FARM BUSINESS MANAGEMENT

Crop Share Leases

University of Illinois
Farm Business Management Resources

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Farmland Leasing in Illinois

According to the 2012 Census of Agriculture, of all the land in farms in Illinois, 40 percent is owned and 60 percent is leased. There are generally two kinds of leases in Illinois, crop share leases and cash rent leases. Both of these leases have variations from the 'traditional' lease agreements.

According to a survey of farm managers who are members of the Illinois Society of Farm Managers and Rural Appraisers, for 2015 42 percent of their leases were crop share leases, 51 percent were cash rent leases and 7 percent were using custom farming arrangements. A further breakdown of the crop share leases indicated that 25 percent of all leases were traditional crop share arrangements, 11 percent were crop share with supplement rents where the operator pays an additional per acre rent amount and 6 percent were crop share with other modifications, such as the operator paying all the chemical or seed expense. Of the 51 percent of cash rent arrangements, 31 percent of all leases were traditional fixed cash rent leases and 20 percent were variable cash rent leases.

Data from the Illinois Farm Business Association also gives some insight to farmland ownership and leases used in Illinois. Their data indicates that on a statewide basis, 23 percent of the land farmed is owner operated, 34 percent is crop shared and 43 percent is cash rented. Their data does not break down the different types of variations from the traditional crop share and cash rent leases.

Crop Share Leases

In many areas of Illinois, crop share leases have been the most common leasing arrangement. This has varied by area of the state. Over time though, there has been a slow but steady shift from crop share leasing arrangements to cash rent leases.

With a crop share lease, the landowner and operator split the crop and many of the crop inputs. The landowner provides the land and pays the real estate tax. The operator provides the labor, machinery and machinery operating expenses such as fuel and repairs to farm the land. Inputs such as seed, chemicals, fertilizer, custom applications charges, crop insurance, drying and storage are split according to the lease terms. The percentage sharing for crop share leases varies across the state. The 50/50 lease types are common across northern and central Illinois. In a traditional 50/50 lease agreement, the landowner and operator each receive one half of the crop and pay one half of the operating expenses listed above.

Crop share leases in southern Illinois vary more. Some are 2/3 – 1/3 leases where the operator receives 2/3 of the crop and may pay all of some of the crop inputs and 2/3's of some of the crop inputs. For instance, the operator may pay for all the seed but only 2/3's of the fertilizer and chemical expense. Other leases are 60/40 leases where the operator receives 60 percent of the crop and crop inputs may be shared the same way or on some other basis, such as 50/50 sharing.

For some expenses, there may not be a customary agreement on how the expenses should be split between the landowner and operator. These include lime, fertilizer and chemical custom application charges, burndown chemical expenses and cost of hauling grain to the farm or local elevator. Specific examples include that the landowner may still pay 100 percent of the lime cost, the operator may pay 100 percent of the custom fertilizer and chemical application charge, the operator may not charge the landowner for hauling their portion of the crop or they may not charge hauling to the farm but will charge if they have to haul it to a commercial elevator. Some landowners that have on farm storage facilities may store the operator's share of the crop at no cost but the cost of drying (electricity and propane) would be split. The way these expenses are shared are negotiated between the operator and landowner.

Some crop share leases may include an additional cash payment from the operator to the landlord. These are sometimes called supplemental rents and normally are figured on a per acre basis. Landowners may also receive building rents for properties that have buildings the tenant can use such as a house or machine shed. These payments are generally made in one or two payments per year and may be based on the rental value of the buildings or some other measure, such as a rent to pay the real estate taxes and insurance premium for the buildings.

Crop Share Lease Considerations

From a landowners' standpoint, more time and management is needed with a crop share arrangement than a cash lease. The landowner would be responsible for marketing their share of the grain, paying their share of certain operating inputs and making other decisions such as deciding whether or not to purchase crop and hail insurance and if so at what level. They would also get involved in making farm program participation decisions and taking care of that paperwork. They might also get involved with the operator in making direct production decisions such as deciding on cropping plans, seed selection and fertilizer application rates. In many instances though, the operator will be primarily responsible for making these production decisions. In some cases, the operator will even market the landowner's share of the grain. Much of the landowner involvement depends on their background and knowledge in production agriculture and their relationship with the operator.

From a risk standpoint, the landowner is taking on more risk under a crop share arrangement than a fixed cash rent lease due to their exposure to yield variability caused by weather variations and price risk caused by market price volatility. At the same time, given good yields and prices in certain years the return to the landowner may be greater than a fixed cash rent but could be less under lower yields and prices. For those landowners that are willing (and/or wanting) to share the production risk with the operator and can withstand the variability in net returns from year to year and can provide the additional time and input that is needed for this type of lease, the crop share lease is still a very suitable lease type.

Although a crop share type of lease is being used less than in the past, along with cash rent leases, it is still one of the two main lease types being used in Illinois. A crop share lease demands more time and involvement by the landowner than a cash rent lease. There is also a higher level of income risk with this lease than a fixed cash rent lease but has the potential for higher returns in good years. Other factors the landowner needs to take into consideration with this type of lease are the effects of material participating or not in the management of the farm will have on paying in and drawing social security along with estate planning consequences. The landowner should consult their tax accountant, attorney and the social security office to review these matters.

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