

Cash Rent With Bonus Leasing Arrangement

URBANA, ILL.

When signing a cash rent lease, landlords who are willing to accept more risk may be rewarded when resulting crop revenues are higher than expected, according to a new cash rent with bonus arrangement.

University of Illinois agricultural economist Gary Schnitkey explained that it is a type of variable cash rent in which a minimum base cash rent is established. There can be a bonus or a higher rent if revenue exceeds a predetermined target.

“What this lease is designed to do is to provide some flexibility in these uncertain economic times,” Schnitkey said. “If revenue turns out to be good in the fall, or after the lease is signed, there will be a bonus. If the lease and economic times turn out to be not so good, there won’t be a bonus.”

Schnitkey said the cash rent with bonus lease is regarded by Farm Service Agency (FSA) as a cash lease if the minimum cash rent is a meaningful one.

“Under a cash lease, all of the farm programs, the direct payments, and any counter-cyclical or ACRE payments flow to the farmer, which is what most people want so that the landlord doesn’t have to deal with that,” he said.

Details including examples and spreadsheets are available online at farmdoc.illinois.edu.

In an example on the website, the base is \$200 cash rent. A bonus can be added based on the crop revenue above a target. Visitors to the website can set a minimum cash rent as well as a maximum cash rent.

“You have to set different trigger revenues for different crops because corn typically has more revenue than soybeans,” Schnitkey said. “So ‘say we’re going to share revenue above \$720 per acre. You have to determine how much of that the landlord gets. If revenue turns out to be \$1,020 per acre with a \$300 overage, we have to decide whether 30 percent or 40 percent of that overage goes to the landlord.”

The difficult part of the equation is deciding what percentage will go to the landlord.

“What we would suggest is that the lower the base cash rent is, the higher the percentage because in that case the landlord is taking more of the risk,” Schnitkey said. “We typically see percent shares in the 35 to 40 percent range for corn.”

Schnitkey said the base cash rent is usually calculated below the going cash rent in the area, with the share of the bonus above that. Δ



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