FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

Department of Agricultural and Consumer Economics • College of Agriculture, Consumer and Environmental Sciences
University of Illinois at Urbana-Champaign

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2002 FARM BILL PAYMENT LIMITATIONS

The Farm Security and Rural Investment Act of 2002 contain provisions limiting the amount of payments a "person" can receive per program year. These limits are $40,000 for direct payments, $65,000 for counter-cyclical payments and $75,000 for loan deficiency payments (LDP's) and marketing loan gains. Farm sizes that cause payments to exceed these limits are illustrated in the following sections. Then, a definition of a "person" is given. This definition along with other entity rules comes directly from the Farm Service Agency (FSA) Fact Sheet "Payment Eligibility and Limitations" (see http://www.fsa.usda.gov/pas/publications/facts/html/payelig01.htm).

Direct Payment Limit ($40,000)

The limit for direct payments under the 2002 Farm Bill is $40,000 per person. The limit for Agricultural Marketing and Transition Act (AMTA) payments under the 1996 Farm Bill also was $40,000 per person. Because soybeans receive direct payments under the 2002 Farm Bill, producers generally will receive more direct payments under the 2002 Farm Bill than AMTA payments under the 1996 Farm Bill. Hence, smaller farm sizes reach the direct payment limit compared to the AMTA limit.

Table 1 illustrates the number of acres it takes to reach the $40,000 limit in northern, central and southern Illinois. The first part of the table shows acres for a northern Illinois example with program yields of 130 bu. for corn and 38 bu. for soybeans. Given that 75 percent of the base is in corn acres, 1,495 operator acres will reach the direct payment limit. An operator acre is an acre the producer receives revenue from: One acre of owned land equals 1 operator acre, 1 acre of cash rent land equals 1 operator acre, and 1 acre of 50-50 share rent land equals .5 operator acres. If corn base equals 67 percent, operator acres needed to reach the direct payment limit increases to 1,574 acres.

For most farms, the direct payment limit is the more restrictive than the counter-cyclical or LDP limits. Less operator acres are needed to get to the direct payment limit than the counter-cyclical or LDP limits.

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Table 1. Number of Acres Needed to Reach Direct Payment Limitation of $40,000.

Northern Illinois example
Program yields for direct payments
Corn = 130, soybeans = 38

Percent base Corn	Soybeans	Operator acres
75	25	1,495
67	33	1,574
55	45	1,709

Central Illinois example
Program yields for direct payments
Corn = 124, soybeans = 38

Percent base Corn	Soybeans	Operator acres
65	35	1,656
55	45	1,768
45	55	1,896

Southern Illinois example
Program yields for direct payments
Corn = 88, soybeans = 30, wheat = 40

Percent base Corn	Soybeans	Wheat	Operator acres
50	30	20	2,301
40	40	20	2,440
30	50	20	2,592

Counter-Cyclical Payment Limit ($65,000)

The payment limitation for counter-cyclical payments is $65,000 per person. Acres needed to reach this limit will vary from year-to-year because per bu. payment rates depend on season-average prices (see http://www.farmdoc.uiuc.edu/policy/farmbill02.html for a discussion of counter-cyclical payments). Table 2 illustrates the number of acres required to reach the $65,000 limit given that the per bu. counter-cyclical rates are at their maximum. More operator acres will be needed to meet the limits than when rates are lower.

In general, more operator acres are required to reach the limits for counter-cyclical payments than for direct payments.

Table 2. Number of Acres Needed to Reach Counter-Cyclical Payment Limitation of $65,000.

Northern Illinois example
Program yields for counter-cyclical payments
Corn = 130, soybeans = 38 (AMTA)

Percent base		
Corn	**Soybeans**	**Operator acres**
75	25	2,091
67	33	2,241
55	45	2,510

Central Illinois example
Program yields for counter-cyclical payments
Corn = 152, soybeans = 47 (Updated)

Percent base		
Corn	**Soybeans**	**Operator acres**
65	35	1,935
55	45	2,122
45	55	2,348

Southern Illinois example
Program yields for counter-cyclical payments
Corn = 125, soybeans = 39, wheat = 53 (Updated)

Percent base			
Corn	**Soybeans**	**Wheat**	**Operator acres**
50	30	20	2,452
40	40	20	2,698
30	50	20	2,998

Loan Deficiency Payment Limits ($75,000)

The limit for LDPs and marketing loan gains is $75,000 per person. Like the 1996 Farm Bill, the 2002 Farm Bill allows for the use of generic certificates. Receipts from generic certificates do not count towards the $75,000 limit. Hence, the $75,000 limit should not limit receipts from the LDP and Marketing Loan programs.

Definition of a Person and Entity Rules

The definition of a "person" is important regarding payment limitation rules. A "person" may be an individual, a limited liability partnership, a limited liability company, or an individual participating as an member of a joint operation or similar operation, a corporation, a joint stock company, an association, a limited stock company, a limited partnership, etc., etc. For an individual or entity to be considered a separate "person", the individual or entity must have a separate and distinct interest in the land or crops involved, exercise separate responsibility for this interest, and maintain funds or accounts separate from that of any other individual or entity for this interest. The status date for determining the number of "persons" for payment limitation purposes is April 1 of the applicable program year.

Additional rules apply for husbands and wives. The general rule is that a husband and wife are considered one "person" for payment limitation purposes. However, they may be considered separate "persons" if they request to be considered separate "persons" and one of the following applies:

- Neither spouse holds, directly or indirectly, a substantial beneficial interest in more than one entity receiving payment as a separate "person", and they meet all other requirements to be considered separate "persons".
- Both spouses were separately engaged in unrelated farming operations before marriage and the farming operations of both spouses have been maintained as totally separate and distinct farming operations after their marriage.

Additional regulations exist that provide guidelines for interpretation of these rules. Questions regarding these rules should be directed to officials at the local and state FSA offices.

The 3-entity rules were maintained in the 2002 Farm Bill. These rules state that no individual may receive payments subject to these rules from more than three entities in which the individual holds substantial beneficial interest. Individuals who receive payments as an individual may not also receive payment from more than two entities that receive payment as a separate "person". A person who fully utilizes the 3-entity rule doubles the payment limitations from $180,000 to $360,000.

A new provision in the 2002 Farm Bill eliminates payments to persons with adjusted gross income over 2.5 million dollars. This is averaged over three years. Persons with more than 75 percent of their adjusted gross income from farming, ranching or forestry operations are excepted from this rule. The 2.5 million dollar limitation is effective for 2003 and later program years. Additional rules and regulations will be forthcoming regarding this and other provisions of the 2002 Farm Bill.

Summary

More farms will face problems meeting payment limits. These farms may wish to reconsider entities involved in their farming operations. It is too late to make entity changes for the 2002 crop year. However, changes should be possible for subsequent cropping years.

Issued by: Dale Lattz and Gary Schnitkey, Department of Agricultural and Consumer Economics

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