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Crop Share Leasing in Ohio

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The traditional crop-share lease is meant to reflect how income, expenses, and risk are shared between the tenant farmer and the landlord. The sharing levels are determined by each party's contributions to the business. As agricultural technology and production practices change over time, shared leases should be reviewed by both parties to see that income continues to be distributed according to contributions.

Most share leases are based upon customary methods of sharing production and expenses in a community. More than 75% of share leases in Ohio are 50-50. About 15% of tenant farmers receive from 60% to 75% of income/production in a 2/3-1/3 type arrangement. A smaller number keep more than 75% of income. As a general rule, tenants receive a greater share of the value of crop production on poorer-quality soils and a lesser share on better soils.

Advantages of Shared Leasing

• The landlord and tenant share risk in both good and bad years alike.

• Both parties can share benefits of improved technology.

• The landlord will benefit from increased yields, prices, or government program payments.

• Joint management may result in more profitable decisions.

• It is easier for the landlord to document material participation for maintaining Social Security base and for estate tax special use valuation.

• Shared leasing is an efficient financing alternative for farmers as it reduces cash outlay per acre and spreads fixed machinery cost over more land.

• The farmer's rental obligation to the landlord varies directly with the farm's crop returns.

Disadvantages of Shared Leasing

•Share agreements are more complex, so landowners with limited agricultural knowledge or time may prefer cash renting.

• Landlord incomes vary and may suffer from lower yields or prices.

• Increased record keeping is required, especially for farmers with multiple landlords.

• The landlord must make marketing decisions on his/her own share of a crop.

• More communication is required by both parties and sharing management with many landlords can become cumbersome for farming tenants.

• More detail maybe required in the lease agreement.

• The landlord must continue to pay self-employment tax and may lose some Social Security benefits prior to the IRS stated retirement age.

• Many farmers prefer the management independence that a cash lease offers.

Principles for Sound Share Lease Arrangements

Shared leases have stood the test of time, largely by all parties observing several basic principles.

1. Variable expenses that are yield-increasing should be shared in the same proportion as the crop share.

Examples of variable expenses include seed, fertilizer, and crop-protection chemicals. Sharing costs, in the same percentage as income, encourages each party to use the amount of input that will maximize long-run net returns.

2. As new technologies are adopted, share arrangements should be adjusted to reflect their impact on costs and returns.

A new input cost may be a substitute for prior costs of either tenant or landlord. For example, custom application of herbicides replaces normal tenant costs for machinery, labor, and fuel. In general, substitution items should be paid for by the party who would have paid for the item being replaced.

If an input is income increasing and a substitute, then the lease should be reviewed to determine the impact. Changes like improved drainage, no-till, and variable rate technologies (VRT), to name a few, have potential advantages and costs for each party. Sometimes, the change is hard to measure. What is the value of no-till production for soil conservation or for the additional management expertise required for using advanced technologies?

3. Each party should share in total returns in the same proportion as he/she contributes resources.

If a tenant contributes one-half of all resources, including management and risk bearing, the tenant should receive one-half the crop. This assumes an equal contribution of resources.

The tenant's machinery, fuel, and labor costs for tillage, planting , and harvest will not change drastically between an acre of ground capable of 100 bushels of corn and an acre with 150 bushels potential. But the total value of all input (seed, land, management, etc.) is greater on the higher yielding land. Hence, the tenant's share of all costs may be less than 50% on high-yielding land but more than 50% on poorer ground. Rent on poor quality land may be adjusted by changing the share of the crop going to each party or by the landlord picking up additional costs.

A major problem with crop-share leasing is that crop shares are influenced strongly by local custom. Customarily, shares tend to change slowly even though relative values of land, machinery, labor, and management may change markedly. As a result, good farms and poor farms may rent for the same share of the crop. Worksheets and computer programs are available from Ohio State University Extension to help evaluate shares of production and adjust contributions, if needed, in a share lease.

4. Tenants and landlords should be compensated at lease termination for the unexhausted portion of longer-term investments.

In the case of tenant-applied lime, the lease should provide the tenant with a pro-rata share of the cost at lease termination. If such arrangements cannot be provided, then the party who will likely control the item at lease termination should make the contribution. Usually, tiling is paid for by the landlord. Alternatively, a tenant with a long-term lease could make the investment in exchange for a greater share of annual production and a guarantee of compensation, for a pro-rata share of the residual value, when the lease ends.

Variations of the Basic Lease

Crop-share leases once dominated farmland rental agreements but are now used on only 25 percent of leased land in Ohio. Traditionally, the tenant supplies all the labor and the machinery, including paying for all fuel and machinery maintenance. The landlord provides the land, pays property taxes, and pays major land maintenance improvement expenses. Typically, the tenant and landlord both pay 50 percent of production costs such as all seed, fertilizer, and crop-protection chemicals. The crop and government payments are split 50-50.

In some situations, custom application of fertilizer or chemical is substituted for application by the tenant, and these costs are often shared by both parties. Results of a 1999 Ohio survey of farmers show that about two-thirds of custom application costs are paid by the tenant and one-third paid by the landlord. This diverges from the traditional 50-50 lease whereby the tenant is responsible for these application costs. This variation for custom hire is shown on Table 1.

A small proportion (about 15%) of the share leases in Ohio are two-thirds/one third leases. That is, the tenant receives two-thirds of the gross farm receipts, and the landlord receives one-third. (These shares may vary slightly in some leases, 60-40 or 70-30). In these leases, seed, fertilizer, and chemical expenses are paid almost entirely by the tenant, as are application costs (Table 1). As with the traditional share lease, the tenant supplies all labor- and machinery-related resources while the landlord furnishes land-related resources. Column B demonstrates variations of the standard 1/3-2/3 lease. Sometimes, the landowner will pay for part of certain production costs. This is the bargaining "give and take" that, in some cases, better reflects the shared costs to justify the income share split.

According to an Ohio survey, in 51% of share leases the tenant charges the landlord for harvesting the landlord's share of the crop. For these leases, combining charges for 50-50 share lease average $16-$17 per acre for the landlord's share (Table 2). These harvesting costs are in the lower range of typical charges for custom harvest. In most share leases, tenants also charge landlords for hauling and drying, which average about 16 cents per bu. for corn and 8 to 9 cents per bu. for soybeans and wheat (Table 2). In those situations where variable rate technologies are used, tenants bear most of the soil sampling and other VRT expenses (Table 2).

Hay Agreements

Hay rental agreements vary greatly between grass hay and alfalfa or for poorer soil productivity vs. soils capable of higher yields. The traditional 50-50 split may not fit every situation. Eastern Ohio grassland hay is commonly baled 1/4-3/4, with the tenant receiving 3/4 of the crop and providing all machinery and labor. Under high-yield production systems, a 50-50 or 1/3-2/3 split is closer to being fair for both parties.

Grass hay. The landowner grows the crop. The tenant cuts, rakes, and bales the hay. The landowner receives the share in the field behind the baler and is responsible for getting the hay into storage. A typical charge to move hay into the barn is 10 to 15 cents per square bale.

Alfalfa hay. The tenant harvests the crop and shares the cost of annual fertilizer and chemicals. Both the tenant and landowner are responsible for getting their own shares to storage or market.

Written Agreements Important, but Rare

The percentage of farmers who have their lease in writing is higher for cash-rent leases than in crop-share leases. An Ohio study found that 42% of the farmers who cash rent had their lease

Customary Shared Leases in Ohio

Type of Lease[1]		**50 - 50**		**33 - 67**[5]	
Landlord (L), Tenant (T)		**A L-T**	**B L-T**	**A L-T**	**B L-T**
RECEIPTS					
Crop		50 - 50	50 - 50	33 - 67	33 - 67
Government Payments		50 - 50	50 - 50	33 - 67	33 - 67
INPUTS					
Land		100 - 0	100 - 0	100 - 0	100 - 0
Real Estate Taxes		100 - 0	100 - 0	100 - 0	100 - 0
Maintenance:	Labor	0 - 100	0 - 100	0 - 100	0 - 100
	Materials	100 - 0	50 - 50	100 - 0	33 - 67
Improvements:	Labor	100 - 0	100 - 0	100 - 0	100 - 0
	Materials	100 - 0	100 - 0	100 - 0	100 - 0
MACHINERY					
Depreciation		0 - 100	0 - 100	0 - 100	0 - 100
Insurance		0 - 100	0 - 100	0 - 100	0 - 100
Repairs		0 - 100	0 - 100	0 - 100	0 - 100
LABOR and MANAGEMENT					
Operator Labor		0 - 100	0 - 100	0 - 100	0 - 100
Hired Labor		0 - 100	50 - 50	0 - 100	33 - 67
Management		0 - 100	50 - 50	0 - 100	33 - 67
DIRECT COSTS					
Seed		50 - 50	50 - 50	0 - 100	33 - 67
Fertilizer:	Annual	50 - 50	50 - 50	0 - 100	33 - 67
	Buildup[2]	50 - 50	100 - 0	0 - 100	33 - 67
Lime		50 - 50	100 - 0	0 - 100	33 - 67
Chemical		50 - 50	50 - 50	0 - 100	33 - 67
Custom Hire[3]		50 - 50	0 - 100	0 - 100	33 - 67
Crop Insurance		50 - 50	50 - 50	0 - 100	33 - 67
Drying		See Table 2	See Table 2		
Harvesting		See Table 2	See Table 2		
Hauling		See Table 2	See Table 2		
Other[4]		50 - 50	0 - 100	0 - 100	33 - 67

[1] Column A is typical; Column B denotes variations or alternatives to basic lease.
[2] Division based upon share of receipts; however, buildup fertilizer and lime have value for several years beyond the year of application (usually four years). If lease is terminated, tenant should receive partial credit for past buildup applications of fertilization or lime.
[3] Custom hire payments by landlord range from 0 to 50% for 50-50 lease and 0 to 10% for 1/3 - 2/3 lease.
[4] Other items may include soil sampling, variable rate technologies, grid sampling, supplies, etc.
[5] These shares may vary 40-60 or 30-70, landlord and tenant.

in writing, while only 15% of those who crop-share lease had written leases. Share leases can be quite complicated. Factors such as the share of harvested crop, share of input costs, variable rate application charges, and harvesting charges are all terms of the agreement made in a crop-share contract. Therefore, one might predict a greater proportion of these more complicated share leases would be in writing. However, that was not the case in a survey of Ohio farmers.

Conclusion

Lease preferences in Ohio are evolving. The historical dominance of share leases is being challenged by an increase of cash leasing. It is hard to change customs and traditions, but changes in farming methods and technology should at a minimum cause tenants and landlords to review existing agreements.

Each crop-share leasing agreement is unique and should be in writing. These agreements will reflect the contributions made by each party and represent the negotiation strength of each party. Application of the principles set forth in this fact sheet should lead toward the most profitable level of production and an equitable distribution of returns.

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Table 2: Average Charges Paid to Tenant by Landlord by Share of Production Received by Tenant

	Corn		Soybeans		Wheat	
Charges	**Half**	**2-3rds**	**Half**	**2-3rds**	**Half**	**2-3rds**
Landlord cost of soil sampling VRT application (%)	37%	25%	39%	25%	34%	N/A
Harvesting Charges ($/acre)	$17	$20	$17	$20	$16	$18
On farm corn drying/bushel	8¢	17¢				
Hauling/bushel	9¢	11¢	9¢	11¢	8¢	7¢

D. Lynn Forster, Jose R. Rodriquez-Solis and Barbara Cote, Factors Affecting Ohio Farm Real Estate Markets, Survey of 2,500 Ohio Farm Operators, Agricultural, Environmental & Development Economics, Ohio State University, 1999.

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