

Sharing Farm Machinery

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The costs of owning and operating farm machinery on Minnesota farms make up 20%-30% of the annual per acre cost of raising corn and soybean. Keeping the ownership and operating costs low can be an important factor in reducing total crop production costs. One method of lowering machine costs is to jointly own machinery. Spreading the ownership costs over two or more farms can reduce machinery cost per acre.

Joint ownership or shared ownership can also more fully utilize the machine. If shared ownership allows the machine to be used 24 hours per day rather than 12 or 16, ownership cost efficiency should improve.

Machine costs fall into two major categories. The ownership costs include the purchase of the machine (usually called annual depreciation), sales tax, interest, insurance on the machine, repairs, maintenance and housing. Fuel is the most common operational cost.

There are several ways to structure shared machinery agreements. They include:

- Sole ownership with a custom agreement. One person owns the machine. He/she is responsible for all the ownership costs of the machine. He/she signs a custom farming agreement with another farmer for a set fee. The fee may or may not include fuel and may or may not include labor. This type of ownership keeps everything very simple. Everyone involved in the agreement knows what is expected of him or her. Farmer A may own the combine and have an agreement with B to combine his corn for \$20.00 per acre. Farmer B may have the planter and cultivator and agree to custom plant and cultivate for Farmer A. They may share labor and work together on the farm or all labor could be provided by the owner of the machine.
- Machinery can be purchased jointly by two or more farmers who wish to work together. If the machine were purchased 50-50, each party would be responsible for making ½ of the interest and principal payments. A working bank account could be established to handle transactions regarding jointly held machinery. A formal partnership could also be used to handle jointly held machinery. Each person using the

machine would pay an agreed amount per acre into the account. This fee would be used to pay for repairs, insurance and housing the machine. If one of the owning parties houses the machine, they would be compensated for it out of the joint account. Each party would be responsible for the fuel used on his farm. Seldom will each owning farmer have the same number of acres. To make things equal, the farmer having more acres would pay full custom rates on the excess acres. For example: A has 500 acres and B has 600 acres. B would pay full custom rate of \$23 per acre to the joint account on the extra 100 acres, while each would pay \$5.00 per acre for their first 500 acres. If the joint account falls short or exceeds amounts needed for costs, added assessments or refunds could be made.

- Machinery can be jointly purchased in the same percentage as acres farmed. If A has 750 acres and B has 250 acres, a 75%-25% split of all ownership and operational costs could be set up. Ownership adjustments will be required if either partner changes their acreage, making this a cumbersome method of ownership.

In the event of death of a partner, the surviving owner is usually given the first option to purchase the machine at an appraised price or on a previously agreed upon depreciation schedule. If the survivor does not exercise his option, the machine is sold to the highest bidder and the proceeds split between the estate of the deceased and the survivor.

When purchasing machinery together, typically the titling would be as tenants-in-common. Tenants-in-common gives you an undivided interest in the property that will pass to your heirs at your death. In the case of a "big ticket" item, it also would be possible for the co-owners to carry cross life insurance on each other for the purpose of purchasing the machine from the deceased persons heirs. In the case of a parent/child joint ownership, a joint tenancy ownership may work. In joint tenancy ownership, the survivor gets the machine at the time of the partner's death. It is important to specify the type of ownership on the purchase agreement papers.

One key to successful joint machinery ownership is for the partners to agree on when and how each piece

of equipment will be used. A schedule of usage may be set up. It may call for A getting to use the machine on day 1 and B on day 2, A on day three and so-forth. An alternative is to take alternating fields, A first, B second, A third etc. Other alternatives can be worked out where one party has the machine until the dryer and wagons are full, when the other partner would take the machine until his facilities were full. Any type of agreement is possible. It is important to determine up front who will use the machine first and how it will be shared through the season. Depending on weather conditions, use decisions may have to be made on a day-to-day basis. Do both you and your partner have the temperament to be able to negotiate and work through these decisions during the busy harvest season? Be sure to determine how you will handle operational down time. It may delay your scheduled usage.

Another key to success is to make an agreement as to how and when a machine is serviced, maintained, fueled, etc. Do you want the machine fueled, clean and in good repair when you receive it from your partner? Or is it OK to get it with mud on the tires, weeds hanging from it and with a vital part dragging on the ground? How about half eaten sandwiches, pop cans and junk in the cab? Establish some rules of conduct right up front. Agree on who is responsible for repairs. If one partner provides all the labor for repairs, maintenance, oil changes, and lubrication, they should be reimbursed for it. If it is shared equally, you would not compensate partners.

Pooling labor can have some big advantages. You can pool labor by all partners working together on all farms or each partner using their own labor on their farm and not helping on the partner's farm. Decide how you will operate in advance of entering a joint venture. If one partner works more hours on the other partner's farm than was returned, agree on a wage rate for those extra hours.

When selecting a potential joint owner, look for someone who has similar habits regarding machinery care and maintenance as you. Select someone who may live close to you to minimize needless transportation costs. You might also want to work

with someone who has a similar work ethic and personality as you. If you and your partner have conflicting personalities, expect a short business relationship. Also, select someone with a similar financial situation. A partner who is in a weak financial position may not be able to trade up or finance needed equipment. Be careful when financing jointly owned machinery at separate lenders. If one partner owns 50% but pledges 100% of the machine as collateral, legal and liability problems can occur.

Owning machinery with someone out of the area may be a good idea. A corn belt farmer jointly owning a combine with a wheat belt farmer can be a good match. They can more fully utilize the machine over a longer (wheat/corn) harvest period and yet not have conflicts with usage during their particular harvest season.

It is best to have a predetermined dissolution plan. If both want out, the machine can be sold out right to the highest bidder and the proceeds divided. If both want to own the machine, but want out of the joint ownership, one person (draw straws) may set the price and the other partner decides whether they will buy or sell at that price. If one wants to sell out, an appraisal of the implement by a local appraiser could determine the buyout price.

After finding someone who wishes to jointly own farm machinery with you, thoroughly discuss the arrangement before going ahead. If you decide to proceed, write down your agreement. Be sure to specify details as to all the items mentioned above. The more details you can discuss, resolve, agree upon and put in writing (signed by both of you) before going ahead, the better your chance for a successful business venture.

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