

What is a Crop-Share Lease?

A crop-share lease is when the landowner and the farm operator share the cost of growing a crop. Typically, the farm operator provides the machinery and labor for the operation; the landowner provides the land and pays the property taxes; and the input costs for seed, fertilizer, and chemicals are split. The harvested crop is then split by the same percentage as the input costs are shared. Each party is responsible for marketing their portion of the grain produced. In 2001, a statewide farm leasing survey indicated that about two-thirds of total farm leases in Illinois are crop-share leases.

In comparison to a cash lease, a crop-share lease places the landowner at higher risk for price and production problems, as both the owner and operator are sharing the potential that yields and/or prices may be lower than expected. However, when the farm experiences high prices and high yield, the returns for the landowner may be greater than that of the cash rent lease. On the other hand, the farm operator is giving up the possibility for higher profit during “good years” by sharing costs and increased profits with the landowner.

Why Use a Crop-Share Lease?

Leasing farmland can be a complex endeavor. Communication skills are highly important for both parties. Some landowners want to be involved in making management decisions (such as, which crop and which variety to plant). For others, the crop-share agreement gives them a feeling of more control in the operation. Crop-share leases require the landowner to invest more time into farm management than cash leases do.

The extent of an owner’s participation in the farm business can vary considerably under a crop-share lease. Usually the owner will be involved in annual decisions about the use of land, seed, fertilizer, chemicals and marketing of the owners’ grain. Some landowners use farm generated income to increase Social Security credits, or as a part of an estate plan to minimize taxes to heirs. There are strict guidelines requiring evidence of *material participation* in order to claim various social security and inheritance tax credits. A crop-share lease *can* in certain situations be used to claim these credits. Contact the Social Security Administration, IRS, or your tax planning professional for more information on Social Security and estate planning tool qualifications.

Who Should Pay for Land Improvements?

The landowner generally pays for Land improvements. Should a tenant pay for a portion of a land improvement, a plan for reimbursement of unused improvements should be in place. This is to be based on both the lifespan of the improvement and the length of use in years.

Who Receives the Government Program Payments?

Typically, government payments are split between the owner and operator, according to the percent of the crop received.

What are the Common Splits in a Crop-Share Agreement?

50/50 Lease

Under a 50/50 Lease, the landowner and farm operator equally share the harvested grain. This type of lease is the most common type of crop-share lease in Illinois. Expenses for crop inputs (seed, fertilizer, chemicals) are typically shared equally. 50/50 Leases are the most common crop-share lease arrangement in Illinois.

60/40 or 2/3 - 1/3 Leases

These, virtually identical, leases are more common in southern Illinois. The farm operator pays a larger share of the input expenses and keeps that percentage of the crop. Surveys indicate that these leases tend to be more open to negotiation with these leases than with fifty/fifty leases.

Crop-Share with a Supplemental Lease

Occasionally, the landowner and farmer negotiate a compromise to keep from switching to cash rent lease. A supplemental payment is usually paid to the landowner in the form of cash. This provides the landowner with a small cash guarantee. The amount paid is often enough to cover the property taxes. This is not a common practice. This may also be known *privilege* fees.

What if I Do Not Want to be Actively Involved in Managing the Farm?

Owning a farm is a significant investment. Taking the time to manage correctly takes a lot of commitment. If you don't want to be actively involved in managing the farm, consider either hiring a professional farm manager or switching to cash rent. Carefully, consider tax implications before switching to cash rent.

Additional Thoughts

Typically, the farm operator harvests the crop for the landowner and then transports the grain to a "nearby facility". Transportation of the landowner's grain by the operator to more distant markets is, often, charged to the landowner. Landowners should be mindful of advantages the farm operator provides (such as, building upkeep and mowing). Extra duties are expensive and time consuming. Farm operators should be mindful to the needs and desires of the landowner. Open communication is important to the success of the business relationship.

The crop-share relationship between a landowner and farm operator is a contractual relationship. Carefully, choose the person you are contracting with. This individual should be financially sound, have enough equipment to get the job done in a timely fashion, be of good character, and be someone you can easily communicate with.

Crop-share and all other farm leases should always be in writing. Expectations should be spelled out clearly. Both parties should be adequately insured. Farm operators should inspect the farm for pollution and liability problems. Landowners should insist on protection from "disasters" caused by farm operators. The lease arrangement should be reviewed each year to adjust for technological, legal, and environmental changes.

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