New Payment Limits, Lower Income Cap Unlikely To Have Significant Impact

Tim McCabe, USDA/NRCS

Limits on farm commodity program payments have been in effect since 1970, although they have evolved over time. Under the 2002 Farm Act, total payments from the direct, counter-cyclical, and marketing loan programs could not exceed $360,000 annually for married couples or farmers with multiple operations. The 2002 legislation also limited eligibility for commodity payments to farmers with adjusted gross income (AGI) of $2.5 million or less, unless 75 percent or more of their income was from farming. ERS research found that, despite these limits, a substantial portion of program payments continue to go to large farms. In 2006, about 1 percent of all farmers participating in commodity programs received over $100,000 in payments. These farmers received over 18 percent of all payments and had average gross farm income of over $1.35 million. In that same year, less than 0.1 percent of all farmers reported AGI over $2.5 million, suggesting that very few farmers faced the potential loss of commodity payments as a result of the income cap.

The 2008 Farm Act retains the limits on direct and counter-cyclical payments but removes limits on marketing loan benefits. It also creates a system that matches payments to individuals and eliminates a farmer's ability to collect additional payments by operating multiple farms (known as the three-entity rule). These changes primarily affect direct and counter-cyclical payments to unmarried producers who previously used the three-entity rule to double their payments. Because most payment recipients are married, however, few should be affected. Nonetheless, by tying payments to individuals rather than entities, the legislation makes it more difficult for recipients to circumvent payment limits.

The Act also replaces the overall income cap for payment eligibility with separate caps for the farm and nonfarm components of AGI. Under the revised cap, an individual with average adjusted gross nonfarm income over $500,000 is ineligible for commodity program payments. Those with average adjusted gross nonfarm income over $1 million are also ineligible for conservation payments unless more than two-thirds of their total average AGI is farm income. An individual with average adjusted gross farm income over $750,000 is ineligible for direct payments.

While somewhat tighter, the new caps are unlikely to have a significant impact on eligibility for, or the distribution of, farm program payments. The ability to allocate income on a joint return among spouses effectively doubles—to $1 million—the nonfarm income cap for married couples. In 2005, only 0.48 percent of farm sole proprietors and share-rent landlords had AGI above $1 million, and they received only 0.87 percent of farm payments. Likewise, less than a third of farm operators report a farm profit, and few of these report farm income over the $750,000 cap for farm income that applies to direct payments.

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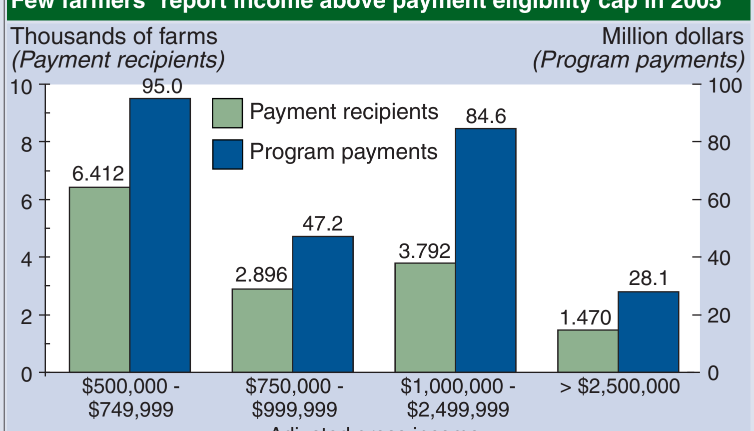
Few farmers* report income above payment eligibility cap in 2005



*Only 14,570, or 1.32 percent, of all farm sole proprietors and share rent landlords received payments and reported AGI over the $500,000 income cap.
Source: USDA, Economic Research Service, using data from Internal Revenue Service, Statistics of Income Division, 2005.

This finding is drawn from . . .

Farms Receiving Government Payments chapter of the ERS Briefing Room on Farm Income and Costs, www.ers.usda.gov/briefing/farmincome/govtpaybyfarmtype.htm

Title I (Commodities) of the 2008 Farm Bill Side-by-Side Comparison, www.ers.usda.gov/farmbill/2008/titles/titlecommodities.htm#administrationplaie