

Beef Cow Joint Agreements

Beef cow herds have always been a popular enterprise for small and medium sized farms in the Midwest. Since owning cattle involves a relatively high capital investment, many cow-calf enterprises are carried out jointly by two or more people. One party may own the breeding herd while another party supplies the labor to take care of them. Facilities, feed, health costs and other resources can be shared in a variety of ways--there are no hard and fast rules to follow.

Under joint agreements the question also arises as to how income should be shared. The basic principle is that the calves or the income from the sale of the calves should be shared in the same proportion as the total costs of production. Noncash costs for contributions such as unpaid labor and owned pasture land should be included along with out-of-pocket costs. Besides labor, a management charge should be included to reflect both day-to-day and long-term decision making. A rule of thumb of 10 percent of all other costs is often used to value the management contribution.

Livestock Share Lease

Terms of a traditional livestock share lease call for the tenant to provide labor, machinery, half the livestock, half of the harvested or purchased feed, and half of the seed, fertilizer, health, marketing and miscellaneous costs. Income is typically divided equally, as well. Often cropland is also included in the lease, with costs shared according to traditional crop share lease provisions. Adding up the costs contributed by each party using the typical budget values in Example 1 shows that, indeed, the totals for the tenant and landlord are almost equal. Sales from cull cows and bulls are split equally, as well as the calf income, and both parties help purchase or contribute replacement heifers and bulls.

Other Arrangements

Some landowners prefer to provide all the livestock and land, but not pay any other expenses. Their contributions would consist of the breeding livestock, pasture, land for hay and stalk grazing, and corrals and fences. Example 2 shows that these costs add up to about 40 of the total, so calf income would be divided 40 percent to the owner and 60 percent to the operator.

Another variation is for an investor to provide only the livestock, which represents about 15 percent of the total costs (example 3). At the other extreme, someone who contributes only labor to care for the herd would earn about 20 to 25 percent of the revenue or calf crop (example 4).

Many other combinations are possible, and can be evaluated by simply adding the estimated costs of each party's contribution and converting it to a percentage of the total. Typical costs from budgets like those found in Ag Decision Maker Information File B1-21 can be used to formulate a new agreement. However, actual costs should be substituted for typical costs whenever possible. If calves will be carried to a heavier weight, additional costs for feed, health, and labor would need to be incorporated.

To access a decision aid spreadsheet to help evaluate the contributions of each party in a beef cow sharing agreement, click on the decision aid icon at the top of this page.

Income from Culled Breeding Stock

The breeding herd should be treated as a capital asset, just like land, machinery or buildings. Ownership records of each individual animal should be carefully maintained, for tax records. The income received from selling cull cows, bulls and heifers should go to the owner(s) of the livestock, regardless of how the calves are shared. Likewise, the owner of the herd should provide replacement bulls and heifers. These may be purchased from outside or drawn from the herd owner's share of the calf crop.

Management Decisions

When a good working relationship exists between the parties, all management decisions may be made by mutual agreement. The person providing the labor is usually responsible for day-to-day management decisions about feeding, breeding and treating health problems. However, larger decisions such as buying or selling livestock or setting the general feeding, breeding and health programs should be discussed well in advance. Certain goals related to management areas such as calving percentage and weaning weights may be specified in advance. The type of records needed to verify these goals and the system to be used should also be discussed and agreed on.

Lease Agreement

Written agreements help avoid disagreements later on. They also provide a record for tax preparers and heirs. A cow-calf operation represents a substantial investment, in livestock, pasture and handling facilities. A sharing agreement should be set up to last for at least 5 years or more. Details may be reviewed annually, however.

A sample cow-calf lease agreement is available from the Manitoba Agriculture and Food Agency, at: www.gov.mb.ca/agriculture/financial/farm/caf22s01.html .

By William Edwards, Extension Economist. wedwards@iastate.edu 515 294-6161

| Cow-Calf Budget | | | | | |
|------------------------------------|---------------------------------|-------------------------|------------------------|-------------------------|------------------------|
| (calves sold after weaning) | | | | | |
| <u>Cost Item</u> | <u>Cost per Cow Unit</u> | <u>Example 1</u> | | <u>Example 2</u> | |
| | | <u>Owner</u> | <u>Operator</u> | <u>Owner</u> | <u>Operator</u> |
| Pasture land (2.5 acres @ \$30) | \$75.00 | \$75.00 | | \$75.00 | |
| Pasture fertility, weed control | 50.00 | 25.00 | 25.00 | | \$50.00 |
| Corn (4 bu. @ \$2.25) | 9.00 | 4.50 | 4.50 | | 9.00 |
| Supplement and minerals | 8.00 | 4.00 | 4.00 | | 8.00 |
| Mixed hay (2 tons) | | | | | |
| - seed | 5.00 | 2.50 | 2.50 | 5.00 | |
| - annual fertility, pesticides | 26.00 | 13.00 | 13.00 | | 26.00 |
| - labor | 18.00 | | 18.00 | | 18.00 |
| - machinery | 34.00 | | 34.00 | | 34.00 |
| - land | 20.00 | 20.00 | | 20.00 | |
| Stalk grazing (4 acres @ \$3) | 12.00 | 6.00 | 6.00 | 12.00 | |
| Health | 25.00 | 12.50 | 12.50 | | 25.00 |
| Utilities | 5.00 | 5.00 | | 5.00 | |
| Machinery, fuel, repairs | 10.00 | | 10.00 | | 10.00 |
| Marketing, miscellaneous | 20.00 | 10.00 | 10.00 | | 20.00 |
| Interest on feed, other costs | 9.50 | 5.35 | 4.15 | 3.50 | 6.00 |
| Interest, depreciation, insurance | | | | | |
| - machinery and equipment | 18.00 | | 18.00 | | 18.00 |
| - fences and corrals | 25.00 | 25.00 | | 25.00 | |
| - livestock | 90.00 | 45.00 | 45.00 | 90.00 | |
| Labor (9 hours @ \$9) | 81.00 | | 81.00 | | 81.00 |
| Management (10% of costs) | 54.00 | 27.00 | 27.00 | | 54.00 |
| Total | \$594.50 | \$279.85 | \$313.65 | \$235.50 | \$359.00 |
| Percent contributions | | 47% | 53% | 40% | 60% |

Cow-Calf Budget
(calves sold after weaning)

| <u>Cost Item</u> | <u>Cost per Cow Unit</u> | <u>Example 3</u> | | <u>Example 4</u> | |
|-----------------------------------|--------------------------|------------------|-----------------|------------------|-----------------|
| | | <u>Owner</u> | <u>Operator</u> | <u>Owner</u> | <u>Operator</u> |
| Pasture land (2.5 acres @ \$30) | \$75.00 | | \$75.00 | \$75.00 | |
| Pasture fertility, weed control | 50.00 | | 50.00 | 50.00 | |
| Corn (4 bu. @ \$2.25) | 9.00 | | 9.00 | 9.00 | |
| Supplement and minerals | 8.00 | | 8.00 | 8.00 | |
| Mixed hay (2 tons) | | | | | |
| - seed | 5.00 | | 5.00 | 5.00 | |
| - annual fertility, pesticides | 26.00 | | 26.00 | 26.00 | |
| - labor | 18.00 | | 18.00 | 18.00 | |
| - machinery | 34.00 | | 34.00 | 34.00 | |
| - land | 20.00 | | 20.00 | 20.00 | |
| Stalk grazing (4 acres @ \$3) | 12.00 | | 12.00 | 12.00 | |
| Health | 25.00 | | 25.00 | 25.00 | |
| Utilities | 5.00 | | 5.00 | 5.00 | |
| Machinery, fuel, repairs | 10.00 | | 10.00 | 10.00 | |
| Marketing, miscellaneous | 20.00 | | 20.00 | 20.00 | |
| Interest on feed, other costs | 9.50 | | 9.50 | 9.50 | |
| Interest, depreciation, insurance | | | | | |
| - machinery and equipment | 18.00 | | 18.00 | 18.00 | |
| - fences and corrals | 25.00 | | 25.00 | 25.00 | |
| - livestock | 90.00 | 90.00 | | 90.00 | |
| Labor (9 hours @ \$9) | 81.00 | | 81.00 | | 81.00 |
| Management (10% of costs) | 54.00 | | 54.00 | | 54.00 |
| Total | \$594.50 | \$90.00 | \$504.50 | \$459.50 | \$135.00 |
| Percent contributions | | 15% | 85% | 77% | 23% |