

Introduction

Cash often isn't the most abundant asset on a farm. Farm products and/or the farmer's labor may substitute for cash in a lease agreement. Landlords may be willing to negotiate rental payments in the form of these alternative assets. Note that "non-cash" or "in-kind" payments are not the same as "no rent." See [No Such Thing as "Free Rent" Fact Sheet](#). One virtue of cash rent is that it has a fixed value, is easily transferred, and is relatively traceable.

In-kind payments are perfectly legal, but they require additional considerations to ensure that the farmer and landlord meet each other's expectations and comply with applicable laws. The greatest concerns with in-kind payments of rent are: 1) that that lease may not describe or treat these exchanges clearly enough; and 2) that they are not properly handled in tax reporting. Non-cash rental payment details must be clear and agreed to in the lease agreement.

Terms for In-Kind Rent

Agree on the terms for in-kind rent. Some landlords and farmers agree on exclusively in-kind payments, while others allow them in certain circumstances, such as if the farmer is experiencing cash flow difficulties. Either is acceptable provided the lease addresses whether the in-kind payments are allowed at any time, at specific times, only under certain circumstance, and at whose request. For example, the farmer could agree to provide up to 10 hours of labor per month at the landlord's request. If

in-kind payments are allowed only under specific circumstances, the lease should explain requests and notifications are exchanged.

Describing the Rent

Provide adequate detail in describing in-kind payments.

An example helps illustrate why this is important. A landlord and farmer agree that the rent will be paid in the form of a share in the farm's community supported agriculture (CSA) program. What is the monetary value of that share? Since in the CSA model, members share in the risks of production, what happens if crop disease or draught results in a much smaller share? If the farmer offers a hog as rent payment, is the hog live or processed? Is a minimum weight required? Who pays for the processing costs?

In-kind rent payment in the form of services must also be adequately described. For example, if the farmer agrees to "maintain landscaping" as rent, what does that mean? The farmer and landowner may have different ideas of what a "maintained landscape" looks like. How often should the grass be cut? Are edges to be trimmed or shrubs pruned as well? The lease agreement should outline sufficient details so each party knows what is expected in terms of time, effort and end result.

Determining the Value

Quantify the value of the in-kind rent. Non-cash rent requires standards or concrete benchmarks, such as 10 trees removed or 20 hours of painting. The value of



24 chickens or landscaping services depends on many factors including the market at the time and the quality of the finished product. Landlords and farmers may be hesitant to assign a specific value to the in-kind payment because it can be difficult to sort through those factors. **For tax purposes, farmer-tenants and landlords must state exact payments made or received and have documentation justifying the basis for the payment.** The IRS and other tax authorities want to see a reasonable connection between the value stated and the product or service provided. Two dozen chickens valued at \$2,000 for rent payments may raise eyebrows.

Market value is a good starting point for valuing payments made in the form of farm products, timber, and other physical items. The parties will need to state which market price is to be used. For example, determine whether to assign wholesale or retail value to the goods provided. After that, it may be easiest to use a pre-set value that's reasonably in line with the market value at the farm's location at the time the lease is entered into, plus noting any changes in value for a long-term lease.

Services must also be valued. Some parties assign a per-hour value for labor and then track time spent rendering the service. Others assign a set dollar value to the performance of particular tasks. The rate must address whether the farmer is providing his or her own tools for the task at hand. Farmers may prefer an hourly rate over a flat rate for a service, especially if the amount of work required is variable. The parties should also agree on how to determine when a service has been completed, and to what quality of work. For example, the grass shouldn't exceed 12 inches high or the landscaping must be maintained until the first frost. **These details must be negotiated, agreed to and put in writing as a part of the lease agreement.**

Documenting the Payment

Keep receipts to document rent payments in goods or services. Paying rent monthly by check each month provides a record of the transaction from the bank. Goods and services can be harder to track and document. Tracking payments of in-kind rent by tenants and landlords is critical to preventing disagreements as to whether in-kind rent was paid, and to providing evidence of the transaction if needed by another party. Documentation of in-kind rent payments doesn't need to be formal as long as it is adequately detailed and signed by both parties. The tenant might send an email each time a task is performed or goods are provided and ask the landlord to reply, confirming receipt of the goods or services. This can be done on paper as well, with the landlord signing in acknowledgement of receipt. This simple step creates a valuable documentation trail.

Tax Rules for In-Kind Rent Payment

Learn the rules. In-kind transactions are generally subject to the same tax rules as cash transactions. Income is income, whether it looks like bacon or dollars. Generally speaking, farmers will report the value of the in-kind rent payment as an expense, and landlords will report the value of the in-kind rent payment received as income. However, there are some important exceptions and nuances. See [Tax Aspects of Leasing Farmland Fact Sheet](#).

There are three key tax aspects of in-kind rent:

1. Farmers who pay rent in the form of crops or livestock may not deduct the in-kind payments as farm expenses on a IRS tax form Schedule F. The costs of producing the crops or livestock are already deductible as a farm



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expense. Thus, the tax code does not allow crops or livestock to be deducted as rental payments a second time. If a portion of rent is payable in cash and a portion in crops or livestock, the cash payment is deductible but the crop-share portion is not.

2. Farmers who pay rent in the form of services or non-farm products may be able to deduct the value of the in kind payment as a farm expense on IRS tax form Schedule F. Payments in the form of services or products otherwise deductible are called “barters” and should be documented as such for tax purposes in the business’s accounting. According to the IRS, bartering is the exchange of one product or service for another. Barters are taxable exchanges, and the IRS requires reporting of income (revenue over expenses) from such exchanges. Although the

IRS may see some flexibility in strictly casual, informal barters, barters between farm owners, landowners, and customers or suppliers are not the same as an exchange across the fence between neighbors. Income reporting rules apply to barters. Handling barter exchanges appropriately can be tricky, so an accountant or tax accountant is essential.

3. Rental payments are treated as income for the landowner. Landowners who receive rental income from farmers for the lease of their farmland must report the income received regardless of whether payment is made in cash or in kind. The procedure will depend on several factors, including the overall scope and nature of the landowner’s activity related to the leased property. If the landowner “materially participates” in the farm operation,

the landowner is considered a farmer and will report the income on IRS Schedule F. For more information on material participation, [see IRS Publication 225 \(2016\), Farmer's Tax Guide](#).

If the landowner does not “materially participate,” then the landowner reports elsewhere. See [Tax Aspects of Leasing Farmland Fact Sheet](#). If the landowner rents property as a matter of course, then s/he may have a separate business for tax purposes and report income on a non-farm business return such as Form 1120, 1120S or 1065. If the rental activity is occasional, it may be reported on a schedule attached to a personal return such as a Schedule E. Exactly where the income must be reported is an issue beyond the scope of this fact sheet.

Land For Good ensures the future of farming in New England by putting more farmers more securely on more land. We educate, consult, innovate and advocate with and for farm seekers, established farmers, farmland owners, and communities to navigate the complex challenges of land access, tenure and transfer. For more resources and information, visit our toolbox at landforgood.org/toolbox. For help with leasing farmland, contact us at landforgood.org/contact.



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