Section II. How to Figure Custom Rates

If you are hiring or doing custom work, the following will help you determine the 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 operating the machines on your farm. Cost for ownership and operation can be determined as follows:

Ownership Cost per unit (e.g., acre, bushel, ton, hour) using the DIRTI 5:

1. Depreciation: Original cost-salvage value \( \frac{\text{years of use}}{} \) $\ldots$/year

2. Interest: Interest rate x AIV\(^a\) $\ldots$/year

3. Repairs: Estimated 2 to 5% of original cost $\ldots$/year

4. Taxes: (are 0 in Michigan; i.e., no taxes on personal property used in agriculture) $\ldots$/year

5. Insurance: (estimated 0.5% x AIV for insurance premium) $\ldots$/year

6. Total ownership cost per year (sum of lines 1 through 5) $\ldots$

A. Ownership cost per unit: Total ownership cost + estimated annual use units (e.g., acre, hour bushel, ton) $\ldots$ \( \text{(A)} \) $\ldots$

Operating Cost per unit (acre, hour, bushel, ton)

1. Tractor: Gas, diesel fuel, oil, minor maintenance Gas. fuel per unit x price/gal. x 1.15\(^b\) $\ldots$

2. Machine: Gas, oil, maintenance Gas. fuel per unit x price/gal. x 1.15\(^b\) $\ldots$

3. Labor: Hours per unit x wage rate. (If labor wage unit is per acre, bushel, or ton, multiply this wage rate by acres, bushels, or tons per hour to determine wage/hour) $\ldots$

B. Total operating cost per unit $\ldots$ \( \text{(B)} \) $\ldots$

C. Total Ownership and Operating Cost \( \text{(A+B)} \) per unit $\ldots$

D. Custom rate (per acre, hour, bushel, ton) $\ldots$

Total ownership and operating cost may be adjusted because of bargaining power or risk

\(^a\)Average Investment Value (AIV) = (original cost basis + salvage value) / 2.

\(^b\)The addition of 15 percent above fuel cost is for oil and minor maintenance.