Extension
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Introduction to Beef Cow Leases

Leasing cows can be an effective financial strategy for beginning or expanding cow-calf producers. Lack of capital is often a barrier for new producers and producers looking to expand. By alleviating the capital barriers of high input and start-up costs, leasing provides a less-capital-intensive and lower-risk option compared to purchasing cows, making it especially attractive to new producers or those with limited resources. Working with an established cow producer can also provide beginning producers valuable management insight and experience. For producers wanting to reduce herd size, cow leases offer an alternative to selling animals that allows them to decrease labor requirements, defer tax burdens, maintain revenue generation, preserve animal genetics and retain some control over the herd.

In a cow lease arrangement, one party owns the animals (the owner) and one party manages the herd (the operator). Owners who might consider leasing out their cows include:

- Those interested in reducing stocking rates while retaining ownership, genetics and income.
- Aging producers wanting to retain ownership and income streams while reducing hands-on responsibility.
- Investors lacking production knowledge or wanting to be hands-off with production.
- Those who are looking to transfer ownership over time to reduce tax burdens or transition their production to the next generation.

Operators who might consider leasing beef cows include:

- Individuals wishing to enter the cow-calf industry or expand operations with a lower initial capital investment.
- Producers seeking an expansion opportunity with reduced capital requirements.
- Producers wanting to experiment with increased stocking rates or use excess forage without committing to purchasing animals.
- Producers interested in gaining improved genetics without purchasing animals.
- Individuals looking to receive ownership of a herd gradually.

Lease structures

Livestock leases can be structured as cash, share or flexible cash leases. In any of these lease structures, cows are typically rented on a per-head per-year basis. When negotiating a lease, the parties should discuss and agree on key factors such as:

- Who owns the animals retained for replacements, and who is responsible for the cost to develop replacements?
- Who makes breeding decisions?
- What are acceptable breeding and calving rates?
- How will culling decisions be made, and who receives cull cow income?
- What is the expected body condition score of cows and calves, and who determines the score?
- What is an acceptable death loss, and how will losses be handled financially?
- Who provides bulls?
- Where will the animals be held?
- Who provides transportation?
- Who will make marketing decisions?
- Is this a single- or multiyear lease?

Although any aspect of a lease is negotiable, different lease structures have common attributes. Generally, in standard cash and flexible cash leases, the operator will be responsible for all operating expenses, such as feed, labor and veterinary expenses. Cash leases normally grant operators ownership of all calves and the greatest amount of control over herd management decisions. Owners are typically only responsible for ownership expenses such as depreciation, interest and insurance. Table 1 shows examples of ownership and operating costs from the MU Extension Missouri Beef Cow-Calf Planning Budget.

In share leases, expenses can be shared in any manner agreed on by the owner and operator. Conventionally, owners are responsible for providing breeding stock and related expenses, giving them a greater degree of control over breeding decisions. In any leasing structure, open or cull cow sales are typically retained by the owner unless otherwise specified in the agreement. An exception

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Table 1. Example cow ownership and operating costs.

Ownership Costs	Operating Costs
Interest on breeding stock	Pasture (rental rate)
Breeding stock depreciation	Hay and forage
Breeding stock death loss	Grain
Insurance and taxes on breeding stock and capital items	Protein and minerals
	Labor
	Veterinary, drugs, and supplies
	Marketing
	Machinery and utilities
	Livestock facility repairs
	Cow replacement
	Bull replacement charge or AI charge
	Professional fees (legal, accounting, etc.)
	Operating interest

might be if replacements are being developed within the lease, in which case cull income could be shared.

Cash leases

A cash lease is the most straightforward lease structure. In a cash cow lease, cows are rented on a flat rate per head. The rate paid by the operator is typically agreed on when the lease is established. Of the three lease types, cash cow leases maximize an operator's control and responsibility. Operators in a cash cow lease benefit from a higher profit potential, but they are more exposed to production and price risk. For cow owners, cash leases provide steady passive income, eliminate market risk and require little to no labor or management contributions. Although cash leases mitigate low production and price risk, owners are also unable to reap the benefit of favorable production and prices.

MU Extension publication G679, Missouri Beef Cow-Calf Planning Budget, can provide a foundation for determining a fair rate. Owners can use the budget to estimate their cost of owning and providing the animals to determine their minimum required rate. This cost includes depreciation, interest, taxes, insurance, death loss, replacements and any other costs contributed by the owner. Using the budget to estimate revenue and costs, operators can calculate the maximum rental rate they can reasonably offer given their expected income and expenses. Knowing the owner's minimum rate and the operator's maximum rate gives the two parties parameters for deciding a fair lease value. Alternatively, the University of Nebraska's Cow-Calf Share Lease Cow-Q-Lator (XLS) can calculate a rate based on contributions.

Share leases

In share leases, the owner and operator share expenses, income, management decisions and, in turn, risk. Cows in a share agreement are leased on a percentage split depending on inputs contributed by the owner and operator. Each party's share of income is based on the percentage of their contribution to total production costs. Shares can be given as cash payments or actual possession of calves. Unlike in cash leases, operators in a share lease give up some of their top-end earning potential because income is split with the owner. However, they are also able to offset risk in difficult years.

Because share leases encourage collaborative management with the livestock owner, operators can gain insight and experience. Share leases can also facilitate the transfer of herd ownership by gradually shifting more financial and managerial responsibility to the operator. In a share lease, cow owners can reduce their labor requirements while generating revenue and maintaining a level of herd management. Because lease income is variable, owners in a share lease have the potential to capture additional income but are more exposed to the risks of poor herd production and unfavorable price swings.

MU Extension's Missouri Beef Cow-Calf Planning Budget can be used to calculate shares. Owners and operators can follow the budget to calculate their cost contributions. Shares are figured by calculating each party's contributions as a percentage of total production costs. For example, if the owner contributes 40 percent of the total costs, they would receive a 40 percent share of the calf crop. Alternatively, the University of Nebraska's Cow-Calf Share Lease Cow-Q-Lator (XLS) can be used to calculate equitable shares based on contributions. Table 2 shows an example share calculation using MU Extension's cost estimates from the 2025 Missouri Beef Cow-Calf Planning Budget.

Flexible cash leases

A flexible cash lease, or flex lease, is another option for leasing beef cows. This lease structure is essentially a hybrid of a traditional cash lease and a share lease. Similar to cash leases, flex leases guarantee a lease payment regardless of production; however, they incorporate the risk-sharing aspect of a share lease. Flex leases involve two separate payments, one fixed and one

Table 2. Example share lease calculation.

	Owner's contributions	Operator's contributions
Operating costs (per cow)		
Hay and forage	$269.96	
Grain, protein and mineral		$75.65
Labor		$158.40
Veterinary, drugs and supplies		$37.50
Machinery and utilities		$120.41
Ownership costs (per cow)		
Depreciation on facilities and equipment	$9.10	
Interest on breeding stock	$237.00	
Insurance and taxes on breeding stock and capital items	$59.18	
Total costs per cow	**$575.23**	**$391.96**
Share of calf crop	**59%**	**41%**

Note: This example assumes a 50-cow herd with purchased replacement.

variable. A base payment and variable payment structure are agreed on when the lease is created.

The base payment is the minimum amount the owner will receive, and it is typically paid at the beginning of the production year. The production year must be set, with specific dates (e.g., June 15, 2025, through June 14, 2026, for fall calving). Base payments are negotiable and can be a set dollar amount or calculated as a percentage of a fixed cash rental rate. MU Extension's Missouri Beef Cow-Calf Planning Budget or the University of Nebraska's Cow-Calf Share Lease Cow-Q-Lator (XLS) can be used to determine a cash rental rate for this calculation.

The variable payment is paid after calves are weaned and sold. This amount can be based on values such as production factors (e.g., conception rates or number of calves sold), gross revenue or calf prices. There is no standard structure to follow to calculate this amount, so it can be anything agreed on by the owner and operator.

A maximum payment could also be specified in the agreement. This amount would be the most the operator would be required to pay regardless of the variable payment calculated. A maximum payment is used to protect the operator's incentive to maximize production. Like the base payment, maximum payments can be a set dollar amount or calculated as a percentage of a cash rental rate calculated using MU Extension's Missouri Beef Cow-Calf Planning Budget or the University of Nebraska's Cow-Calf Share Lease Cow-Q-Lator (XLS). Flexible cash leases offer a compromise between cash rental and share leases, essentially setting a minimum and maximum payment that accounts for natural market price swings.

Beef cow leases to transfer ownership

Livestock leases can be advantageous for operators looking to gain ownership of a herd. Through a lease, this transition can occur gradually. For the herd owner, this approach can provide potential benefits in tax reporting and facilitate a smoother succession. For operators, gradually acquiring ownership through a lease can lessen financial pressures and allow them to gain expertise working with the current owner before full possession is attained.

The ownership transfer process involves the operator progressively reducing the number of leased animals while increasing the number of owned animals in the herd. However, this process can vary based on the lease type. In traditional and flex cash leases, operators typically take ownership of all calves, allowing them to gradually replace the owner's culled cows with retained heifers. This approach allows the operator to maintain or potentially expand the herd size while increasing their ownership share within the herd. Similarly, a share lease can facilitate ownership transfer by allowing operators to replace the owner's cull cows with heifers retained from their share of the calf crop. Additionally, operators can incrementally increase their financial contributions, thereby increasing their share of the calf crop and the number of heifers available for retention.

Table 3 demonstrates a gradual ownership transfer of a 50-cow herd. It assumes that five cows are culled annually and replaced with animals retained by the operator, from either a share or cash lease. By year six, ownership of the herd is split equally between the owner and operator. By year 11, the operator has full ownership of the herd. This process could be accelerated by the operator purchasing the owner's animals or retaining a greater number of replacements and culling additional cows.

Record keeping

Maintaining detailed and accurate production and financial records is important in any cow-calf operation, but it is crucial when leasing cows. Production records include information such as breeding history, medical treatments, animal deaths and dates activities were performed. Animal identification is particularly

Table 3. Gradual herd transfer using a lease.

Year	Owner's herd	Operator's herd
1	50	0
2	45	5
3	40	10
4	35	15
5	30	20
6	25	25
7	20	30
8	15	35
9	10	40
10	5	45
11	0	50

important to avoid confusion when leased herds are housed on the same farm as owned animals.

Financial records include all revenues and expenses associated with the leased herd. These expenses include costs such as feed, forage, veterinary, breeding and death loss. It is important for producers involved in a share or flex lease to maintain thorough and accurate financial records as these records can have major implications on calf shares and rental payments. In cow lease agreements, open communication between owners and operators regarding production and financial details is essential to ensure transparency and mutual understanding.

Other considerations

When an owner and an operator decide to enter into a lease agreement, the agreement needs to be in writing. A written agreement ensures clarity between the parties and prevents misunderstandings. The lease must contain all relevant information, including details such as the start and end date, lease arrangement, payment timing, labor responsibilities and how input costs are to be reimbursed. If multiple leases are held between the two parties, it is advisable to keep the cow lease separate from any other agreements, such as a land or equipment lease. This separation simplifies the agreement and the process required to update, renew or terminate each agreement. For a comprehensive guide on developing farm lease agreements, consult MU Extension publication G426, Basics of Farm Lease Agreements. Additionally, Ag Lease 101 provides a guide for beef cow arrangements and a livestock rental lease form.

Communication between owners and operators is crucial to ensure the agreed-upon management strategies and responsibilities are followed. Successful cow lease agreements, in particular, demand ongoing, open conversation due to the unpredictable nature of cow-calf production. A well-written and detailed lease agreement provides clarity, responsibility and protection for each party involved. However, trust is important in any successful lessor-lessee relationship. This trust can only be built through honesty, transparency and regular communication.

It is important to evaluate and compare options for leasing, purchasing or selling animals and how each action will affect your operation. Owners should compare leasing to retaining ownership or selling animals. Operators already engaged in beef cow production should compare leasing to purchasing animals or continuing production with the current herd size. New producers should evaluate leasing versus purchasing a herd or potentially alternative business ventures.

Individuals considering a cow lease should consult a tax professional to understand potential tax implications. Leasing livestock can affect income reporting, deductions and tax obligations. A tax professional can provide guidance to help you make informed choices.

Resources

Ag Lease 101 (aglease101.org)

Basics of Farm Lease Agreements (extension.missouri .edu/publications/g426)

Cow-Calf Share Lease Cow-Q-Lator, one of the University of Nebraska Center for Agricultural Profitability's Livestock Decision Tools (cap.unl.edu /livestock/tools)

Missouri Beef Cow-Calf Planning Budget (extension .missouri.edu/publications/g679)

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