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Sharing Equipment

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Sharing Equipment

Market Report	Yr Ago	4 Wks Ago	2/8/02
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$77.92	\$66.07	\$70.97
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	92.58	89.36	90.78
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	95.51	93.01	93.91
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	118.04	102.79	110.66
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	*	37.50	38.37
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	49.34	*	45.00
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	108.56	103.70	107.80
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	*	60.95	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	162.50	130.27	134.90
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.15	3.13	3.01
Corn, No. 2, Yellow Omaha, bu	1.87	1.93	1.87
Soybeans, No. 1, Yellow Omaha, bu	4.33	4.24	4.14
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.54	3.66	3.50
Oats, No. 2, Heavy Minneapolis, MN, bu	1.27	2.19	2.29
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	115.00	105.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	70.00	75.00	65.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	105.00	105.00
* No market.			

One of the most frequently asked questions I receive is what should I charge my neighbor for the use of.....? The equipment items in question range from individual implements to center pivots. Regardless of the piece of equipment (or facility) under consideration, the criteria that apply remain the same: 1) the owner should recover a fair share of all costs associated with the additional use, both the out-of-pocket costs as well as any accrued costs, and 2) the owner has certain annual costs that the owner will be obligated to cover whether or not the equipment is used, but the neighbor would be able to share in those costs as long as it would be profitable and it is the best deal available.

In some cases a market rate can be identified that is agreeable to both parties and that satisfies the above criteria, but usually this type of question is raised when a market rate is not readily identifiable. However, some custom rates are collected and updated periodically and are reported, for example, in EC823 Nebraska Farm Custom Rates-Part I and EC826 Farm Custom Rates-Part II. Usually, when a market rate is not reported it is because there are so few instances, or there is no good exchange of information on like trades to establish a market rate.

Where a market rate is unavailable budgeted costs are the alternative, and in any case are needed to satisfy the criteria listed above. Budgeted costs for farm equipment items that are used in crop budgets are reported in EC872 Nebraska Crop Budgets and CC371 Estimated Irrigation Costs. However, even for those of us that are accustomed to preparing budgets, it requires some careful thought to arrive at an appro-



priate cost estimate for the particular situation.

Costs that Vary with Use

Satisfying the first criterion “the owner should recover a fair share of all costs associated with the additional use, both the out-of-pocket costs as well as any accrued costs” may involve distinguishing between costs incurred during use that are reasonably attributable to the period of use vs. those costs that only coincidentally occurred during that time. For example, the user should cover routine maintenance in proportion to the hours of use and fuel and oil costs attributable to the period of use. However, don’t include a major repair unless attributable to the negligence of the user. The preferred approach on repairs would be to estimate the repairs over the use life of the equipment and divide by the total hours of lifetime use. The owner would then be responsible for all major repairs regardless of whether or not the breakdown occurred while the neighbor was using the equipment. The neighbor would pay a rental fee that would include an average hourly repair cost times the hours of use by the neighbor.

Although we claim depreciation on our tax returns according to IRS rules, those rules typically do not reflect the actual rate of depreciation. And just because an item is completely depreciated for income tax purposes, it likely has a greater value than is shown on its depreciation schedule and will depreciate during the year due to use and aging. The approach used in our crop budgets is to determine the expected decline in value (actual vs. tax depreciation) from purchase to trade or sale, and divide that lifetime depreciation by the number of hours of lifetime use.

include an average hourly depreciation cost times the hours of use by the neighbor.

Annual Costs

Taxes, insurance and interest on investment will all be incurred by the owner and will remain fixed for the year regardless of the number of hours of use. However, as suggested in our second criterion, “the neighbor would be able to share in those costs as long as it would be profitable and it is the best deal available.” Often both parties find it acceptable to split these costs, and if the neighbor is responsible for all of the use for the year, the neighbor covers all of the annual owner costs for that year. Alternatively, determine a share of these annual costs that would result in a rental rate that would be profitable for the neighbor and that is competitive with the alternatives available and negotiate a split of the annual costs that is agreeable. Both parties will be better off with some split. The owner has someone to share the fixed annual costs and the renter has use of the equipment for less cost than the next best alternative.

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Again, the neighbor would pay a rental fee that would