

CUSTOM FARMING: AN ALTERNATIVE TO LEASING¹

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Are you a farm operator with the labor and machinery capacity to farm more acres, but do not want to lease more land? Would you like to reduce the financial risk exposure that you are carrying on leased land? Are you a landowner who wants to take a more active role in the management of your farm, but does not want to invest in a full line of machinery?

An alternative to leasing farmland is custom farming. The custom operator agrees to perform selected machine operations on the owner's land in exchange for a set fee or rate. The landowner pays for all of the seed, fertilizer, chemicals and other inputs, and keeps all of the crop.

Advantages/Disadvantages

Custom farming appeals to the farm operator who (1) needs or wants to farm additional acres, (2) is short of capital, and (3) prefers a guaranteed income and less risk. Government payment limits may also cause a farm operator to consider custom farming. It requires little additional operating capital. Fuel, lubrication and repairs are usually the only added costs. Any return above these costs would be available to meet family living, debt repayment and to improve his financial position. In a good year, of course, profits from custom farming will be smaller than under a conventional lease. But this is a common trade off for reducing risk.

Landowners may find advantages to custom farming as well. Owners with small acreages can make most of the production and marketing decisions without investing in a full line of machinery. There are no lease payments to collect, since the owner receives all of the crop. Profits can be 20-40 percent higher when comparing custom farming to crop sharing. But the risks are also greater. The owner would usually be considered a material participant for tax purposes, and would be entitled to all government payments. Material participation will likely cause retired people to lose some or all of their social security benefits.

Since the landowner is now managing his/her farm, he/she will need to study and attend meetings to stay on top of the latest production practices. Marketing management can be a problem. (One of the duties of the custom operator could be to consult with the land owner on seed varieties, fertilizer rates, herbicide programs for an extra charge. The custom operator could also assist in marketing and understanding government programs.) The landowner will also need to manage people well - your custom operators and others. Likewise, careful selection of a custom operator is

¹ Adapted from materials prepared by William Edwards and Don Gee of Iowa State University.

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important. Timeliness is so important in crop production that the landowner will need to select a custom operator with machine capacity to farm your land and the management skills to get the job done in a timely and effective manner.

Developing A Contract (See pages 5 and 6)

In all cases it is advisable to prepare a written contract. This contract should identify the custom operator as an independent contractor, not as an employee or tenant of the owner. This limits the liability of the landowner. The contract should also include a description of the acreages to be custom farmed, the field operations to be performed, the rate and method of payment, who is to procure supplies and other provisions.

Description Of Parcels Of Land/Acreages And Field Operations

Although the concept of a custom farming agreement is simple, a careful definition of responsibilities between the custom operator and landowner is essential. First, an accurate description, measurement of the number of acres to be farmed and their location should be agreed upon and recorded on pages 5 and 6 of the attached contract form. Soil maps and measurements by the Agricultural Stabilization and Conservation Service (ASCS) are helpful. A monitor on the planter can also be used to estimate the number of tillable acres involved.

The field operations to be performed need to be agreed upon. This will depend on the equipment and skill of the custom operator. The number and timing of field operations may be left somewhat flexible, but the agreement should indicate how much freedom the operator has in this regard. Communication between the owner and custom operator is critical in such decisions. The operator may have the added responsibility to monitor weeds and insects throughout the summer and suggest actions to combat them.

Determining Payment Rates And Method Of Payment

Setting the payment rate maybe the most difficult part of writing an agreement (see page 6). Custom operators need to know their own machinery and labor costs. However, the operator may not always be able to charge enough to cover all costs if others are willing and able to do the job for less. Over time, making the extra effort to do high quality work and to communicate regularly with the landowner will probably have more influence than price on the demand for the services of a custom operator.

Custom farming is still not common enough for all rates to be widely agreed upon. Check with your county agent in regard to rates. Professional farm management firms also may be able to provide information about custom rates. The "1987 Iowa Farm Custom Rate Survey" (page 4) can be used as another source of rates. The Iowa survey also indicates a fixed charge for custom farming; note the lower right hand corner of page 4.

Some contracts call for a fixed rate per acre for all operations. However, many operators prefer to charge for each operation performed. Many different combinations of tillage and weed control operations are possible. Special factors such as field size and shape, machine performance and operator skill may command a higher custom rate.

The contract should also indicate the method of payment. Are payments to be made once or twice per season? How many days does the landowner have to make payment after receiving a statement? The landowner and custom operator must also decide whether bonus or incentive payments are to be made. The incentive payment based on yield rewards the operator for timely

plowing, planting, harvesting, etc. If based on yield, the base yield should be low enough that the operator would likely be paid an incentive 9 out of 10 years. The incentive might be that the operator receives one-third of any yield above the base yield. Note any incentive arrangements on page 5.

Procurement Of Supplies/Method Of Reimbursement

The kind and amount of seed, fertilizer, chemicals to apply also will vary. The owner generally has the final word, although responsibility for procurement can be delegated to the custom operator. If the custom operator is responsible for purchasing supplies and having them delivered, additional compensation, such as a percentage markup over the cost of these supplies or payment for time and mileage expended, should be agreed upon.

Other Provisions

The parties involved should indicate whether the contractor has the right to subcontract or the owner has the right to hire a different contractor for selected operations.

Time of harvesting should be a mutual decision between owner and operator. The moisture level of the crop must be checked closely. If the custom operator also has crops to harvest, varieties with different maturities should be used, to avoid harvesting bottlenecks. Some contracts call for the custom operator to take charge of drying and handling grain into storage, as well. Even if this is done with the owner's equipment, the operator should be paid a fixed rate per bushel for managing the drier and storage facilities.

1987 Iowa Farm Custom Rate Survey

Explanation

Many Iowa farmers hire some custom machine work in their farm business. The figures below are based on a survey of Iowa farmers, custom operators, and farm managers. Most rates were slightly lower than in the 1986 survey.

Rates below reflect rates expected to be charged or paid, including fuel and labor. This rate schedule is intended only as a guide. Actual custom rates may vary according to availability of machinery in a given area, timeliness, operator skill, field size and shape, and the performance characteristics of the machine being used.

For each operation, the average rate from the survey and a range are shown. Approximately two-thirds of the responses received fell within the range.

Machinery rental rates (including tractor but without operator or fuel) can be estimated at about 30 to 50 percent of the custom rate for tillage machinery and 50 to 65 percent for planting and harvesting machinery. Subtract a rental charge for the tractor if it is not included.

Rates

Tillage	Average	Range	
Chopping comstalks, per acre	\$4.80	\$4.10	5.50
Plowing—moldboard, per acre	9.90	8.60	11.10
—chisel, per acre	8.40	7.40	9.40
Disking—offset, per acre	7.30	6.00	8.60
—tandem, per acre	5.80	4.90	6.70
Harrowing, per acre	2.90	2.40	3.40
Field cultivating, per acre	5.40	4.40	6.50
Rotary hoeing, per acre	3.40	2.80	3.90
Cultivating, per acre	4.70	4.00	5.40
Disk/chiseling, per acre	9.10	7.70	10.40
Subsoiling, per acre	9.70	8.60	11.10
Planting			
Planter—with attachments, per acre	7.80	6.30	9.30
—without attachments, per acre	6.60	5.40	7.80
—no-till planter, per acre	9.80	8.50	11.10
Soybean drill, per acre	7.00	5.60	8.50
Grain drill, per acre	6.30	5.20	7.50
Fertilizer Application (materials not included)			
Dry bulk—applied, per acre	2.40	1.50	3.40
—applicator only, per acre	1.10	.50	1.60
Liquid—applied, per acre	3.30	2.50	4.00
—applicator only, per acre	1.40	.80	2.00
Gaseous—applied, per acre	5.30	4.30	6.40
—applicator only, per acre	1.50	.30	2.60

	Average		Range	
Spraying (materials not included)				
Ground, per acre	\$ 3.40	\$ 2.80	-	4.00
Ground, incorporated, per acre	6.90	5.90	-	7.90
Rope wick applicator, per acre	3.90	2.60	-	5.30
Bean buggy, per acre	4.70	1.40	-	7.40
Aerial, per acre	4.40	3.20	-	5.60
Harvesting Grain				
Corn combining, per acre	21.70	19.50	-	24.00
Soybean combining, per acre	20.50	18.20	-	22.80
Small grain combining, per acre	18.40	16.00	-	21.00
Picking ear corn, per acre	16.10	12.30	-	19.80
Picker sheller, per acre	18.90	16.40	-	21.50
Corn drying, per bushel	.13	.07	-	.18
per % moisture removed	.025	.019	-	.032
Corn shelling, per bushel	.08	.07	-	.09
Handling grain (by auger), per bu.	.03	.02	-	.04
Hauling grain, per bu. per mile	.009	.006	-	.013
Hauling grain, on-farm, per bu.	.04	.03	-	.05
Storing grain, per bu. per month	.016	.009	-	.023
Storing ear corn, \$ per bu., per month	.012	.006	-	.016
Harvesting Forages				
Hay—mowing, per acre	4.60	3.70	-	5.40
—mowing/conditioning, per acre	7.20	5.70	-	8.70
—raking, per acre	2.80	1.90	-	3.65
—windrowing, per acre	6.90	5.80	-	8.00
Hay baling—square, per bale	.29	.22	-	.34
—large round, per bale	5.80	5.00	-	6.60
—stack, 1 ton, per stack	8.90	6.80	-	11.00
—stack, 3 ton, per stack	23.60	18.70	-	28.50
Silage—harvesting, per acre	33.00	29.00	-	38.00
—harvesting, per hour	54.00	29.00	-	79.00
—harvesting, hauling, blowing, per hour	65.00	39.00	-	91.00
Haylage—harvesting, per hour	50.00	27.00	-	74.00
—harvesting, hauling, blowing, per hour	70.00	46.00	-	95.00
Custom Farming—growing and harvesting*				
Corn, per acre	69.00	58.00	-	80.00
Soybeans, per acre	63.00	53.00	-	74.00
Small grain, per acre	44.00	35.00	-	52.00
Miscellaneous				
Removing snow, per hour	33.00	17.00	-	50.00
Grinding feed, per ton	5.40	2.50	-	8.25
Building fence, per hour	8.00	5.00	-	11.00
Machine Rental (operator and fuel not included)				
Skid loader, per hour	17.00	10.00	-	25.00
Liquid manure spreader, per hour	16.00	10.00	-	21.00

(table continued on back)

CONTRACT FOR CUSTOM FARMING FOR THE YEAR ____

PARTIES

This contract is entered into by _____ of _____
_____, contractor, and _____
_____ of _____
_____, landowner, on _____.

DESCRIPTION OF PARCELS OF LAND/ACRES AND FIELD OPERATIONS

The contractor agrees to perform custom farming operations for the owner on the following land or parcels of land: _____

The acreages and field operations involved are noted on page 6.

PAYMENT RATES, METHOD OF PAYMENT, INCENTIVE PROGRAM

The custom rates to be paid are noted on page 6. The contractor agrees to submit to the owner an itemized written statement of work completed after _____ and _____
_____.

The owner agrees to make payment to the contractor within _____ days after receiving the statement.

INCENTIVE OR BONUS PLANS ARE AS FOLLOWS: _____

PROCUREMENT OF CROP SUPPLIES/METHOD OF REIMBURSEMENT

OTHER PROVISIONS

ACRES, FIELD OPERATIONS AND CUSTOM RATES¹

<u>Operation</u>	<u>Unit</u> (Acre, Hr., B	<u>Rate</u> Per <u>Unit</u>	<u>Crop</u> Acres	<u>Field 1</u>	<u>Field 2</u>	<u>Field 3</u>	<u>Field 4</u>
Crop Stalks	_____	_____	_____	_____	_____	_____	_____
Chisel Plow	_____	_____	_____	_____	_____	_____	_____
Tandem Disk	_____	_____	_____	_____	_____	_____	_____
Spray Herbicide	_____	_____	_____	_____	_____	_____	_____
Field Cultivate	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
Plant	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
Cultivate	_____	_____	_____	_____	_____	_____	_____
Rotary Hoe	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
Combine Corn	_____	_____	_____	_____	_____	_____	_____
Combine Soybeans	_____	_____	_____	_____	_____	_____	_____
Dry Grain	_____	_____	_____	_____	_____	_____	_____
Haul Grain	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

¹ Fields may be described on page five of the contract, or on an attached map or description. Indicate with an X which operations are to be performed on each field. Several fields may be combined into the same column if the same operations will be performed on each of them.