



‘Bogus’ farm program payment reforms in House and Senate bills?

By Sara Wyant, Editor, Agri-Pulse

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Citing loopholes large enough for a 9630 John Deere tractor through, Senator Chuck Grassley (R-IA) recently released a new analysis of how farmers and landowners could be affected by potential changes in eligibility for farm program payments. Under current law, **no farm program payments should be made to individuals who exceed \$2.5 million in adjusted gross income (AGI), except if 75% of their AGI is from farming.** The House version of a new farm bill would lower the AGI limit to \$1 million with no exceptions and \$500,000 unless more than 67% of the AGI comes from farming. The Senate version makes no changes in 2008, drops the AGI limit to \$1 million in 2009, (unless 67% from farming), and drops it to \$750,000 from 2010 to 2012. Both versions eliminate the “3-entity rule” and require direct attribution of payments to a person. The Bush Administration wants further reductions: a \$200,000 AGI limit.

Using 2005 income records provided by the Internal Revenue Service, **Grassley said he reached several conclusions after analyzing the data:**

- High income landlords might shift from share rents to cash rents. Somewhere around 36-37% of those who would lose farm payments under the Senate and House AGI limits are share rent landlords who will in all likelihood keep the payments flowing by changing to cash rents, thereby shifting risk and capital requirements to farmers.
- In 2005, USDA made more than \$230 million in payments to landlords and farm operators who exceeded the income limits in the House farm bill and more than \$137 million to those exceeding the Senate bill limits. However, projections by the Congressional Budget Office suggest that most of those recipients will continue to receive payments. The modest savings projected by the Congressional Budget Office suggest that 83% of the funds paid to recipients exceeding the House AGI and 95% of the funds paid to recipients exceeding the Senate limits would continue to be paid.
- High income farmers might reinvest their income to expand their operations thereby generating deductions to keep their taxable incomes below the limits and converting taxable income to untaxed wealth. And, high income farms might divide income between spouses and where applicable, the farm corporation, to stay below the limits.

Grassley and Senator Byron Dorgan (D-ND) authored an amendment to the farm bill that would

have capped farm payments at \$250,000 per farmer. **The amendment won a majority, but was defeated by a vote of 56-43 (60 votes were required for passage).**

The AGI limits are based on three year rolling average income, which Grassley says **provides high income payment recipients time to get their taxable income below the limit.** Current law allows immediate expensing (versus depreciation) on up to \$125,000 in equipment with a phase out of \$500,000 (adjusted for inflation). However the stimulus package being currently considered by the Senate **proposes to increase that number to \$250,000 with a phase out to \$800,000 for 2008.** Or in the alternative, a producer could take an additional 25% of the cost of an asset acquired and placed into service in 2008 in that year and another 25% in the next year bonus depreciation; or modify their Net Operating Loss carry back period from 2 to 5 years. Any one of these provisions could manipulate the 3 year rolling average income rules.

Asked about a potential compromise with southern senators, **Grassley suggested he was “open to being convinced, that it costs more to put in cotton and rice,”** and left open the possibility that payment limits might be adjusted somehow to reflect production costs. “If we can get like a FAPRI-type analysis, that compares the cost of raising corn, soybeans, wheat versus cotton and rice and we’re comparing apples and apples, **I might be willing to make some adjustment for things that would make a payment limitation equal among crops.”**

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