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MEMORANDUM

To: All Irrigation Districts Subject to the Acreage Limitation Provisions of Reclamation Law

From: Alonzo D. Knapp
Manager, Reclamation Law, Contracts, and Repayment Office

Subject: Application of the Acreage Limitation Provisions to Sharecropping Arrangements and Custom Farming Services

Based on questions raised at the November 1997 Westwide Reclamation Reform Act of 1982 (RRA) Workshop, the following information (1) provides definitions used by the Bureau of Reclamation (Reclamation) of terms associated with sharecropping and custom farming services as viewed under the acreage limitation provisions and (2) clarifies how the acreage limitation provisions apply to sharecropping arrangements and custom farming services involved in sharecropping situations.

What is a "custom farming service?"

For acreage limitation purposes, a custom farming service (or custom operator) is an individual or entity that provides one specialized, farm-related service which a farm owner, lessee, sublessee, or contract operator (farm operator) employs for agreed-upon payments. For example: crop dusting, custom harvesting, a trucking company, etc.

What is a "contract operator?"

For acreage limitation purposes, a contract operator is an individual or legal entity other than the owner, lessee, or sublessee that performs any portion of the farming operation. Not included are spouses, minor children, and employees for whom social security taxes are paid by the employer.

What is a “principal operator?”

The one landowner, lessee, sublessee, farm manager, contract operator, custom farmer, consultant, etc., that makes the decisions and is responsible for the daily functioning of the farm. For acreage limitation purposes, each farm must have one and only one principal operator at any given time.

How do the acreage limitation provisions apply to sharecropping arrangements?

In general, sharecropping arrangements are treated as leases for acreage limitation purposes. However, there is an exception as follows:

1. If a custom farming service is being provided, the individual or legal entity providing the custom farming service in the sharecropping arrangement must not be the principal operator of the farm. In a sharecropping arrangement, the provider of a custom farming service will generally not be considered a principal operator unless the extent of their service effectively makes the custom farming service provider responsible for decisions affecting the daily functioning of a farm.
2. If the custom farming service is not the principal operator, then the custom farming service may be compensated through a sharecropping arrangement, even though part of the economic risk will then be assumed by the custom farming service. However, the assumed economic risk must be directly related to the service being provided. This assumes the arrangement in question is not determined to be a lease for other reasons.

Is there any restriction on the portion of a crop a custom farming service may receive as compensation for service provided?

A custom farming service receiving payment via a portion of the crop rather than money is acceptable for acreage limitation purposes UNLESS an unusually large percentage of crop is involved. Involvement of an unusually large percentage of crop may suggest payment for unreported services and would therefore warrant Reclamation's further evaluation. Generally, the more services being provided by an individual or entity, the more likely it is that the individual or entity is the principal operator and not a custom farming service for acreage limitation purposes. Additional questions would also be warranted if a custom farming service would not normally receive a portion of the crop for the type of service being provided.

Example 1

Farmer A provides harvesting services to Landholder B. In the part of the state where Landholder B's land is located, harvesters are paid either on a dollar-per-acre basis or on a bushels-per-acre-harvested basis (ranging from 2 to 5 bushels per acre harvested). Upon review of the farm operating agreements being used by Farmer A and Landholder B, Reclamation finds that Landholder B is paying Farmer A with 15 bushels for each acre Farmer A harvests. Since that amount is much more than the "going rate" of 2 to 5 bushels per acre for harvesting services in the area, Reclamation will further examine the situation to determine if other, unreported services are being provided which would make the sharecropping arrangement a lease for acreage limitation purposes.

Example 2

Mr. C provides diesel fuel to Landholder D. Normally, landholders pay cash for such supplies, but Landholder D has worked out a barter arrangement where she will pay Mr. C 5 percent of her crop in compensation for the fuel. Since providers of diesel fuel are not normally provided with a portion of the resulting crop as compensation, Reclamation would further examine the situation to determine if other, unreported services are being provided which would make the sharecropping arrangement a lease for acreage limitation purposes.

If you have any questions, please contact your local Reclamation office.

Larry Schlutz