

Leasing Farmland to Your Farm Business

Should I do this?

Producers who farm their own land often aren't sure what the legal relationship between the two should be-- separate or one and the same? These folks may have heard about leasing the land to their farm business and are wondering what that could look like, asking "*should I lease my land to my limited liability company (LLC)?*" Let's explore!

Distinguishing between personal and business assets

Producers who farm their own land may want to form an LLC because they are interested in personal asset protection and potential tax savings. To get these benefits of the LLC, the producer needs to separate personal assets from business assets. This distinction can be easier for tractors and boats, for example, where a tractor is used for the farm and the boat is used for leisure. The land can be trickier to classify because it involves both personal and business values. The producer landowner can decide whether to keep the land as a personal asset or list it as a business asset.

The Decision Making Process

If the land is kept as a personal asset, then it's *protected* from business liabilities. If it is a business asset, it's *exposed* to business liabilities. This may not sound ideal, however all business assets are exposed to business liabilities and insurance is used to protect those valuable assets. If the land is kept as a business asset, it can still be protected through insurance. But why have the land be a business asset? One benefit is the ability to borrow against it as an asset, however it is also possible to use land owned personally as debt collateral. Ultimately, it is up to the producer landowner to decide.

Moving Forward

For producers wanting to keep the land as a personal asset, the best practice is to have a written lease agreement between them as landowner and their farm business, just as if the farm business were leasing from any other landowner. This paperwork can support lending options as well as IRS requirements. The basics to include in the written lease agreement between the producer landowner and their farm business include the parties, the price, the duration, and responsibility for maintenance and repairs. If more people are involved, there's more to discuss! For further support, reference Farm Commons' [LLC Fundamentals](#) and [Sample Annotated Long-Term Agroforestry Lease Agreement](#).