

# So Now You Own a Farm

## A Beginner's Guide to Farmland Ownership




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Our new publication available at  
[farmoffice.osu.edu](http://farmoffice.osu.edu) and  
[nationalaglawcenter.org](http://nationalaglawcenter.org)

- Chapter 1. Your Farmland
- Chapter 2. What is the Value of Your Farmland?
- Chapter 3. Leasing Your Farmland
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- Chapter 5. Using Your Own Farmland
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- Chapter 8. Controlling and Protecting the Future of Your Farmland
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# THE BEGINNER'S GUIDE TO FARMLAND OWNERSHIP

Navigating Your Journey as a Novice Landowner



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AND ENVIRONMENTAL SCIENCES





# Farmland Statistics



880 million acres of farmland in the U.S.



39% of the land is farmed by someone other than the owner.



80% of leased farmland is owned by non-farm owners who are not the farm operators.



In Ohio, the average non-farmer landowner lives about 100 miles away from their farmland.



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# Landowner is in the Driver's Seat

- Demand for farmland consistently surpasses its availability.
- Tenant farmers are always looking for more land to lease.
- Landowner holds significant leverage in the transaction process.



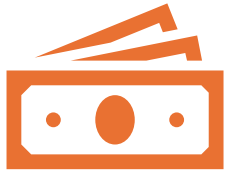


# What is the Value of Your Farmland?

- The first step for many new landowners is to understand the land's value.
- Appraisal:
  - Licensed appraiser.
  - Non-licensed appraiser – realtor/auctioneer.
- Estate appraisals.
- Other sources of farmland value:
  - University Extension surveys and data.
  - USDA data.
- Values can vary significantly between farms, even farms that are next to each other.



# Leasing Your Farmland



## Cash Rent Leases

Fixed rental rate

Most popular



## Share Rent Lease

Landowner and tenant split costs and crop

Allows landowner to benefit from higher prices and yields

Landowner also shares risk



## Flex Lease

Base rent payment with performance-based bonus.

Yield, price and sometimes costs.



# Leases Should be in Writing

- Surveys from OSU indicate around 50% of leases are verbal.
- Be sure to know the signing requirements for your state.
- Long-term leases should be recorded to prevent Innocent Purchaser from voiding the lease.
- See sample leases and publications at **[aglease101.org](http://aglease101.org)**
- See Farmland Lease Checklist available at **[farmoffice.osu.edu](http://farmoffice.osu.edu)** and other state agricultural law websites.



# Selling Farmland

- What is the tax liability?
  - Tax basis is key.
- Options for selling:
  - Private sale – no realtor.
  - Private sale with realtor.
  - Public auction.
  - Closed bids.





# Taxes

- Capital gains may be owed upon sale of property or sale of easement.
  - Capital gain = sale price – tax basis
  - Tax rate is 0%, 15%, or 20+%
- Rental income will be subject to income tax but probably not self-employment tax.
- Stepped-up basis at previous owner's death is important to document.



# Alternative Uses for a Farm

- Energy leases:
  - Oil/gas, solar, wind.
- Conservation/Ag Easements
- Get help, you get one chance to get the lease/easement right.
- Leases will likely be assigned making the terms of the lease the only thing that matters.





# Protecting Farmland from Risk

- Farmland is a low-risk asset to own but property and liability insurance is a must.
- Consider environmental insurance.
- Include indemnity clause in the lease.
  - Hold tenant liable for their actions.
- Business entities can protect the land from the owners' risks and protect the owners from the land's risks but is no substitute for liability insurance.
- Consider an entity to avoid **partition** if land will be jointly owned.





# Soil Health and Stewardship

- Soil health makes the farm more valuable and productive.
- Consider including a soil testing provision in the lease.
  - Tenant must maintain soil fertility.
  - Consider getting professional help from a Certified Crop Consultant, agronomist or Extension educator.



# Key Takeaways

1. Assess your goals.
  - Keep and lease or sell and collect sale proceeds.
2. Understand the land's value for sale and lease.
3. Plan for taxes and legal structures.
4. Explore alternative uses.
5. Protect the investment.
  - Insurance, business entities.



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