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UNIVERSITY OF MINNESOTA

Dairy Extension
Department of Animal Science
101 Haecker Hall
1364 Eckles Ave.
St. Paul, Minnesota 55108
(612) 373-1014

Dairy Update

WHAT ABOUT LEASING COWS?

Robert D. Appleman, Extension Dairy Specialist

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With dairymen facing steep interest rates and the typically high levels of capital investment, there is a growing interest in leasing milking cows. Some, but not all, dairymen have come to believe that control of assets is more important than ownership of those assets. What it all comes down to is this: first, assess all financing possibilities; second, if you decide to lease cows, shop around. Choose your lessor with care, and make sure you understand every word of the contract before you sign that contract.

Lease arrangements can be advantageous to both the operator (the person taking care of the livestock) and the lessor (the person who holds title to the livestock).

Here are some potential advantages and disadvantages for the operator:

Advantages

The operator:

1. may use his available capital for other purposes.
2. may have use of additional capital over and above his borrowing capacity.
3. might be able to generate an increased volume of business by employing more of his other resources (land, labor).
4. may have a better chance of getting started.
5. may have some cash flow advantages.
6. may have some income tax advantages.

Disadvantages

The operator:

1. gives up part of his control of his business.
2. gives up part of his income because it is shared with the lessor.
3. has less profit potential.
4. may create problems of "personal relationships" if the lessor is another farmer or friend in the community.

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A lease is a long-term contract, usually 3 to 7 years. The operator agrees to pay the lessor a predetermined amount of money for the use of cattle, usually on a monthly basis for the life of the contract; and most leases cannot be cancelled.

While not common, leasing sometimes can be obtained from another farmer, perhaps one that is retiring from the dairy business. In these cases, the lessor may have income tax advantages, investment tax credit regulations might work to his advantage, and such income is handled differently for Social Security purposes.

While there are at least 6 different cow leasing firms operating in the U.S., I'm aware of only two that would serve Minnesota and this region of the country. They are:

Dairy Farm Leasing Co.
1700 Dupont Ave. South
Minneapolis, MN 55403
612/377-1489

Borg-Warner Leasing,
Dairy Division
4141 Blue Lake Circle
Suite 175
Dallas, Texas
214/386-0026

Here are a dozen general considerations regarding the leasing of cows from a cow-leasing firm:

1. Most leases are from 3 to 5 years, some 7 years. Will the profit potential be as good then as it is now?
2. Some leasing companies require you to lease a minimum number of cows. This varies from 0 to 50 head.
3. You don't always have a choice of the cows you are to lease, nor do you know much about the genetic potential, health, etc.
4. You don't always get to keep the calves. Some lessors even require you to raise them for the lessor to a specified age.
5. There are no health or production guarantees.
6. Insurance is usually required. Seldom does the lessor pay this cost.
7. Purchase options are usually available.
8. Persons just starting dairying may not be able to lease cows. Just like other lending institutions, cow lessors make detailed credit checks on those applying for financing.
9. Many lessors make regular visits to your farm. Will you accept this as a sound business practice?
10. Lease arrangements often include an arrangement for payments to be made directly to the lessor from your milk handler. Will you accept this arrangement?

11. Lease payments are not deductible expenses if IRS believes the contract is a conditional sales contract. This is usually the case if the contract gives you the option to buy the cow at a nominal price when the lease expires.
 12. Getting out of a lease is next to impossible. Only under unusual circumstances will a lessor even consider cancelling such a contract.
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4. Edwards, R. A. and R. B. Schwartz, Jr. Current conditions make leasing more feasible. Hoard's Dairyman, Sep. 25, 1980, page 1258.
5. Luening, R. A. Dairy cow leasing and sharing agreements. North Central Regional Extension Publication 41. (Note: This 16 page publication was printed in March, 1976. It is currently out of print but copies may be available in some Extension offices).