

Guide To Develop Crop Share Arrangement

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A key decision in developing a share lease arrangement is division of income and expenses between tenant and landlord. It's crucial both parties (including family members) understand both their own contribution and income share -- and their partner's.

With a thorough understanding between parties, a lease that's *fair* to both landlord and tenant can be formed. As used here, fair means each party's income share is proportional to his/her respective resource contributions to the farm operation.

To begin in developing a fair share lease arrangement, calculate the value of contributions being made by each party. Calculations for an example farm operation are shown in Figure 1.

Once the values of resource contributions for each party are gauged, sharing of cash expenses and production from the rented operation can be specified. Determine the proportion of the total value of contributions contributed by tenant and landlord. Then share expenses and production in the same proportion.

Contributions included in calculations include land, buildings, permanent improvements, orchards, vineyards, power, machinery, personal property tax, labor, management, and other resources or inputs. Include land and buildings in the contribution calculations at fair market value based on agricultural use.

Interest on land, building, vineyards, and orchards should be credited to the landlord at rates reflecting current rates of return on these investments. The landlord should be credited for any contribution of real estate taxes.

Farm businesses generally include improvements. So, the landlord must be compensated for depreciation, repairs, insurance, and taxes required on these assets.

In some arrangements, tenants provide machinery and power. So, they must be compensated for equipment ownership costs, including interest, depreciation, repairs, property taxes and insurance.

Figure the value of labor and management contributed to the operation by the tenant and landlord. A wage rate (such as the state minimum wage) should be set to reflect the value of *raw* labor contributed.

Then, a management contribution is included based on relative amounts of management provided by tenant and landlord. In the example, management return is computed as 7 percent of the estimated annual revenue, and allocated between tenant and landlord based on their respective contributions. This critical (and negotiable) item could range from 5 to 10%, depending primarily on management performance and experience.

Adjustments for cash rent paid to the landlord by the tenant for housing or other facilities must be reflected in the computation.

Finally, the total value of contributions provided by the tenant and landlord is determined by summing the value in each category. The value of contributions for the entire farming operation is determined, and the relative proportion provided by the tenant and landlord calculated.

Note in the example the tenant is contributing about 53 percent of resources and the landlord 47 percent. So, other cash expenses and production should be shared in these proportions to reflect an equitable division of expenses and production between them.

Although Figure 1 illustrates important considerations and computations, it is simply a *guide* in aiming for a fair crop-share arrangement.

Figure1. DEVELOPING OR TESTING YOUR CROP RENTAL ARRANGEMENT

EXAMPLE GRAPE OPERATION

<i>Item</i>	<i>Cash or Value</i>	<u><i>Contribution</i></u>		<u><i>Each Party's Share</i></u>	
		<i>Rate (Percent)</i>	<i>Value of Annual Contribution</i>	<i>Tenant</i>	<i>Land Owner</i>
<i>Land, Buildings, Fences & Other Permanent Improvements</i>					
1. Interest (3-6 percent of valuation)	\$420,000	6%	\$25,200	0	\$25,200
2. Real estate taxes (including tree & vine crops)			7,431	0	7,431
<i>Buildings, Fences, and Other Permanent Improvements</i>					
3. Depreciation (4-10 percent of replacement value)	5,000	4%	200	0	200
4. Repair (2-4 percent of replacement value)		3%	150	0	150
5. Insurance		0.5%	25	0	25
<i>Power and Machinery (Cost basis - \$111,600; salvage value - \$27,900)</i>					
6. Interest (7-10 percent of new cost plus salvage value ÷ 2)	111,600	7%	4,883	\$4,883	0
7. Depreciation (10-14 percent of new cost less salvage value)		10%	8,370	8,370	0
8. Repair (4-6 percent of new cost)		4%	4,464	4,464	0
9. Insurance & personal property tax			1,674	1,674	0
<i>Orchards and Vineyards</i>					
10. Interest (5-9 percent of cost ÷ 2)	503,040	7%	17,606	0	17,606
11. Cost Recovery (3-7 percent of replacement value)		3%	15,091	0	15,091
<i>Labor and Management</i>					
12. Operator manual labor <u>12</u> months			15,500	15,500	0
13. Operator management (<u>7</u> percent of estimated gross revenue)	\$546,000		38,220	38,220	0
14. Cash Rent (paid by land owner to tenant)			0	0	0
15. Subtotal - major contributions (add lines 1 through 14)			138,814	73,111	65,703
<i>Other Cash Expenses (specify) Examples on Federal tax form 1040-F</i>					
16. _____			_____	_____	_____
17. _____			_____	_____	_____
18. _____			_____	_____	_____
19. _____			_____	_____	_____
20. _____			_____	_____	_____
21. _____			_____	_____	_____
22. _____			_____	_____	_____
23. _____			_____	_____	_____
24. _____			_____	_____	_____
25. _____			_____	_____	_____
26. Total Expenses (add lines 16 through 25)			\$138,814	\$73,111	\$65,703
27. Percentage of Total Contributions				53%	47%

Rates and values are for *illustrative* purposes only. Figures vary with time and circumstance.