A frequent problem on rented farms is how to provide improvements that are desirable, but are beyond what the landlord can reasonably be expected to furnish. A tenant may be willing to provide a substantial amount of the labor and money needed for things which contribute to his earnings and the comfort of his family. He wants to know, however, that he will be repaid if he moves before he has gained back his share of the cost.

The agreement on page 3 of this folder is designed to help solve this problem. It may be used for conservation improvements; for improving or modernizing the farm home; and for minor buildings, extra fencing, a deep well, and special equipment. When properly executed, the agreement should promote better farming, better farm living, and better landlord-tenant relationships.

The agreement provides space for each of the following: a description of the improvement; when it is to be completed; the percent of labor, material, and machinery to be furnished by the landlord and by the tenant; the rental year for first depreciation; rate of depreciation; tenant's value or cost; tenant's undepreciated value or cost at the end of each lease year; signatures by landlord and tenant.

This reimbursement agreement should supplement a written farm lease and a complete farm plan. Forms for making the lease and for working out a farm plan can be obtained from any Illinois farm adviser or direct from the Department of Agricultural Economics of the University of Illinois at Urbana.

Other plans may be used. Sometimes the landlord furnishes the improvement with the understanding that the tenant will pay him a cash rent or flat annual amount to cover the tenant's depletion, depreciation, or other cost. For example, the landlord might pay the total cost of rock phosphate at time of application and receive from the tenant, each year for five years, a depletion payment of 20 percent of half the cost. When this plan is used, no settlement is necessary when the tenant moves, and there is no cost to pass on to the oncoming tenant except the unpaid annual payments.

Another plan is for the landlord and tenant to enter into a written agreement that the tenant will erect buildings or make installations with the privilege of removing them when he leaves the farm. This plan cannot be used for land improvements, large permanent buildings, or installations that cannot be removed without damaging the building to which they are attached. However, arrangements are sometimes made whereby the tenant installs permanent improvements in return for a low cash rent. If the tenant does this he should have assurance of long-term tenure or of reimbursement if he is required to move.

How to Figure Unused Value of Improvements

Use straight-line depreciation. Since straight-line depreciation (the same amount each year) is generally used for items depreciable under federal income-tax regulations and for accounting purposes, the same method is recommended for a reimbursement agreement. Then when the tenant leaves the farm he will be repaid for the full value of his contribution, less the depreciation allowed. Assume, for example, that the improvement is to be charged off over a five-year period. If the tenant stays on the farm only one year after he starts to receive benefit from the improvement, he would be reimbursed for 80 percent of his
contribution. If he leaves at the end of two years, he would receive 60 percent; after three years, 40 percent; after four years, 20 percent; and after five years, none.

**Limestone and rock phosphate.** How long these will last varies with the rate of application, cropping systems, soil type, and other factors. Usually the amounts that are recommended will last eight years or more. Such a long depreciation period, however, is usually not satisfactory for a conservation agreement. Consequently it is recommended that limestone and rock phosphate be charged off in five years, beginning with the year in which the crops are first benefited, as agreed to by both parties.

**Other fertilizers.** Whether soluble fertilizers containing nitrogen (N), phosphate (P<sub>2</sub>O<sub>5</sub>), and potash (K<sub>2</sub>O) have any residual value beyond the year in which they are applied will depend on the material and rate of application, and to some extent on the way the crops are used.

Charge off such fertilizers in the year they are applied if the applications are:

1. Less than 100 pounds per acre of total plant food (N, P<sub>2</sub>O<sub>5</sub>, K<sub>2</sub>O) in a mixed fertilizer, as 2-12-6, 3-12-12, 8-8-8, and 0-20-20.
2. Less than 60 pounds per acre of plant food (P<sub>2</sub>O<sub>5</sub>) in superphosphates, as 0-20-0 and 0-45-0.
3. Less than 100 pounds per acre of plant food (K<sub>2</sub>O) in potash-fertilizing materials, as 0-0-50.
4. Any amount of nitrogen fertilizer.

Charge off heavier applications over a three-year period.

To get the pounds of plant food, multiply the sum of the figures in the formula by the pounds of fertilizer and divide by 100. For example, 300 pounds of 0-20-20 contains 120 pounds of plant food (300 × 40 ÷ 100).

**Terraces.** Good terraces may last indefinitely if they are properly cared for. To give credit for unused value, it is recommended that the tenant's share of the cost of the terraces be depreciated over a five-year period with a flat 20-percent depreciation for each year.

It should be the responsibility of the tenant to maintain terraces after they have been erected. If he fails to do so, he may be required to refund to the landlord the costs of repairs. If the terraces are destroyed by a cloudburst or some other calamity, the landlord should share in the cost of rebuilding.

**Other soil-conserving structures.** The tenant may make substantial contributions to such improvements as reservoirs for livestock water and dams to assist in erosion control. These may also be depreciated over a five-year period. For grass waterways a three-year depreciation schedule is recommended.

**Relocating fences.** Frequently in laying out terraces or strip cropping, it is necessary to relocate fences. If the tenant moves the fences, a value may be placed on his contribution and written off over a five-year period.

**Drainage.** Installing new tile drains or constructing new open ditches of a permanent nature is usually considered the responsibility of the landlord. If the tenant contributes to such an improvement, a five-year depreciation schedule for his costs, 20 percent allowed each year, is suggested.

**Improvements for modernizing the farm home.** When the tenant helps to provide such improvements, they may be written off over various periods, depending on their cost, probable useful life, and the age and condition of the house to which the fixtures or improvements are attached. In no case should the period be longer than the life of the building. Minor items may be written off in one to three years — $45 for a kitchen sink, for example. But more expensive permanent items, such as $240 for bathroom fixtures, should be depreciated over a longer period, perhaps eight to twelve years.

Improvements for which an agreement may be desirable include such items as: bathroom fixtures, plumbing, pressure water system, water heater, sewage-disposal system, stoker, electric wiring and fixtures, storm windows, permanent floor coverings, insulation, extensive paint jobs, kitchen cabinets, and other relatively expensive installations that cannot be removed without marring the building.

**Minor buildings.** Buildings that may be furnished by the tenant and for which the landlord and tenant may have a reimbursement agreement include: storage for sealed grain, a milkhouse if the dairy income is not shared, and a poultry house for a large poultry enterprise in which the landlord does not share.

Such buildings may be written off over a period of ten years or more. The number of years should depend largely on the probable use that future tenants will make of the buildings.
AGREEMENT TO REIMBURSE THE TENANT FOR HIS UNDEPRECIATED IMPROVEMENTS WHEN HE LEAVES THE FARM

(Complete two copies—one for landlord, one for tenant)

Description of farm on which the improvement is to be applied, installed, or erected: Section, Township, Range, County, consisting of about acres, and commonly known as the farm.

Type of lease (check one): crop-share cash; crop-share; livestock-share; other.

Section 1

Description of improvements and time of completion. In consideration of the mutual agreements contained in this contract, the signers agree to purchase construct (cross out one) the following fixed improvements for use on the above described farm, to be completed on or before the day of , 19:

Section 2

Percent of contribution assumed by the landlord and tenant. The signers agree that they will share the contributions necessary to the completion of the improvements in the following percentages:

<table>
<thead>
<tr>
<th>Labor</th>
<th>Tenant (percent)</th>
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<table>
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<tr>
<th>Material</th>
<th>Tenant (percent)</th>
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<table>
<thead>
<tr>
<th>Machinery, equipment, trucking</th>
<th>Tenant (percent)</th>
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Section 3

Figuring cost, rate of depreciation, and undepreciated cost. It is agreed that the signers will calculate the value or cost of the tenant's contribution as soon as the improvement is completed and will record the value or cost in Clause A below.

It is further agreed that the tenant's cost or value will be depreciated annually at a uniform rate over a year period; that the first depreciation will be for the rental year ending , 19; and that if the tenant leaves the farm before the value or cost is fully written off through annual depreciation, the landlord will pay the tenant for the tenant's undepreciated value or cost as recorded in Clause B below, less any government payments received by the tenant.

Clause A. Tenant's value or cost when the improvement is completed: $

Clause B. Tenant's undepreciated value or cost at the end of lease year for which depreciation is charged off:

<table>
<thead>
<tr>
<th>First year... $</th>
<th>Fifth year... $</th>
<th>Ninth year... $</th>
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<tbody>
<tr>
<td>Second year... $</td>
<td>Sixth year... $</td>
<td>Tenth year... $</td>
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<tr>
<td>Third year... $</td>
<td>Seventh year... $</td>
<td>Eleventh year... $</td>
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<tr>
<td>Fourth year... $</td>
<td>Eighth year... $</td>
<td>Twelfth year... $</td>
</tr>
<tr>
<td>Additional years</td>
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</tbody>
</table>

Signed, 19

[Signature]

Landlord

[Signature]

Tenant
Suggestions for Making Satisfactory Agreements

Whatever the type of arrangement entered into, it should be based on a clear understanding of the duties and responsibilities of both landlord and tenant. The following basic principles are suggested as a guide for achieving a fair and satisfactory agreement:

1. The landlord should accept responsibility for investing a reasonable part of his share of the farm's earnings in adequate farm and home improvements. A productive and adequately improved farm will attract the best type of tenant.

2. In general, it is the landlord’s responsibility to furnish fixed improvements of such quality, quantity, capacity, and convenience as will meet the needs of the farm and the farm family. This means the landlord should usually furnish such capital land improvements, buildings, and attached fixtures as are needed for effective conservation and production and for comfortable family living when size of farm and efficient organization and operation are considered.

Departure from this rule, however, may be advisable under the following conditions:

a. When the tenant wants improvements beyond those considered reasonable under the type of lease that is in effect, or for good farm operation, or for maintaining desirable standards, he may be willing to assume a substantial part of the cost. For example, the tenant with a crop-share lease may desire a new 1,000-hen poultry house or a stoker or oil burner for the furnace, which is usually more than could be expected under this type of lease.

b. When the landlord with a first-class farm has stood the cost of basic applications of limestone, rock phosphate, and potash, the landlord and tenant may agree to share the cost of future applications in the same proportion as they share in the division of the crops.

c. When rentals are low in relation to what the landlord is furnishing and in relation to the tenant’s benefits, the tenant may assume certain capital improvement costs. For example, a tenant who is paying low cash rent and has assurance of long tenure may be willing to furnish bathroom fixtures, a sewage disposal system, kitchen cabinets, or other improvements from which he and his family will benefit.

d. When skilled labor to erect, install, or apply needed improvements is not available at a reasonable price, the tenant may be able and willing to do the work if he knows that he will be repaid through use of the improvement or reimbursement in case he moves.

3. When the landlord and previous tenant have allowed the farm to deteriorate below the level of the general community, the landlord has a responsibility to build up the farm to a good level before expecting the tenant to make major contributions to the improvement or maintenance program. And, of course, as long as the farm is inferior in productivity, size or adequacy of buildings, or in other respects, to other farms in the community, rentals should be adjusted accordingly.

4. It is the tenant’s duty to keep all improvements that require minor repairs — such as buildings, fences, and drainage — in as good condition as he found them, less ordinary depreciation, provided the landlord furnishes the materials needed for the work. It is also the tenant’s responsibility to furnish enough farm labor to operate the farm efficiently.

5. The landlord and tenant should share total farm income in proportion to the value of their respective contributions to the farm business as a whole. All provisions in the lease should therefore be considered when deciding on a fair division of the cost for any individual item.

6. Planning the organization and operation of a farm is the joint responsibility of the landlord and the tenant.

7. Although customs become established through trial and error, they do not always provide a satisfactory basis for deciding on leasing practices. Conditions change; farms differ; and men do not have equal ability to organize and operate farms.