ 4,624
Rate earned on real estate				4.24		
Tenant's labor income						$ 4,624

(a) *Interest allowance on real estate at 4 percent; tenant's wage allowance $3,600*

Tenant's 2/3 Share Lease

This type of lease is adapted to the following situations: (1) when the tenant is well financed with respect to machinery and livestock; (2) when the landlord has retired and wishes to contribute less of capital and management to the business; and (3) to some father-son situations when father is in the process of retiring.

In this lease, the landlord provides the farm and one-third of the young cattle, swine, sheep and feed and pays for one-third of all "variable" farm expenses. The tenant provides all the labor, machinery, cows and two-thirds of the young cattle, swine, sheep and feed and two-thirds of all variable farm expenses.

Farm income, including livestock increase, is divided 2/3 to the tenant and 1/3 to the landlord. The "increase" in cattle is divided at the time of sale, or if retained in the breeding herd, the tenant buys the landlord's one-third interest in the heifers at the time of freshening so that he will continue to own all the cows.

Using the total farm figures cited in Table 5 in the Appendix and with the division of contributions, expenses and income as shown in Table 1 for the tenant's 2/3 share farm lease, the tenant contributes 64.4 percent and the landlord 35.6 percent of the "fixed" expenses and interest. This is close to a 2/3-1/3 ratio and thus it seems reasonable to share income and all "variable" expenses on a 2/3-1/3 basis. In such an arrangement, the landlord's rate earned on his investment in real estate would be 4.13 percent and the tenant's return for his labor and management would be $4,679 (see Table 3).

Table 3—Summary figures for a tenant's ⅔ landlord's ⅓ crop and livestock share lease using total farm figures from Table 5 and with division of contributions, expenses and income as shown in Table 1.

ITEM	Total farm		Landlord ⅓		Tenant ⅔	
Gross income		$21,801		$ 7,267		$14,534
Interest: Real estate at 4%	$2,002		$2,002		—	
Cows at 6%	495		—		495	
Other personal, at 6%	1,358		226		1,132	
Depreciation on cows, 10%	825		—		825	
Other "fixed" expense	9,381		2,784		6,597	
"Variable" expense, ⅓-⅔	6,595	$20,656	2,189	$ 7,201	4,406	$13,455
Profit or loss		1,145		66		1,079
Basic contributions (a)		5,602		2,002		3,600
Returns		$ 6,747		$ 2,068		$ 4,679
Rate earned on real estate				4.13		
Tenant's labor income						$ 4,679

(a) *Interest allowance on real estate at 4 percent; tenant's wage allowance $3,600*

Crop-Share Cash Farm Lease

In a crop-share cash farm lease, tenant and landlord share the crop but not the livestock income. The tenant pays cash for the use of buildings, fences and for the tillable and non-tillable pasture. The amount of cash to be paid for the use of buildings and fences would vary according to their adequacy, condition, and value. It should be sufficient to cover (1) the portion of taxes which might be assigned the buildings; (2) insurance on buildings; (3) maintenance of buildings and fences; and (4) a reasonable allowance for interest and depreciation on buildings and fences. On some farms, the potential rental value of the dwelling may be an important factor in determining the amount of the cash payment.

The tenant provides all the machinery, equipment, and livestock – and receives all the income from livestock. On many farms, the tenant and the landlord share equally in the purchase of commercial fertilizer and in grass and clover seed. This is believed to be good practice for both parties. The tenant is expected to deliver the landlord's share of corn, grain and cash crops to a designated market or storage facility. He also agrees to purchase the landlord's share of hay and silage at harvest time.

The crop-share cash farm lease is often favored by well-financed tenants because it allows them to reap all the benefits from their skill and management in the development of good herds and flocks. A difficulty of this type of lease is that the landlord, having no share in the income from livestock, lacks the interest and incentive to keep up the buildings, fences, and pastures unless the expense, interest, and depreciation charges for such items are offset by the tenant's payment of cash for the use of such facilities.

Cash Lease

About 22 percent of the tenants in Michigan rent their farms on a cash basis. The provisions of a cash farm lease are fairly uniform. They relate mostly to the amount and method of paying the cash rental and the performing of certain farming practices which will help maintain or increase the productivity of the land.

Some owners, not wishing to sell their farms, may find it easier to rent their farms on a cash than on a share basis. Such a plan makes it easier for a tenant to budget his farm operations and more readily determine his farm income potential. It gives the tenant more incentive to expand the size and income producing capacity of the farm business. A cash lease arrangement may also make it easier for a landlord over age 62 or 65 to become eligible to receive social security benefit payments. The cash rental plan may be suitable in father-son situations where the father wishes to retire from the active management and conduct of the farm business.

The cash rent ideally should be sufficient to pay the farm owner for (1) interest on his investment; whether the interest should be figured at 3, 4, 5 or 6 percent is a point of bargaining; (2) real estate taxes; (3) insurance on the buildings; (4) maintenance and upkeep of buildings, fences, drains and water system; and (5) liming materials if he furnishes them.

APPENDIX

ESTIMATING THE FAIRNESS OF A LEASE

It is evident in many areas of the state that alternative opportunities for either the landlord or the tenant make the leasing of a farm a matter of bargaining as well as of equitability. When a farm is sought after by many tenants, the terms of the lease may be somewhat different than when the farm situation is such that only one suitable tenant is interested in renting the farm.

For those who may wish to use it, a procedure is presented in Table 4 for estimating or predicting the fairness of a farm lease. It should help to take some of the guesswork out of the preparation of a lease agreement and make it reasonably equitable to both parties.

It should be recognized, however, that many tenants and landlords go through this "estimation of fairness procedure", even though very roughly, when a farm is rented. That is, the tenant sizes up the landlord and what he offers and the landlord sizes up the tenant and what he has to offer. The procedure offered in this section of the bulletin is only an attempt to put more refinement into this process.

In order for such a procedure to work out well, two major features are essential – (1) both parties must and should feel free to suggest and accept revisions of the value estimates and (2) the estimates need to be on a prudent business value basis. Some persons believe that the procedure suggested in Table 4 would not work well in actual practice. They doubt if a prospective tenant would challenge the figures proposed by the landlord. They doubt if a landlord or tenant would generally use prudent value estimates. They think many landowners would want to use values for their farms in excess of values for agricultural purposes. They think some tenants would place too high a value on their labor and management.

The example in Table 5 presents the average of the 1960 and 1961 records of a well managed rented dairy farm in south central Michigan. The farm was rented on a "50-50" crop and livestock share basis. On the basis of the figures and assumptions used in this example, the landlord contributed 45.8 percent and the tenant 54.2 percent of the total of interest and "fixed" expenses, lines 32 and 33. It is unlikely that any lease is 100 prcent equitable for every year. If the contributions of each party come within 2 to 3 percent of the division desired for any one year, it is probably about as close as can be expected.

Some Cautions to Observe

Reasonably prudent estimates and a friendly bargaining session are essential in working out the fairness of a farm lease by the method here described. Although the value estimates should be determined jointly by the two parties, a person by himself, could use the values he thinks are fair for these items and thereby arrive at his idea as to the equitability of his lease agreement.

Although 4 percent interest may be allowed on the farm real estate and $3,600 for the tenant's wages in filling out a form such as Table 4, this does not mean that the landlord will necessarilly receive the 4 percent or that the tenant will receive $3,600 for his labor from the year's farm operations. These figures are used only for determining each party's basic contributions to the business. If the net farm income is low, neither party may earn the foregoing amounts. See Alternative 3. However, if the farm income is higher as in Alternatives 1 and 2, each party's earnings will exceed the 4 percent and the $3,600. Important estimates used in filling out Table 4 are as follows:

1. **Appraising the Value of the Farm** – The value of a farm for lease preparation purposes should be its present agricultural or capitalized earning value rather than its present market value. Owners generally tend to overvalue their property, particularly a farm. A farm may have three basic components of value – (a) agricultural or its capitalized earning value, (b) location and (c) home use. The present market values of most farms within 30 to 40 miles of the major cities in Michigan are in excess of their agricultural or earning value. In addition, a farm may be overbuilt from the standpoint of buildings. It would be unfair to the tenant to allow the landlord interest and depreciation on a total investment in the farm much in excess of its capitalized earning value.

To illustrate, however, assume the farm used in Table 5 was estimated to be worth $60,050 instead of $50,050. This would be an increase of $10,000 in value and $400 in interest. This would increase the landlord's percentage on line 32 from the 45.8 figure to 47.4.

2. **Deciding on the Interest Rates to Use** – Parties are likely to agree on interest rates for the farm personal property more readily than on interest rates on farm realty. At the present time, 6 percent interest would appear reasonable for farm personal property. An interest rate of 4 percent on the farm real estate would probably be acceptable to most landlords in computing

their contribution to the farm business. In the example used in Table 5, a 5 instead of a 4 percent interest rate on real estate would have increased the landlord's interest contribution by $500. This would have increased the landlord's contribution of the total expense from the present 45.8 to 47.8 percent. This is evidence of the importance of the interest rate or any other expense factors in figuring out the fairness of a lease by using Table 4 procedure.

3. **Deciding on the Tenant's Wage Allowance** – The major non-cash items in Table 4 involved in estimating a fair farm lease are (a) the value of the farm and (b) the tenant's wage allowance. Usually there would be greater variance in the long-time earning value of the tenant's labor and skill than in the value estimates of farms of similar size and facilities. Farm account records on Michigan dairy farms with total investments ranging from $60,000 to $99,999 show there was very little difference in the total investment per farm between the high-income and the low-income group of farms. Thus, while a tenant may put in full time and work hard on a farm, the amount of net income to be divided between himself and the landlord over a period of years is largely the result of his skill and managerial ability rather than in resources provided by the landlord. For any single year, however, the weather as well as prices received and paid are important factors affecting the amount of net income.

How much is a prospective tenant's labor and skill really worth? Certainly there are great variations between tenants. The value of his efforts depends on (a) his ability as a manager and money maker, (b) his health, and (c) his wife's health, cooperation and interest in her husband's job.

Again the situation is complicated on rented farms where the tenant operates additional land from one or more other landlords and in which the first landlord does not participate. In such situations an important question is: What percentage of the tenant's wage allowance should be charged to the rental farm in question in order to have a fair lease?

4. **Appraising the Value of the Tenant's Machinery** – Here again, prudent business values are needed. If a tenant, for example, has a $5,000 machine when a $2,500 one would do the job, it would be obviously unfair to allow him interest and depreciation on the full value of such an item. Also if the tenant rents land and the first landlord does not participate in such a rental: What percentage of the tenant's machinery should be charged to the "home" farm?

5. **The Depreciation Schedules to Use** – It is not necessary that depreciation schedules on farm buildings, fences, new drainage installations, machinery and equipment be identical for (a) income tax purposes and

Table 4—Estimating the Fairness of a Farm Lease (A Form)

ITEMS	Values			Interest rate	Interest for the year	
	Total	Landlord	Tenant		Landlord	Tenant
INTEREST CHARGES	dollars	dollars	dollars	percent	dollars	dollars
1. Farm: Land / Bldgs						
2. Power & field mach'ry.						
3. Dairy & barn equip...						
4. Cattle: Cows and bulls						
Young stock...						
6. Other livestock.......						
7. Feed & crops on hand.						
8. Totals				XXXX		

"FIXED" EXPENSES	Total	Fixed expenses	
		Landlord	Tenant
Labor and management	Col. 1	Col. 2	Col. 3
9. Tenant, (in addition to use of dwelling, etc.)......	$ *	$	$ *
10. Tenant's family labor at farm work.............	*		*
11. Hired labor..................................	*		*
12. Landlord.....................................			
Depreciation on			
13. Buildings, fences, drains, water system...........			
14. Cement barnyard and bull pen..................			
15. Power and field machinery.....................	*		*
16. Dairy and barn equipment.....................			
17. Cows, if owned other than on a 50-50 basis.......			
Repairs and maintenance			
18. Buildings, fences, drains, water system...........			
19. Cement barnyard and bull pen..................			
20. Power and field machinery.....................			
21. Dairy and barn equipment.....................			
22. **Taxes**.....................................			
23. **Insurance:** Buildings and contents; fire, wind.....			
24. Liability and collision..............			
25. **Lime** for field purposes, pro-rated annual charge..			
26. Total: "Fixed" expenses (sum of lines 9 to 25).....	$	$	$
27. Interest charges from line 8..............			
28. "Fixed" expenses and interest charges......	$	$	$
29. Money that may be paid by landlord to tenant for			
(a) Use of harvesting machinery, etc. $			
(b) Any labor on farm improvements	—		
(c) Totals of lines 29 (a) plus (b)......			
30. Landlord's total expense: Line 28 plus 29 (c)......	—	$	
31. Tenant's net expense: Line 28 minus 29 (c)....			$
32. Landlord's expense, % line 30 is of line 28, Col. 1...			
33. Tenant's expense, % line 31 is of line 28, Col. 1....			

For labor, power and machinery used on landlord's farm only.

Table 4—Cont.

ITEM	Total	Landlord share ___%	Tenant share ___%
"VARIABLE" EXPENSES (a)	dollars	dollars	dollars
34. Feed expense			
35. Bedding			
36. Seeds			
37. Fertilizer			
38. Other crop expenses			
39. Machine hire (except tenant's machinery)			
40. Gas and oil			
41. Veterinary & medicine			
42. Breeding expense			
43. Other livestock expense			
44. Marketing, milk			
45. Electricity, farm share			
46. Telephone			
47. Other			
48. Totals			

(a) *Livestock purchases, including cost of baby chicks, are not included in the variable expenses but are deducted from livestock sales in computing net income from each class of stock.*

ITEM		Total	Landlord share ___%	Tenant share ___%
INCOME for the year	dollars	dollars	dollars	dollars
49. Crop sales and government payments				
50. Crops, change in inventory				
51. Crops, net income				
52. Dairy products (a)				
53. Cattle, net increase (b)				
54. Hogs, net increase				
55. Sheep, net increase				
56. Poultry, net increase				
57. Eggs				
58. Other				
59. Gross farm income				

(a) *Gross before hauling and other marketing expenses have been deducted.*
(b) *Cows and mature bulls, if owned other than on a 50-50 basis and on which depreciation was included on the first page of this table, would not be included in computing the "cattle increase" figure on this page. In such situations, the "cattle increase" figure truly represents the "increase" in value of the young stock during the year.*

Table 4—Cont. Summary

Item	Total farm	Landlord	Tenant
Profit or loss, line 59 less lines 28 + 48	$	$	$
Basic contributions ([a])			
Returns	$	$	$
Rate earned, real estate		___%	
Tenant's labor income			$

(a) *Interest allowance on landlord's real estate and tenant's wage allowance.*

Table 5— ESTIMATING THE FAIRNESS OF A FARM LEASE (A Form)

Name Findlay and Stevens

Type of lease: Crop and Livestock Share Acres: Tillable:

Items	Values: Total dollars	Values: Landlord dollars	Values: Tenant dollars	Interest rate percent	Interest for the year: Landlord dollars	Interest for the year: Tenant dollars
INTEREST CHARGES ON						
1. Farm: Land $ 33320 @ 275 Bldgs 16730	50,050	50,050	-	4	2,002	-
2. Power and field mach'ry	9,350	-	9,350	6	-	561
3. Dairy and barn equipment	2,000	2,000	-	6	120	-
4. Cattle: Cows and bulls	8,250	4,125	4,125	6	248	247
5. Young stock . .	7,325	3,663	3,662	6	219	220
6. Other livestock	625	312	313	6	19	19
7. Feed and crops on hand	3,333	1,667	1,666	6	100	100
8. Totals	80,983	61,817	19,116	——	2,708	1,147

"FIXED" EXPENSES	Total Col. 1	Fixed Expenses: Landlord Col. 2	Fixed Expenses: Tenant Col. 3
Labor and management			
9. Tenant, (in addition to use of dwelling, etc.) . . .	$3,600 *	$ -	$3,600 *
10. Tenant's family labor at farm work	- *	-	- *
11. Hired labor	165 *		165 *
12. Landlord	182	182	-
Depreciation			
13. Buildings, fences, drains, water system	1,192	1,192	-
14. Cement barnyard and bull pen	100	100	-
15. Power and field machinery	1357	-	1,357*
16. Dairy and barn equipment	250	200	50
17. Cows and bull, if owned other than on a 50-50 basis	-	-	-
Repairs and maintenance			
18. Buildings, fences, drains, water system	400	400	-
19. Cement barnyard and bull pen	-	-	-
20. Power and field machinery	798	-	798 *
21. Dairy and barn equipment	210	160	50
22. Taxes	640	615	25
23. Insurance: Buildings and contents; fire, wind	265	190	75
24. Liability and collision	72	-	72
25. Lime for field purposes, pro-rated annual charge . .	150	150	-
26. Total: "Fixed" expenses (sum of lines 9 to 25)	$9,381	$ 3,189	$ 6,192
27. Interest charges from line 8	3,855	2,708	1,147
28. "Fixed" expenses and interest charges . .	$13,236	$ 5,897	$ 7,339
Money that may be paid by landlord to tenant for			
29. (a) Use of harvesting machinery, etc. $ 164			
(b) Any labor on farm improvements . . -			
(c) Totals of lines 29 (a) plus (b) $ 164	-	164	164
30. Landlord's total expense: Line 28 plus 29 (c), Col. 2		$6,061	
31. Tenant's net expense: Line 28 minus 29 (c), Col. 3	-		$7,175
32. Landlord's expense, % line 30 is of line 28, Col. 1		45.8 %	
33. Tenant's expense, % line 31 is of line 28, Col. 1			54.2 %

*For labor, power and machinery used on landlord's farm only.

Table 5—Cont

	Item	Total	Landlord's share 45%	Tenant's share 55%
	"VARIABLE" EXPENSES[(a)]	dollars	dollars	dollars
34.	Feed expense	2,212	995	1,217
35.	Bedding	-	-	-
36.	Seeds	390	175	215
37.	Fertilizer	852	383	469
38.	Other crop expenses	-	-	-
39.	Machine hire (except tenant's machinery)	347	156	191
40.	Gas and oil	482	217	265
41.	Veterinary & medicine	261	117	144
42.	Breeding expense	175	79	96
43.	Other livestock expense	398	179	219
44.	Marketing, milk	1,230	553	677
45.	Electricity, farm share	206	93	113
46.	Telephone	42	5	37
47.	Other	-	-	-
48.	Totals	6,595	2,952	3,643

(a)Livestock purchases, including cost of baby chicks, are not included in the variable expenses but are deducted from livestock sales in computing net income from each class of stock.

	Item		Total	Landlord's share 45%	Tenant's share 55%
	INCOME for the year	dollars	dollars	dollars	dollars
49.	Crop sales and government payments	1,188			
50.	Crops, change in inventory	-8			
51.	Crops, net income	1,180	1,180	531	649
52.	Dairy products[(a)]		15,348	6,907	8,441
53.	Cattle, net increase[(b)]		2,720	1,224	1,496
54.	Hogs, net increase		1,635	736	899
55.	Sheep, net increase		-	-	-
56.	Poultry, net increase		-	-	-
57.	Eggs		-	-	-
58.	Other		93	42	51
59.	Gross farm income		20,976	9,440	11,536

(a)Gross before hauling and other marketing expenses have been deducted.

(b)Cows and mature bulls, if owned other than on a 50-50 basis and on which depreciation was included on the first page of this table, would not be included in computing the "cattle increase" figure on this page. In such situations, the "cattle increase" figure truly represents the "increase" in value of the young stock during the year.

Table 5—Cont: Illustration of a summary of records of Table 5 when interest on real estate is allowed at the rate of 4 percent; tenant's wage allowance $3,600; cows owned 50-50; landlord provides 45 percent of the total "fixed" expenses and interest on capital investments; variable expenses and income are landlord 45 percent and tenant 55 percent.

Item	Total farm		Landlord's share 45%		Tenant's share 55%	
	dollars	dollars	dollars	dollars	dollars	dollars
Gross income		20,976		9,439		11,537
"Fixed" expense	13,236		6,061		7,175	
"Variable" expense . . .	6,595	19,831	2,952	9,013	3,643	10,818
Profit or loss		1,145		426		719
Basic contribution[(a)] . .		5,602		2,002		3,600
Returns				2,428		4,319
Rate earned, real estate				4.85 %		
Tenant's labor income[(b)]						4,319

[(a)] Interest allowance on real estate 4 percent; tenant's wage allowance $3,600.

[(b)] Represents the returns for the tenant's labor and management. In addition he receives the 6 percent on his capital investment, the use of the farm dwelling, milk, etc. as provided by the farm.

(b) figuring contributions in preparing a farm lease. This would be particularly true of buildings on a farm that was "over built." Here again, good judgment is needed in estimating depreciation allowances for lease making purposes. Rapid write-offs of farm improvements, machinery and equipment now permitted by income tax regulations are particularly inappropriate for computing the fairness of a farm lease.

Comments on the Information Presented in Table 5 – Efficient management of a rented farm of suitable size and productivity is a *must* if the financial returns from the business are to be reasonably acceptable to both parties concerned. The particular farm used as an illustration in Table 5 was well managed. Some of the business features of the farm as an average of two years of operation are as follows:

Size and Volume of Business

Acres: Total	182
Tillable	151
Average number of men	1.1
Gross farm income	$20,976
Gross farm income @ man	$19,069
Average number cows	28.1
Litters of pigs	6

Crops

Kind	Acres	Yield
Wheat	15	44 bu.
Corn: Silage	9	16 T.
Grain	27	70 bu.
Oats	23	60 bu.
Hay	42	4.5 T.
Pasture, tillable	35	—
Fertilizer used per tillable acre		$5.65

Production

Milk sold per cow, lbs	13,680
Milk sales per cow	$ 546*
Milk sold per man, lbs	349,462
Pigs weaned per litter	7.0

*Gross before hauling and other marketing expense has been deducted.

ALTERNATIVES FOR THE "50-50" TYPE OF LEASE

Alternative 1 – This plan is similar to the plan in Table 5 except that the division of farm income and "variable" expenses are shared on a 50-50 basis. In this plan, the rate earned on the landlord's real estate would be 6.28 percent and the tenant would have a labor income of $3,600. See Table 6.

Table 6—Interest on real estate 4 percent; tenant's wage allowance $3,600; cows owned 50-50; income and variable expenses 50-50. Alternative 1.

ITEM	Total farm		Landlord		Tenant	
Gross income, divided 50-50		$20,976		$10,488		$10,488
"Fixed" expense and interest	$13,236		$6,061		$7,175	
"Variable" expenses 50-50	6,595	$19,831	3,282	$ 9,343	3,313	$10,488
Profit or loss		1,145		1,145		0
Basic contributions (a)		5,602		2,002		3,600
Returns		$ 6,747		$ 3,147		$ 3,600
Rate earned on real estate				6.29		—
Tenant's labor income						$ 3,600

(a) *Interest allowance on real estate at 4 percent; tenant's wage allowance $3,600*

Alternative 2 – This plan is similar to Alternative 1 except in this case the owner furnishes all the cows. The result is a 4.6 percent earned on real estate and a labor and management wage for the tenant of $4,431. This plan is of real help to a tenant in helping to keep down his capital investment and resulting debt load. Some tenants find it difficult to finance all the machinery investment as well as one-half of the livestock needed in an efficient farm rental operation. See Table 7.

Table 7—In this plan, Alternative 2, the owner provides all the cows. (Interest on real estate at 4 percent; tenant's wage allowance $3,600, variable expenses and income divided 50-50).

ITEM	Total farm		Landlord		Tenant	
Gross income, divided 50-50		$21,801[a]		$10,900		$10,901
Interest: Real estate 4%	$2,002		$2,002		—	
Cows, 6%	495		495		—	
Other personal, 6%	1,358		629		729	
Depreciation on cows, 10%	825[a]		825		—	
Other "fixed" expenses	9,381		3,353		6,028	
"Variable" expenses, 50-50	6,595	$20,656	3,282	$10,586	3,313	$10,070
Profit or loss		1,145		314		831
Basic contributions (a)		5,602		2,002		3,600
Returns				$ 2,316		$ 4,431
Rate earned on real estate				4.63		—
Tenant's labor income						$ 4,431

(a) *Cow depreciation of $825 in Alternative 1 is deducted from gross income, whereas in Alternative 2 it is considered as an expense to landlord only. This accounts for the $825 higher gross income in Alternative 2.*

Alternative 2a – The owner's added cost of providing all instead of one-half of the cows would be $660, (one-half of the $495 interest or $247 plus one-half the $825 depreciation on cows or $413). Instead of providing all the cows, the owner in this particular illustration could, if he wished, allow the tenant the $660 to (1) offset the depreciation and interest on half the cows; or (2) pay for extra labor or for some other farm expense such as fertilizer, legume and grass seed. There might be some advantage in this latter plan in that (1) the tenant would own one-half the cows, (2) he would have a stronger voice in determining how many cows to keep in the herd and (3) there could be less friction in the areas of management, care, culling and replacement of cows.

Alternative 3 – This plan is similar to Alternative 2 except the gross farm income is $4,000 lower, the variable expenses $1,000 lower, and the net farm income $3,000 lower than in Plan 2. The result is a 1.6 percent return on real estate and $2,931 for tenant's labor and management. Probably an equitable plan but not very satisfactory for either party. However, a low income situation is encountered on many farms. See Table 8.

Table 8—Same as in Alternative 2, Table 7, except $3,000 less net income. Landlord owns all the cows; interest allowance on real estate 4 percent; tenant's wage allowance $3,600.

ITEM	Total farm	Landlord	Tenant
Gross income, divided 50-50	$17,801	$ 8,900	$ 8,901
Total expenses	19,656	10,086	9,570
Profit or loss	$-1,855	$-1,186	$-669
Basic contributions (a)	5,602	2,002	3,600
Returns	$ 3,747	$ 816	$ 2,931
Rate earned, real estate		1.63	—
Tenant's labor income			$ 2,931

(a) *Interest allowance on real estate at 4 percent; tenant's wage allowance $3,600*

Alternative 4 – This plan is the same as Alternative 1 (cow ownership 50-50) except that the farm income is divided 40 percent to landlord and

Table 9—Same as Alternative 1, Table 6, except income is divided 40 percent landlord and 60 percent tenant. Cows owned 50-50; variable expenses 50-50; interest on real estate 4 percent; tenant's wage allowance $3,600. Alternative 4.

ITEM	Total farm		Landlord		Tenant	
Gross income, divided 40-60		$20,976		$ 8,390		$12,586
"Fixed" expenses and interest	$13,236		$6,061		$7,175	
"Variable" expense, 50-50	6,595	$19,831	3,282	$ 9,343	3,313	$10,488
Profit or loss		1,145		-953		2,098
Basic contributions (a)		5,602		2,002		3,600
Returns		$ 6,747		$ 1,049		$ 5,698
Rate earned on real estate				2.10		—
Tenant's labor income						$ 5,698

(a) *Interest allowance on real estate at 4 percent; tenant's wage allowance $3,600*

60 percent to tenant, and the division of "variable" expenses continued at 50-50. The result is a return of 2.1 percent on landlord's real estate and $5,698 to the tenant for his labor and management. See Table 9.

Alternative 5 – This plan is similar to Alternative 4 except that both "variable" expenses and income are split 40 percent to landlord and 60 percent to the tenant. The result is a 3.41 percent return to the landlord on real estate and $5,024 to tenant for his labor and management. See Table 10.

Table 10—Same as Alternative 4, Table 9, except "variable" expenses as well as income is divided 40 percent to landlord and 60 percent to tenant. (Interest on real estate 4 percent; tenant's wage allowance $3,600.), Alternative 5.

ITEM	Total farm		Landlord		Tenant	
Gross income, divided 40-60		$20,976		$ 8,390		$12,586
"Fixed" expenses and interest	$13,236		$6,061		$7,175	
"Variable" expenses, 40-60	6,595	$19,831	2,626	$ 8,687	3,969	$11,144
Profit or loss		1,145		-297		1,442
Basic contributions(a)		5,602		2,002		3,600
Returns		$ 6,747		$ 1,705		$ 5,042
Rate earned on real estate				3.41		—
Tenant's labor income						$ 5,042

(a) *Interest allowance on real estate at 4 percent; tenant's wage allowance $3,600*