



FSA

2008 NATIONAL FARM BILL TRAINING

Payment Limitation & Adjusted Gross Income Provisions



FSA Programs

- Direct & Counter-Cyclical Program (DCP)
- Average Crop Revenue Election (ACRE)
- Supplemental Disaster Assistance (SURE)
- “New” Conservation Reserve Program Contracts (CRP)
- Market Gains on Commodity Loans
- Loan Deficiency Payments (LDP)



Overview PL/AGI Provisions

2009 provisions review:

- Actively engaged in farming rule
- Cash-rent tenant rule
- New Spousal rule
- Direct Attribution rule
- Adjusted Gross Income rule (3 limits)



Actively Engaged in Farming

Still depends on significant contributions of:

- Land
- Capital
- Equipment

- active personal labor
- active personal management

Actively Engaged Rule applies to individuals as well as entities



Actively Engaged * Change

- New rule for Corporations and similar Entities:

New Rule provides that the contribution of active personal labor, active personal management (or combination) MUST be provided by EACH member or shareholder that has an ownership interest in an entity requesting benefits



Actively Engaged * Change

- The contributions of active personal labor and/or management required by EACH MEMBER or SHAREHOLDER must be identifiable and documented on a regular basis by the members.
- Examples: Notebooks, Meeting Minutes completed throughout the year identifying the contribution of each member



Example #1: Husband/Wife Corp.

- ABC Farm Corporation: (Operator)
 - John Doe – 50% Share
 - Jane Doe – 50% Share

John Doe provides Active Personal Labor and Management. (significant contribution)

Jane Doe provides NO Active Personal Labor and Management.

*ABC Farm Corporation will receive 50% of total eligible payments.



Example #2: ABC Inc.

- Member A @ 75% share can establish the contribution of AP Management was made and is documented
- Member B @ 20% share can also provide documentation (if needed) that they provide AP Management
- Member C @ 5 % share is a passive member and can not provide documented and identifiable records
- The DCP payment will be reduced by 5 % for the Member C's passive share



Actively Engaged In Farming

IN ALL CASES...to be determined actively engaged in farming, persons, entities must make contributions that are:

- Commensurate with the person's, entity's or member's claimed share, and
- At risk for a loss



Actively Engaged in Farming

A landowner will be "actively engaged" in farming with respect to their land contribution. No requirement of active personal labor and/or management.

"Landowner Exemption"

Applies to both Individuals and Entities.

Shares must be commensurate and at risk.



Cash Rent Tenant Rule

Still requires:

- Significant contribution of active personal labor

OR

- Significant contributions of equipment and active personal management



New Spousal Rule

- New provisions make it easier for spouses to meet right-hand contribution:
(Active Personal Labor and/or Management)
- If one spouse is determined actively engaged in farming, the other spouse is considered to have a significant contribution of active personal labor, active personal management or a combination thereof to the same farming operation. (Joint Operation)
- New Spousal Rule does not apply to Entities, such as corporations.



Limiting Payments by DIRECT ATTRIBUTION

Payments attributed to a person or entity cannot exceed the applicable program limitation.



Direct Attribution

The general concept of ATTRIBUTION...

- Payments to individuals are unchanged.
- Payments to legal entities *will be attributed to each individual within the entity.*
 - with direct and indirect ownership interest in the entity
 - through 4 levels of ownership in embedded legal entities that have not already been attributed the maximum limitation



Direct Attribution, *Example 1*

FSN 100
Bert – 100%
\$35,000 DCP Direct

FSN 500
Bert – 100%
\$7,000 DCP Direct

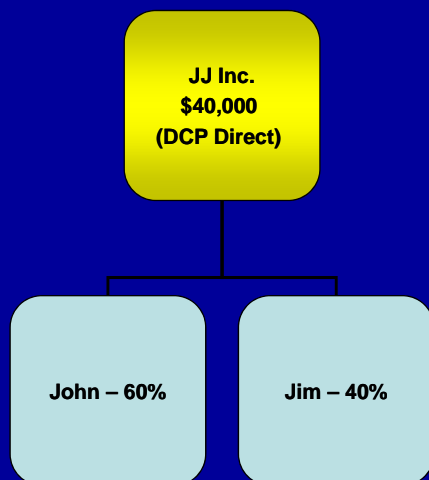
Attributions for individual farming interests:

- \$35,000 from FSN 100
- \$5,000 from FSN 500

**Bert's Total
DCP Direct = \$40,000**



Direct Attribution, *Example 2*

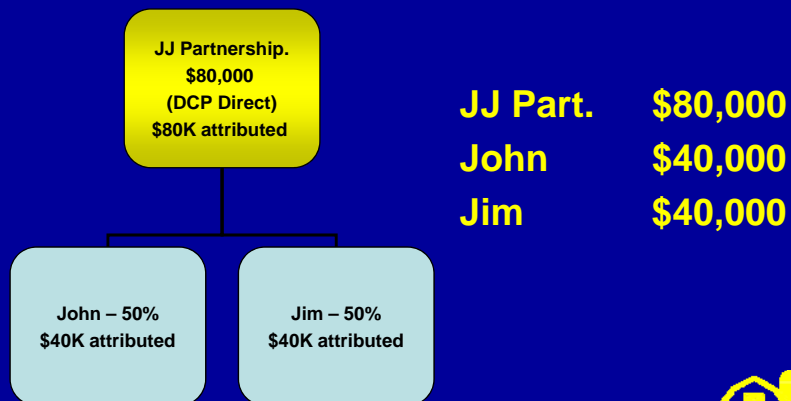


Attributions when the payee is an entity:

- **\$40,000 to JJ Inc.**
(full amount paid)
- **\$24,000 to John**
(60% pro rata share)
- **\$16,000 to Jim**
(40% pro rata share)



Direct Attribution, *Example 3*



Payment Limitation

Payments to a person or entity will not exceed the applicable limitation.

- For example: DCP direct payment limit of \$40,000*
- person is limited to \$40,000, including shares of a partnership and interest in an entity
 - an entity is limited to \$40,000



Average Adjusted Gross Income AGI



New 3-year Period

3 taxable years preceding the most
immediately preceding complete taxable
year

For 2009 – use 2005, 2006, 2007



Average Adjusted Gross Income

Three qualifying levels beginning in 2009:

\$500,000 Avg. Adjusted Gross Non-farm Income	Exceed this - ineligible for any commodity program benefits
\$750,000 Avg. Adjusted Gross Farm Income	Exceed this - ineligible for DCP Direct Payments.
\$1,000,000 Avg. Adjusted Gross Non-farm Income	Exceed this - ineligible for Conservation programs, unless 66.66% or more of AGI is average adjusted gross farm income.



Adjusted Gross Nonfarm Income

If Average Adjusted Gross Nonfarm Income is greater than \$500,000, the person or legal entity is not eligible for:

- DCP/ACRE
- SURE, ELAP, LFP, LIP, NAP, TAP
- Price Support Programs (LDP, Mkt gains, MILC)



Adjusted Gross Farm Income

If Average Adjusted Gross Farm income is greater than \$750,000, the person or legal entity is not eligible for:

- **DCP Direct payments**
(this is the only type of payment affected by this AGI level)



Adjusted Gross Income

If Average Adjusted Gross Nonfarm Income exceeds \$1,000,000, the person or legal entity is not eligible for:

- **Conservation program benefits**
 - *unless 66.66% or more of the AGI is from farming, ranching or forestry operations.*



AGI Certifications

AGI certification of a person or legal entity can be accomplished by filing:

- a CCC-926, AGI Certification Statement,
or
- an acceptable statement from a CPA or attorney.



USDA – Farm Service Agency

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