

Will livestock leasing work?

NEWARK, Del. — Commercial businesses often use leasing as a way to meet capital needs. The practice is now being adopted by farmers in some parts of the country as an alternative to buying equipment or breeding stock — especially in dairy and swine operations.

To find out whether the idea will work on the Delmarva peninsula, last year economists in the University of Delaware's colleges of agricultural sciences, and business and economics surveyed the area's agricultural and business communities to learn how farmers felt about leasing. The survey was funded by a grant from Rothchilds, a New York based investment firm.

According to Extension Farm Management Specialist Don Tilmon, who participated in the study, results showed that while farmers on the peninsula are still reluctant to lease equipment, some could and, in the future, probably would benefit from leasing livestock.

"Commercial firms are now entering this market and complete herds, herd expansions and replacements are being made available," he says. One firm claims to have leased 18,000 cows at an average cost of about 87 cents per cow per day. This is less than the interest a farmer would pay on money borrowed to buy that cow.

Leasing allows a farmer to retain the use of assets such as breeding stock without investing equity or debt capital. The arrangement also benefits the owner of the stock, who gets a tax benefit because, under the 1981 tax reform act, the profits are considered capital gains rather than income — a distinction worth tax savings of 60 percent on the money involved.

Lease arrangements offer several other advantages to both parties. No down payment is required from the lease. Payments are fully deductible tax expenses. A lease gives a beginning farmer a chance to acquire resources, and may also be a way to obtain better quality livestock than would be possible otherwise.

At the same time, the lessor or owner of the livestock retains the breeding herd without providing labor and operating inputs, and may have investment credit and accelerated cost recovery (depreciation) tax benefits. Total returns may also be higher through rental income and tax advantages.

Tilmon says farmers who currently own a livestock operation but are nearing retirement may want to consider leasing their herds as an orderly means of phasing out of the business without being subjected to large tax liabilities. However, there are also some drawbacks to livestock lease arrangements, he cautions. Both parties give up partial control and possible conflicts of interest or disagreements are much more likely than in a sale transaction. In the long run, leasing may also be more expensive than a capital purchase.

A lease agreement is a binding contract and should be in writing, Tilmon says. Engage an attorney to help with the legal details. The specialist is also available to consult with farmers who want to make sure such an arrangement meets their needs.



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