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Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Per Acre Payment Caps: Their Role as Payment Limits

Carl Zulauf

Department of Agricultural, Environmental and Development Economics
Ohio State University

Gary Schnitkey, Jonathan Coppess, Nick Paulson

Department of Agricultural and Consumer Economics
University of Illinois

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Limits on payments by farm commodity programs have been a contentious issue in recent farm bills. Several types of limits now exist, including a 10% cap on the payment per base acre by ARC (Agriculture Risk Coverage). This 10% cap results from a payment band that is 76% to 86% of ARC's per acre revenue benchmark. The top end (86%) is ARC's coverage level. The bottom end (76%) is the lowest per acre revenue level for which ARC assistance is available. Per acre revenue losses greater than 24% of ARC's revenue benchmark receive no assistance payment. This 10% per acre payment cap substantially reduced ARC payments for the 2014 and 2015 crops. Moreover, payments by PLC (Price Loss Coverage) would have been 40% smaller if the 10% per acre payment cap had been extended to PLC in the 2014 farm bill. These budgetary impacts suggest per acre payment caps could be a topic of discussion in the next farm bill.

History of Farm Program Payment Limits

To the authors' knowledge, the first limit on payments by farm programs was a $10,000 limit enacted in the *Agricultural Adjustment Act of 1938*. However, limits on payments did not become a continuous part of farm bills until the *Agricultural Act of 1970*. In the *Agricultural Act of 2014* (2014 farm bill), a limit of $125,000 was enacted for all applicable payments directly or indirectly attributed to a person or legal entity under Title I for any crop year for all covered commodities except peanuts. Peanuts has a separate payment limit of $125,000. These limits cover ARC-CO (ARC – County), ARC–IC (ARC – individual farm), PLC, and loan deficiency payments, plus marketing loan gains. Not counted toward the limit are benefits derived from forfeiting to CCC (Commodity Credit Corporation) a quantity of crop pledged as collateral for a nonrecourse loan or benefits derived from the certificate exchange process (re-instituted for 2015 and subsequent crops).

A second type of payment limit, means testing, was added by the *Farm Security Act of 2002*. Means testing prohibits or reduces payments to an entity with a high Adjusted Gross Income (AGI). Specifically, a person or other legal entity cannot receive ARC-CO, ARC-IC, PLC, and loan deficiency payments as well as marketing loan gains if the person or other legal entity has a previous 3-year average adjusted gross income (most recent complete year excluded) greater than $900,000. For example, the AGI for crop year 2015 is the average of 2011, 2012, and 2013 AGI data. The person or legal entity is, however, eligible for nonrecourse loans.

Payment limits via per acre payment caps were added by the *Food, Conservation, and Energy Act of 2008*. The new ACRE (Average Crop Revenue Election) revenue program had a 25% per acre payment cap. The per acre payment cap was retained but reduced to 10% when the 2014 farm bill authorized the ARC revenue program. Reasons for a per acre payment cap are likely budgetary but also concerns about possible overlap between ARC and crop insurance.

For an extended discussion of payment limits and their history, see Zulauf, 2012. For an extended discussion of 2014 farm bill payment limits, see Zulauf, Coppess, Schnitkey, and Paulson, 2014.

Impact of 10% Cap on ARC-CO Payments, 2014 and 2015

Using the farm program model available at *farmdoc*, University of Illinois at Urbana-Champaign; per acre payments made by ARC-CO with and without the 10% cap were estimated for the 2014 and 2015 crops of covered commodities by county. ARC-CO was elected for 71% of all base acres, although its share varied notably across covered commodities. ARC-CO was elected for 93%, 97%, and 56% of base acres of corn, soybeans, and wheat, respectively; the 3 crops with the largest base acres.

Table 1. Per Acre Payment by ARC-CO with and without a 10% Cap, 2014 and 2015 Crops

	ARC-CO per acre payment		ARC-CO per acre payment without 10% cap		cap vs. no cap % payment difference	
Commodity	2014	2015	2014	2015	2014	2015
barley	$5	$4	$10	$9	-50%	-56%
canola	$13	$19	$29	$43	-55%	-56%
large chickpeas	$30	$0	$42	$0	-29%	0%
small chickpeas	$5	$2	$9	$4	-44%	-50%
corn	$31	$39	$65	$82	-52%	-52%
crambe	$0	$0	$0	$0	0%	0%
flaxseed	$5	$11	$8	$19	-38%	-42%
lentils	$5	$5	$6	$10	-17%	-50%
mustard	$4	$9	$6	$16	-33%	-44%
oats	$2	$14	$5	$36	-60%	-61%
peanuts	$12	$53	$30	$129	-60%	-59%
dry peas	$4	$5	$6	$16	-33%	-69%
rapeseed	$0	$0	$0	$0	0%	0%
japonica rice	$0	$5	$0	$5	0%	0%
large-grain rice	$6	$21	$6	$52	0%	-60%
medium-grain rice	$0	$78	$0	$120	0%	-35%
safflower	$6	$5	$14	$7	-57%	-29%
sesame	$8	$22	$8	$22	0%	0%
sorghum	$11	$21	$24	$53	-54%	-60%
soybeans	$8	$22	$16	$44	-50%	-50%
sunflowers	$5	$4	$10	$8	-50%	-50%
wheat	$6	$21	$13	$52	-54%	-60%

Source: original calculations using farm program payment calculator at *farmdoc*

The average estimated per acre payment across counties are presented by covered commodity in Table 1. These averages are not weighted by number of base acres in the crop by county and thus are only an indicator of the impact on ARC-CO payments of its 10% per acre payment cap. Across all these crops and both years, the 10% per acre payment cap reduced average ARC-CO payment by county an average of 37%. Excluding the observations with no payment, the reduction in average ARC payment per acre per county resulting from the 10% cap ranged from none (long grain rice, 2014) to -69% (dry peas, 2015). In summary, the 10% per acre payment cap likely substantially reduced ARC-CO payments for the 2014 and 2015 crops.

Ratio of Crop Year Price to PLC Reference Price, 2014 and 2015

PLC makes payments when the U.S. crop year price of a given covered crop is below the crop's reference price fixed by Congress in the 2014 farm bill. The PLC payment rate is limited to the difference between the reference price and the national average loan rate for each crop. For 2014, crop year price was below the reference price for peanuts, canola, and long grain rice, with crop year price at least 15% below the reference price (see Figure 1). For 2015, crop year price was more than 10% below the reference price for 8 covered commodities (see Figure 2). The difference was more than 20% below the reference price for peanuts, canola, long-grain rice, and flaxseed.

Figure 1. Ratio of Crop Year Price to Reference Price, U.S., 2014

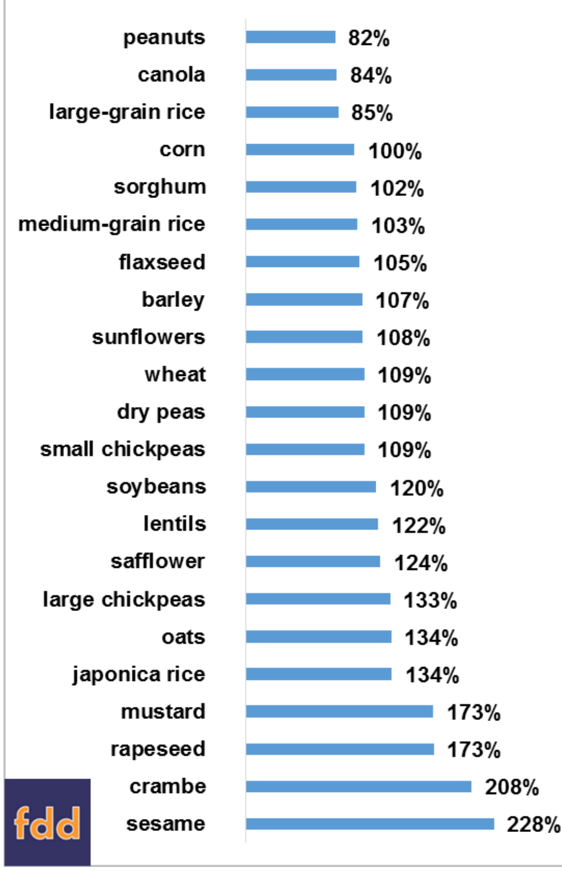
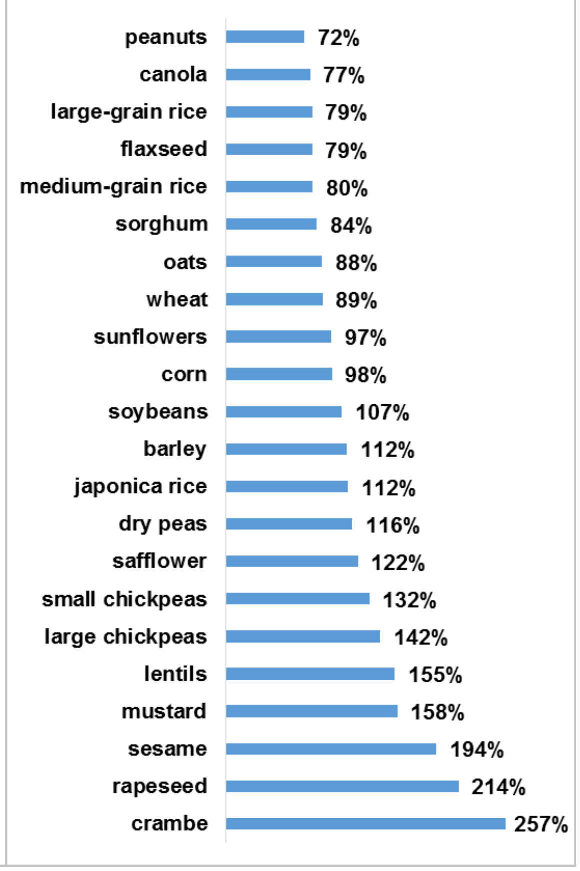
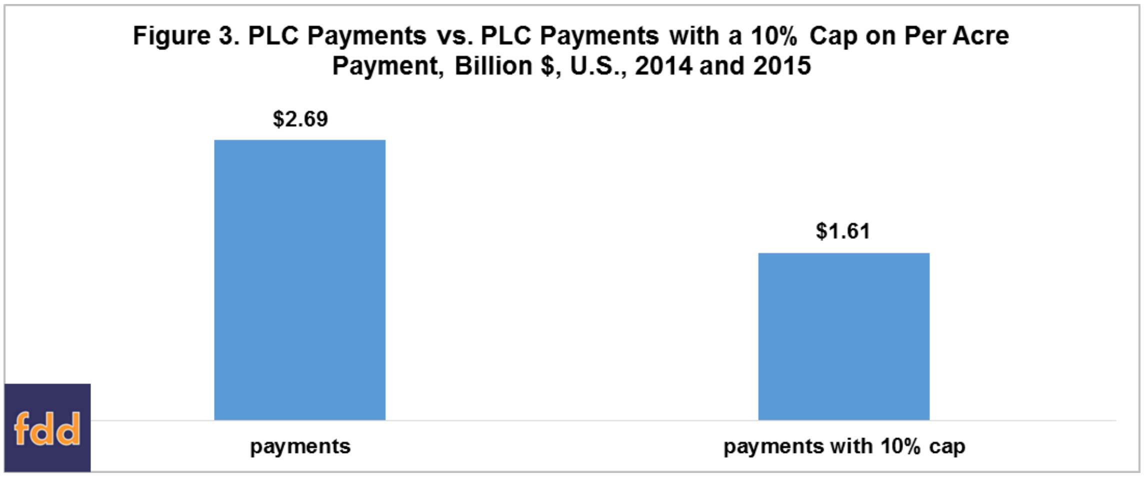


Figure 2. Ratio of Crop Year Price to Reference Price, U.S., 2015



Impact of a 10% Per Acre Cap on PLC Payments

If the 10% cap on per acre ARC payments had been extended to PLC, 2014 and 2015 payments would have reduced by over 40% to base acres of peanuts (-56%), flaxseed (-52%), medium grain rice (-50%), canola (-48%), and long grain rice (-44%). Total PLC payments would have reduced by $1 billion, or 40% (see Figure 3).



Summary Observations

- Despite being a contentious issue, the historical trend is an increasing role for payment limits.
- Except for a separate $125,000 payment limit for peanuts and the 10% per acre payment cap for ARC but not PLC, payment limits are the same across covered crop commodities.
- A10% cap on ARC per acre payments has reduced notably the cost of the 2014 farm bill.
- If a 10% per acre payment cap had also been enacted for PLC, 2014 farm bill PLC payments so far would be $1 billion less.
- Beside its budgetary impact, ARC's per acre payment cap creates a hole in its support floor. Assuming normal yields and using the reference price, loan rate, and payment band of $3.70, $1.95, and 76% to 86%, no support exists between $1.95 and $2.81 [$3.70 times 76%].
- The 2014 farm bill contains no such hole for PLC. PLC payments are limited to the difference between the loan rate and reference price. If the market price falls below the loan rate, the farm can receive loan deficiency payment or marketing loan gains. The implication is that limiting payments by a program is different than limiting total farm program support per acre.
- Policy questions raised by this set of observations are:
    - Should statutory payment limits be the same for all covered commodities and programs?
    - Is the current AGI eligibility of $900,000 the appropriate criteria?
    - What is the appropriate per acre payment cap for ARC and PLC?
    - Are both the 85% base acre payment factor and per acre payment cap needed? Could they be combined into a single per acre payment cap to simplify program structure?
    - Does a per acre cap on farm program support open the door to providing payments on planted instead of base acres? As illustrated by the hole that exists in the current support provided by ARC, a per acre cap on support can limit the distortionary effect of farm program support on planting decisions. Does an appropriate per acre cap on support exists that would limit to an acceptable level the distortion of support on planting decisions? This is an issue for research, but it may offer a way to meet the growing desire to target farm program support to those actively engaged in farming.

References and Data Source

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