



2014 Farm Bill Decisions: Payment Limits and Adjusted Gross Income Eligibility

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As with all recent farm bills, payment limits were a hotly debated topic in the 2014 farm bill. This article discusses most of the bill's provisions that pertain to limits on Title 1 crop program payments as well as the Adjusted Gross Income (AGI) eligibility criterion for payments by crop and other programs. Payment limits are a technical and legal issue. Any decision on the number of entities receiving payments should be made with due diligence, including careful consideration of the business and legal implications, and should be discussed with both FSA and a lawyer who is an expert on payments limits. This article only serves as a starting point for thinking about this issue.

Title 1 Crop Payment Limits

► Beginning with the 2014 crop year, for all covered program commodities other than peanuts, applicable payments directly or indirectly attributed to a person under Title I for any crop year are limited to \$125,000.

- There is a separate payment limit of \$125,000 for the corresponding payments made to a person or legal entity for peanuts.
- Covered commodities" include corn, grain sorghum, barley, oats, wheat, soybeans, other oilseeds, pulses, long and medium grain rice, and peanuts, but, starting with the 2014 program year, not upland cotton.
- This limit covers payments for Agriculture Risk Coverage – County Option (ARC-CO), Agriculture Risk Coverage – Individual Farm Option (ARC-IC), and Price Loss Coverage (PLC), as well as

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marketing loan gains and loan deficiency payments. Benefits derived from forfeiting to the Commodity Credit Corporation (CCC) the quantity of a commodity pledged as collateral for a nonrecourse loan are not included in this limit.

- Generally speaking, payment limit for a person and a spouse is \$125,000 for each, provided both are actively engaged in the farming operation.

► The Secretary of Agriculture is charged with writing new regulations, subject to comments, defining the phrase “significant contribution of active personal management” in terms of identifying members of entities who will be eligible to receive various program payments.

- Factors the Secretary must consider include the (1) size, nature, and management requirements of each type of farming operation; (2) changing nature of active personal management due to advancements in farming operations; and (3) degree to which potential regulations adversely impact the long-term viability of the farming operation.
- Regulations created under this directive do not apply to individuals or entities comprised solely of family members as defined by the *Food Security Act of 1985*.
- Regulations created under this directive can apply no earlier than the 2015 program year.

Adjusted Gross Income (AGI) Eligibility

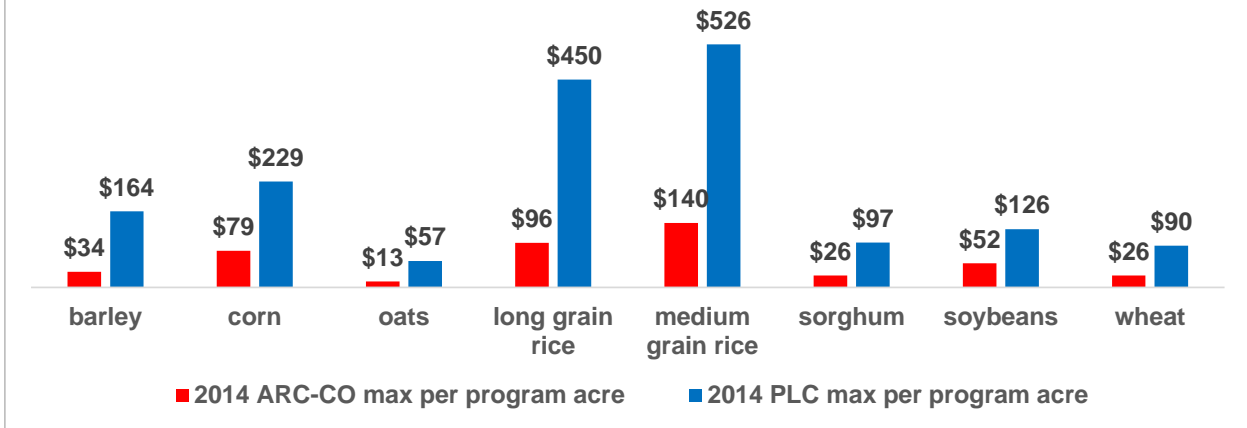
► Beginning with the 2014 crop, fiscal, or program year, whichever applies; a person or other legal entity cannot receive the benefits listed below if the person or other legal entity has a previous 3-year average adjusted gross income (excluding the most recent complete year) that exceeds \$900,000. Benefits to which this AGI eligibility criterion applies includes:

- 1) ARC-IC, ARC-CO, and PLC payments;
 - 2) Supplemental Agricultural Disaster Assistance Program payments to producers of livestock, honeybees, farm raised fish, and tree crops;
 - 3) marketing loan gains and loan deficiency payments;
 - 4) Noninsured Disaster Assistance Payments (NAP); and
 - 5) starting with fiscal year 2015, a payment or benefit from conservation (Title II) programs.
- The AGI eligibility criterion does not prevent a person or legal entity that exceeds the applicable 3-year average AGI from getting a nonrecourse loan, but such individuals/entities are not eligible for marketing loan gains.
 - Adjusted gross income is defined in statutes and regulations.

Assessment of Potential Role of Payment Limits: Potential importance of the \$125,000 payment limit varies between ARC and PLC. For the sake of brevity, the following discussion focuses on ARC-CO, not ARC-IC. Maximum payment per program acre by ARC-CO equals [(86% times ARC-CO revenue benchmark) minus (76% times ARC-CO revenue benchmark)]. In comparison, maximum payment per program acre by PLC equals [(reference price minus loan rate) times (U.S. crop payment yield)]. For a more complete discussion of payments by ARC-CO and PLC as well as the data and procedures used to estimate payments by these programs, see the *farmdoc daily* article by Carl Zulauf and Gary Schnitkey, “ARC-CO and PLC Payment Indicator Using August WASDE U.S. Yield and Price,” ([farmdoc daily August 13, 2014](#)).

Figure 1 presents an estimate for these two values for the 2014 crop year. The values for ARC-CO are computed using the 2013 crop year U.S. yields per planted acre and U.S. mid-range prices reported in the August 2014 *World Agricultural Supply and Demand Estimates* (WASDE) from the Office of the Chief Economist, U.S. Department of Agriculture. Note that the ARC-CO maximum payment per program acre will vary by crop year as its benchmark revenue value will change by crop year due to the use of moving averages of yields and prices in calculating the benchmark revenue. In contrast, the PLC maximum payment per program acre will not change since the reference price and loan rate are fixed by Congress for the length of the 2014 farm bill.

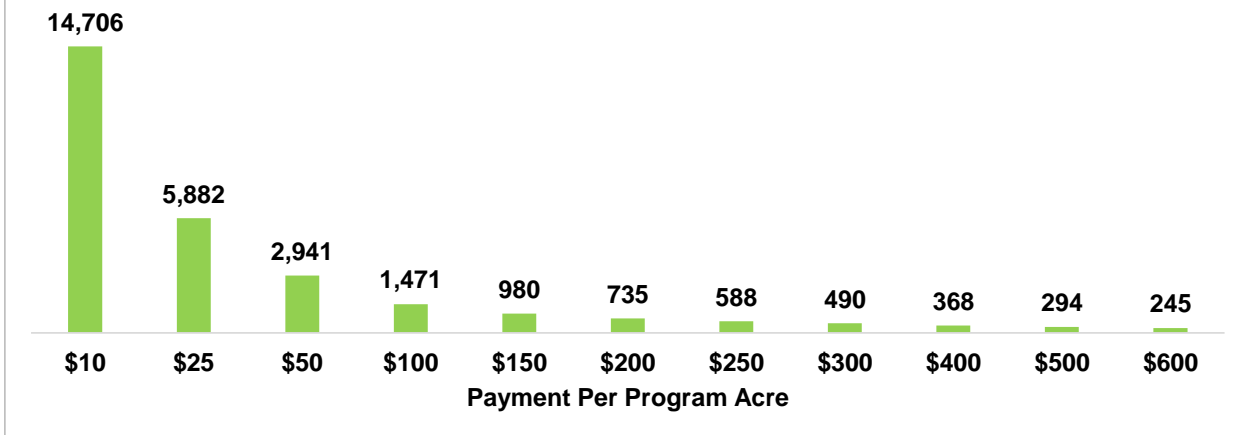
Figure 1. Estimated Maximum Payment Per Program Acre by ARC-CO and PLC, Selected Covered Crops, 2014 Crop Year, August 2014



Estimated maximum payments per program acre by ARC-CO are not small. For example, they equal \$79 per payment acre for corn and \$52 per payment acre for soybeans. However, estimated maximum payments per program acre by PLC are notably higher. For example, the PLC maximum payments per program acre are \$229 for corn and \$126 for soybeans.

To place these estimated maximum payments per program acre into the context of the \$125,000 payment limit, Figure 2 presents the number of program acres needed at a given per acre payment to reach \$125,000. This calculation takes into account that ARC-CO and PLC pay on 85% of program acres. A \$10 average per program acre payment takes 14,706 acres of program crops to attain \$125,000 in total payments. The number of program crop acres declines to 2,941 at \$50 per program acre, 1,471 at \$100 per program acre, and 735 at \$200 per program acre.

Figure 2. Number of Program Acres Needed to Attain \$125,000 Title 1 Crop Program Payment Limit at Various Payments Per Program Acre



Comparing Figures 1 and 2 reveals that the \$125,000 payment limit is reached with much fewer acres by the estimated maximum payment per program acre from PLC than from ARC-CO. For corn, it takes 1,575 acres under ARC-CO but only 545 acres under PLC to attain \$125,000 in payments. For soybeans, the comparable numbers are 2,403 acres for ARC-CO and 991 acres for PLC. This

comparison assumes no marketing loan gains and loan deficiency payments as well as participation in only ARC-CO or PLC, not both. If a producer participates in multiple programs (ARC-IC, ARC-CO, and PLC, for example), the \$125,000 limit applies to the combined payments from all programs.

In thinking through the previous paragraph, it is important to consider the likelihood that the maximum payment per program acre will be attained. As of mid-August 2014, it seems reasonable that ARC-CO is more likely than PLC to attain its maximum payment per program acre. However, if the FSA farm owner is evaluating the program choice decision from a price bearish perspective for one or more years during the 2014-2018 time window; then consideration of maximum payment and potential payment limit impacts is a useful addition to the evaluation process. Another factor to consider is the adjustment feature of the ARC-CO benchmark revenue due to use of moving averages to calculate the ARC-CO revenue benchmark. This is a topic we will explore in a latter farmdoc article in which we will compare the ARC-CO and PLC programs.

Summary Observations

- ▶ Payment limits remain a controversial, intensely-debated farm policy issue.
- ▶ From a farm management and ownership perspective, decisions regarding the creation of crop program payment entities needs to be made with due and careful consideration of business and legal implications. It is not a decision that should be made quickly or lightly and should include discussions with FSA and experts in the legal dimensions of payment limits.
- ▶ Payment limits could be a risk management consideration under the 2014 farm bill because any program that makes payments on yield, price, and revenue declines can make large payments.
- ▶ Because ARC-CO has a 10-percentage-point limit on its payment range (76% to 86%), maximum payment per program acre is notably smaller under ARC-CO than under PLC.
- ▶ Thus, payment limits likely become more of a consideration if PLC is elected.
- ▶ A common argument heard by the authors for electing PLC is that downside price risk protection is larger for PLC than ARC. Assessment of this advantage needs to consider the impact of payment limits.
- ▶ Last, from a broader policy perspective, supporters of payment limits have historically focused on tighter payment limits. An implication of this comparison is that a potentially more important path is to focus on limiting a program's per acre payment by adjusting different payment parameters.

References

Zulauf, C., and G. Schnitkey. "[ARC-CO and PLC Payment Indicator Using August WASDE U.S. Yield and Price.](#)" *farmdoc daily* (4):151, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 13, 2014.

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