

## **Overview of Hunting Lease Income. Costs and Net Income Budget Decision Aids**

A very important source of ranch income is the leasing ranch land and providing services for hunting. These decision aids help organize data for evaluation of alternatives. Budgeting this activity is an important part of ranch planning and analysis. Choice of the leasing rate and evaluation of the economics of providing different services are important in fulfilling the goal that hunting adds to total ranch profits.

The decision aid reports calculated income, cash and total costs and net income per hunter. The necessary hunter payment to cover total and cash cost is reported to guide setting payment levels. Decision aids do facilitate “what if” analysis.

Four different budget decision aids are provided including:

1. Multiple Species Hunting
2. Dove Hunting
3. Deer Hunting
4. Quail Hunting

## **Marketing Hunting Leases: Pricing and Service Terms Must be Clear**

There are many alternative ways to market hunting leases. They range from yearlong lease to special day hunts for an individual or groups by species. Prices vary from per acre to day hunts. Pricing can be per hunter or per gun. Group package hunts can be provided for dove hunts and this is another example of a marketing alternative. These terms must be spelled out in the lease agreement and enforced for success and also for long term management of the wildlife habitat.

Terms vary by type services the owner provides hunting guides or not. Some hunting leases provide lodging, meals and utilities.

The key in budgeting hunting alternatives is to price alternatives and know the costs of services provided to become informed of the economics of pricing and costs of services of options and expected net income. Over time having complete production and financial information will help refine the pricing and lease terms provided to hunters.

## **Input Data**

Each hunting option offers a guide to the revenue and costs data to include in the budget. To facilitate this budgeting, the user inputs the number of acres of land involved or number of hunters. Investment and costs are for the total ranch. The decision aid will report value per acre and per hunter and summarize financial values.

A capital asset cost calculator is included in sheet to account for replacement cost or depreciation of the special assets for hunting options.

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Care must be made in identifying investments and production costs that are associated only with the hunting activity. Investment and production costs are associated with an ongoing hunting activity or for adding hunting. Check references for further information.

Each decision aid has definitions for budgeting terminology to guide organization of data. The references listed below are very useful in developing a written lease agreement. The Texas hunting lease listing website is provided to guide advertising a hunting lease.

An example is provided only as a view of data requirements and reports of results. The blank spreadsheet is provided for the user to use their actual data.

### **Key Cost Definitions for Preparing a Hunting Budget**

- **An enterprise budget** is defined as a projection of income and expenses which is used for planning. Expenses and costs are used interchangeably in the definitions.
- **Direct Costs** are directly related to the level of the production activity. These costs go away when the hunting activity stops. Labor to feed wildlife is a direct cost. Hunting direct costs include feed, insurance, fuel and oil and services provided to hunters. For crops grown for wildlife it is seed, fertilizer, and machinery costs. Management can control these costs.
- **Indirect Costs or overhead** are costs that can't be assigned directly to a production activity. These costs are also referred to as fixed costs. Indirect costs continue irrespective of the level of production activities. Depreciation, repair and maintenance of vehicles, machinery and equipment, labor and management road maintenance, brush and weed control, property tax are examples of indirect costs. **General and Administrative Costs (G&A)** are indirect costs that all businesses incur to cover bookkeeping, professional fees, insurance, office supplies, computer services, phone and utility costs. Administrative costs include the salary and payroll for support personnel.
- **Depreciation (a non-cash cost)** is one of the top costs in ranching. Following IRS rules for calculated depreciation that use short useful lives and no salvage value are worthless for budgeting. Depreciation is the accounting procedure used to allocate a capital investment to the annual use cost of capital asset like vehicles, equipment and machinery. Capital assets are purchases that have a productive life of more than one year. Facilities like hunting blinds and wild life special water systems are depreciable assets. The number of years the depreciation cost is allocated each year depends on the "productive or economic life" of the asset less the **salvage value** or what the asset is worth after the **economic life** is completed. Information on capital assets is maintained in asset accounts. The tax CPA updates the IRS depreciation schedule annually. A suggestion is to have the CPA run a "book depreciation" with reasonable productive lives and salvage value. An alternative is to use a capital asset replacement cost for assets again based on realistic productive lives and salvage value. Limiting investment in depreciable assets is important in controlling cost. If it rusts or rots you don't need it is an appropriate saying. See following notes on IRS depreciation limitations.

- **Internal Revenue Service (IRS) depreciation** is the calculation procedure that IRS requires a business to follow to calculate tax-deductible depreciation. It should be clear that the rules followed to calculate IRS depreciation **are not good estimates** of depreciation for production cost calculation. Accelerated depreciation using Section 179 and zero salvage value for IRS depreciation distorts year to year depreciation cost when calculating total cost and net income.
- **Ownership Costs** of depreciable assets include depreciation, insurance, housing and capital cost. Vehicles, machinery, equipment and improvements generate ownership costs. These costs are reported as indirect or fixed costs. Fuel, repairs and maintenance are direct operating costs.
- **Owner Operator Labor and Management** compensation should be included in the production cost calculation at a level equivalent to the salary required to hire a non-family member to provide an equivalent service. Compensation in excess of this amount must be considered capital distributions in order to reconcile the retained earnings and statement of cash flows. This makes a sole proprietor's cost comparable to a corporate business's calculation. Owner manager costs need to be included in production costs. Many sole proprietor businesses have withdrawals for family living. Withdrawals beyond an equivalent to the salary would be an equity withdrawal on a production cost,
- **Finance cost** is the cash interest cost paid. Finance cost is the cash spent paying interest to support the production activities. In **economic analysis** interest is an opportunity cost or the return expected for the next best investment with similar risk or the interest saved by paying off debt. Annuls interest is calculated based on ½ of operating cost times opportunity cost interest rate.
- **Total Costs** include the three major cost components:
  1. Direct costs, 2. Indirect costs including general and administrative (G&A) and management costs including owner operating management compensation and
  2. Finance costs. These costs are consistent with the total business income statement or profit and loss (P&L) statement.

### **Income and Costs Reporting**

The decision aid calculates and reports annual income, cash and total costs and net income per acre and per hunter. The necessary per hunter payment to cover total and cash cost is reported to guide setting payment levels. Decision aids do facilitate “what if” analysis.

The business accounting system designed for the IRS compliance can use subaccounts to record income and expense to support budgeting. Producers using QuickBooks™ use the class feature to report income and expenses by production activity like hunting.

## **Open Space Agricultural Valuation for Property Tax**

The question for some ranchers is when to change the ranch from a cattle and wildlife business to one that achieves the “Open Space Agricultural Valuation” for property tax with a wildlife hunting activity? The Texas Parks & Wildlife publication listed below addresses this topic. There are quite complex requirements and should be studied and professional seeking help before making the move that would eliminate the cattle activity that meets the open space requirements.

### **References:**

#### **Tiffany Dowell Lashmet - Texas A&M University**

[agecon.tamu.edu/emd\\_person/tiffany-dowell](http://agecon.tamu.edu/emd_person/tiffany-dowell)

“Ranchers’ Agricultural Leasing Handbook: Grazing, Hunting & Livestock Leases”.

**Fambrough, Judon**, “The Texas Deer Lease”, Real Estate Center, Texas A&M University, Technical Report 570.

#### **All Lease Listings - Hunt Texas**

[https://www2.tpwd.state.tx.us/huntwild/hunt/planning/hunt\\_lease/listlease.php](https://www2.tpwd.state.tx.us/huntwild/hunt/planning/hunt_lease/listlease.php)

**Texas Parks & Wildlife** – check for licenses fees and numerous other hunting leasing Information for Texas.

**Texas Parks & Wildlife** “1-D-1 Open Space Agricultural Valuation Wildlife Management Plan for the Year (s)”.