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How to Have an Equitable Crop Share Lease

AGRI-VIEWS

by Chuck Otte, Geary County Extension Agent

In the world of agricultural leases there are primarily two kinds used: cash rent or crop share. In cash rent the tenant pays the landlord a set dollar amount per acre and then receives 100% of the crop and also pays all the crop production expense. In a crop share lease, the landlord and tenant share many of the crop production expenses and the landlord receives a share of the crop. There are advantages and disadvantages to each style of lease. It ultimately comes down to what the landlord and tenant prefer to do. Either form of leasing can be equitable if they are properly developed. The challenge is that many crop share leases are developed backwards, if you will.

Ideally, when a crop shares lease is developed, the landlord and tenant first decide which expenses they are going to share. These expenses are just sort of set aside. Then all the other expenses that each are paying independently are totaled up. This will be a land charge for the landlord, equipment expenses, labor and other unshared expenses for the tenant. The total of these unshared expenses is then broken down into a ratio of landlord and tenants share of that total. If the tenant is paying for 70% of the unshared expenses, and the landlord 30%, the tenant would receive 70% of the crop, the landlord 30% of the crop and they would pay 70/30 on the shared expenses.

But I think we know what normally happens on these leases. The landlord states what percent of the crop they want and what expenses they will share at that same percentage. Take it or leave it. Now I'm not belittling landlords, I simply know how these things often happen. The problem is that 30 or 40 years ago, things were pretty stable. Wheat was the number one crop and most wheat seed planted was kept back from the previous year. Fertilizer was cheap as were herbicides. 40/60 crop share leases were common and were fairly equitable.

But things got crazy in the 1990s. No-till farming came along and herbicides replaced machines for weed control between crops. Seed started coming with all sorts of added "technology" so you couldn't keep it back. Twelve dollar per acre seed costs became fifty and sixty dollar per acre seed costs. Herbicide costs even exceeded seed costs. Then crop rotations begin to shift. Improved genetics in corn and soybeans allowed them to be grown further west in the state and on soils that we never would have considered 40 years ago. Corn and soybeans replaced wheat and grain sorghum on many acres in our area.

I sat down recently with Farm Management Association average costs of production and started plugging those numbers into a spreadsheet that is designed to help analyze the numbers to help determine what's an equitable lease. Remember, we use equitable as it is an economic principle that can be defined. Many people use the word fair, but fair is a judgement call that is hard to define. So we use equitable.

I looked at a farm with equal acres of corn and soybeans using no-till production. I considered some average land value rates and used the traditional sharing of fertilizer, growing season herbicides and insecticides. We came up with a 25/75 split. I added seed into the shared category and it moved it to a 33/67 split. We could have added wheat and grain sorghum into the mix, but we didn't. We need to be evaluating these crop share leases to see if we are maintaining equatability. The spreadsheet I used is available on the internet. Contact me and I can direct you to it. I used regional averages but it would be better to use your own production figures. If you have questions about using this spreadsheet or renegotiating leases, give me a call at the Extension Office.

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