

Calculating Custom Rates

If you are hiring or doing custom work, the following will help you determine the appropriate custom rate. Custom rates are based on (1) tradition or usual rates set in the community, (2) bargaining position of both parties (i.e., availability of machinery services and demand for machinery services in your local area), and (3) costs of owning and operating the machine on your farm. Cost for ownership and operation can be determined as follows:

Tractor Ownership Costs:

Depreciation	$\frac{\text{original cost - value at final sale}}{\text{years of use}}$	\$ _____ per year
Interest	interest rate * current value	\$ _____ per year
Repairs	estimated 2%-5% of original cost	\$ _____ per year
Taxes	No personal property tax in Michigan	\$ _____ - _____ per year
Insurance	estimated 0.5% * current value	\$ _____ per year

- (A) Total tractor hours _____ hours
- (B) Units per tractor hour _____ acres per hour
- (C) **Total Tractor Ownership Costs** $\frac{\text{Total ownership cost per year}}{A / B}$ \$ _____ per acre

Implement Ownership Costs

Depreciation	$\frac{\text{original cost - value at final sale}}{\text{years of use}}$	\$ _____ per year
Interest	interest rate * current value	\$ _____ per year
Repairs	estimated 2%-5% of original cost	\$ _____ per year
Taxes	No personal property tax in Michigan	\$ _____ - _____ per year
Insurance	estimated 0.5% * current value	\$ _____ per year

- (D) Total units _____ acres
- (E) **Total Implement Ownership Costs** $\frac{\text{Total ownership cost per year}}{D}$ \$ _____ per acre

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Operating Costs

Fuel	fuel per acre * price per gallon * 1.15	\$ _____ per acre
Labor	hours per unit * wage rate	\$ _____ per acre

(F) **Total Operating Costs** \$ _____ per acre

Total Equipment Costs (B + E + F)	\$ _____ per acre
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Custom Rate (adjusted for bargaining power or risk)	\$ _____ per acre
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