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The proper characterization of payments is the responsibility of the grower.

In conclusion
Therefore, a taxpayer who is sufficiently active to be carrying on a trade or business in a contract venture is not permitted to carve out a portion of the payment as rent regardless of how the integrator may be reporting the payment. While the trend is toward a reduced role in management for growers under contract, and ultimately courts may view the grower’s role as that of an employee or agent, falling short of trade or business status, that is not the case at present.


Higher fuel prices push up farm custom rates

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With prices for diesel fuel up nearly 50 percent over a year ago, farm custom rates have increased, as well. Our recently completed survey of custom rates paid or charged by Iowa farmers showed consistent increases in nearly every operation. Most operations showed increases of five percent or more over the 2005 average rate. Heavy tillage operations showed the highest percentage increases, since fuel is a large portion of the total cost for tillage.

The most commonly reported custom rate was for combining corn or soybeans. The average rates reported this year were $25.70 per acre for corn and $25.00 per acre for soybeans, compared to $24.60 and $23.90, respectively, in 2005.

While the price of diesel fuel has the most immediate impact on a custom operator's costs, prices for both new and used machinery have jumped significantly, as well. This is due in part to higher prices for steel, but also to a strong demand for machinery purchases.

The Iowa Farm Custom Rate Survey sampled 165 farmers, custom operators, farm managers and lenders. Respondents were asked what they expected to pay or charge for various operations in 2006. Rates may vary from the average based on timeliness, size and shape of the fields, condition of the crop, quality of the machine and skill of the operator. A summary of the survey, including average values and ranges reported, is available as information file A3-10.