Ag Decision Maker

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Crop disaster payments are now a SURE thing

by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

Federal disaster payments for areas that have suffered severe crop losses have been around for a long time. However, they have usually been implemented on an ad hoc basis each time widespread production problems arose. The new farm bill changes this.

Supplemental Revenue Assistance

The 2008 farm bill, officially known as the Food, Conservation, and Energy Act of 2008, creates an Agricultural Disaster Trust Fund. A major part of this fund will finance Supplemental Revenue Assistance (SURE) payments, which are designed to supplement the protection producers can purchase from private crop insurance companies. In fact, a producer must purchase insurance for all crops produced each year to be eligible for the SURE disaster program.

Farmers who have land in a county that has been declared a federal disaster county, or land in a county that is contiguous to a disaster county, may be eligible to receive a SURE payment. As of July 2, this included every county in Iowa except Plymouth and Cherokee. Farms in excluded counties could also be eligible if they have more than a 50 percent loss in crop income due to weather related causes.

SURE is a revenue guarantee program, similar to crop revenue insurance without the increasing guarantee feature. If the farm's actual crop revenue is less than the guarantee, the SURE payment makes up 60 percent of the difference. The actual crop revenue includes not only the estimated value of the crop produced, but also any other USDA payments and crop insurance indemnity payments received. This prevents farmers from receiving double payments for the same losses. All guarantees and actual revenues under SURE are calculated as the sum for all crops and all insurance units for a Farm Service Agency (FSA) farm unit, even if land in more than one county or state is involved. Payments are not made for losses to individual crops or insurance units.

The guarantee

The SURE guarantee is simply the sum of all the crop insurance guarantees purchased for the current crop year, increased by 15 percent. The extra

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Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Returns from Farrowing and Finishing Hogs – B1-30 (3 pages)

Returns from Finishing Feeder and Weaned Pigs – B1-33 (2 pages)

Iowa Farm Building Rental Rate Survey – C2-17 (1 page)

Flexible Farm Lease Agreements – C2-21 (4 pages)

Twelve Steps to Cash Flow Budgeting – C3-15 (8 pages)

Your Net Worth Statement – C3-20 (8 pages)

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IOWA STATE UNIVERSITY
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15 percent is designed to fill part of the revenue gap not covered by insurance. For example, a producer who purchased a 75 percent guarantee on all crops would have that raised to 86.25 percent for SURE. There is also an overall "cap" on the SURE guarantee equivalent to a 90 percent insurance guarantee on all crops.

If the crop insurance proven yield (APH yield) is less than the yield used by the Farm Service Agency to calculate counter cyclical payments (CCPs), then the CCP yield is used instead for calculating the SURE guarantee. Producers who have used "plug" yields to calculate their APH yields in some low production years also will have their SURE yield recalculated.

Actual revenue

The SURE "actual revenue" includes the actual number of bushels harvested for each crop valued at the average cash marketing year price as determined by the USDA. For corn and soybeans this price is calculated from September through August, so the actual revenue and payments for 2008 crops will not be known until September 2009. Advance payments could be authorized, but this has not been announced. The cash marketing year price may be higher or lower than the harvest futures price used to calculate crop insurance indemnity payments.

In addition, the actual revenue includes any crop insurance indemnity payments and prevented planting payments received for the 2008 crop, and 15 percent of any direct payments, counter cyclical payments, and loan deficiency payments received for the 2008 crop. Unless corn and soybean prices drop considerably in the next year, the direct payments will be the only commodity program received for the 2008 crop. If payments are received under any other USDA crop disaster programs, these are included as well.

If the actual revenue calculation is below the SURE guarantee, the producer will be paid 60 percent of the difference. There is a limit of $100,000 per year per eligible producer, based on the same rules outlined for other commodity programs in the new farm bill.

Insure all crops

To be eligible for SURE payments a producer must insure all of his/her eligible crops. Approximately 90 percent of the corn and soybeans in Iowa are covered by crop insurance each year. However, only a small percent of other crops such as oats, wheat and hay are typically insured. Even a small patch of hay that is not insured can cancel eligibility for SURE payments on all the acres of corn and soybeans on the same farm.

Fortunately, producers who did not insure some of their crops in 2008 can still become eligible for SURE payments by paying the catastrophic (CAT) policy fee of $100 for each uninsured crop to FSA by September 16. Crops not eligible for private insurance but which are eligible for the Noninsured Crop Disaster Assistance Program (NAP) through FSA also need to be covered or have the $100 fee paid. These include many horticultural crops.

Supplemental Revenue Assistance (SURE) Example

	Corn	Soybeans	Total
Planted acres	500 acres	500 acres	1,000 acres
APH crop insurance yield	160 bu.	48 bu.	
Crop insurance indemnity price	$5.40	$13.36	
Crop insurance guarantee level	75 %	75 %	
Crop insurance revenue guarantee (acres x yield x price x % guarantee)*	$324,000	$240,480	$564,480
Harvested acres	500 acres	500 acres	
Harvested yield	100 bu.	30 bu.	
Actual bushels harvested	50,000 bu.	15,000 bu.	
Harvest time insurance price	$6.00	$14.00	
Actual revenue for crop insurance (bu. x price)	$300,000	$210,000	$510,000
Crop insurance indemnity payment (insurance guarantee less actual revenue)*			$54,480
SURE guarantee (115 % of insurance guarantee)*			$649,152
Marketing year average cash price	$6.50	$15.00	
Actual revenue for SURE (bu. x market yr. price)	$325,000	$225,000	$550,000
Crop insurance indemnity payment			$54,480
15 % of USDA direct payment ($20,000)			$3,000
Total crop revenue for SURE			$607,480
Revenue shortfall for SURE (guarantee less actual)			$41,672
SURE payment (60 % of shortfall)			$25,003

*Assumes basic revenue insurance. For CRC or RA-HPO the final guarantee could be higher since the harvest price exceeded the initial indemnity price.

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The maximum charge is $300 per producer per county, and $900 per farm. Note that paying this fee only makes the producer eligible for the SURE payment--it does not make the uninsured crops eligible for crop insurance or NAP payments in 2008. After 2008 all crops must be insured by the sales closing date, which is March 15 for most Iowa crops. If all crops are already insured, no other signup is necessary.

Stay in touch with your local FSA office for more details on SURE.

Tax provisions in the Food, Conservation, and Energy Act of 2008 (the 2008 Farm Bill)*

By Neil E. Harl, Charles F. Curtiss Distinguished Professor in Agriculture and Emeritus Professor of Economics, Iowa State University, Ames, Iowa. Member of the Iowa Bar, 515-294-6354, harl@iastate.edu

After a series of delays, a Presidential veto, the discovery that one of the titles in the bill had been inadvertently omitted in the enrolled bill that had been forwarded to the White House and votes in the House of Representatives and Senate to override the veto (by a comfortable margin in both houses), the 2008 farm bill is now law. This article will provide a summary of a few of the major provisions in the new bill.

Tax provisions

CRP "fix"

The legislation includes a partial "fix" on the long-running dispute between taxpayers and the Internal Revenue Service over whether all Conservation Reserve Program (CRP) payments should be subjected to the 15.3 percent self-employment (SE) tax. IRS had insisted in a 2003 Chief Counsel ruling and a late 2006 Notice, that all CRP payments were subject to SE tax, contrary to prior rulings and cases on the issue.

The provision in the 2008 farm bill provides that individuals receiving benefits under sections 202 or 203 of the Social Security Act (retirement benefits and disability benefits) are not subject to SE tax on CRP payments. The legislation does not address the plight of mere investors in land bid into the CRP (whose CRP land does not bear a "direct nexus" to a farm or ranch business). Thus, the basic issue involved – where the line is drawn between a "trade or business" on the one hand and an investment activity on the other – continues to be a problem and likely must await litigation to establish where that line is to be drawn. Act § 15301(a), amending I.R.C. § 1402(a)(1) and 16 U.S.C. § 3833(a).

The provision is effective for payments made after December 31, 2007. Act § 15301(c).

Conservation contributions

The legislation extends for two years (through 2009) for individuals and corporations the provision permitting deductions for conservation contributions. The bill changes "December 31, 2007" to "December 31, 2009" in Internal Revenue Code § 170(b)(1)(E)(vi). Act § 15302(a), amending I.R.C. § 170(b)(1)(E)(vi).

Expenses for endangered species recovery

The legislation provides for a deduction under I.R.C. § 175 for expenditures incurred for endangered species recovery. The Act refers to ". . . expenditures paid or incurred for the purpose of achieving site-specific management actions recommended in recovery plans approved pursuant to the Endangered Species Act of 1973." Act § 15303(a)(1), amending I.R.C. § 175(c)(1).

Qualified timber gains

The bill authorizes, for a period of one year, beginning in taxable years ending after the date of enactment, a 15 percent maximum rate for qualified timber gains for corporations. Act § 15311(a), amending I.R.C. § 1201(b).

Timber REITS

The Act provides that gain from real property includes timber gains and that mineral royalty income is qualifying income for timber REITS. Also, the term "Timber Real Estate Investment Trust" is defined to mean a real estate investment trust in which more than 50 percent in value of its total assets consist of real property held in connection with the trade or business of producing timber. Act §§ 15312, 15313, amending I.R.C. § 856.

Qualified tax credit bonds

The legislation authorizes "qualified tax credit bonds," which mean "qualified forestry conservation bonds" with a credit authorized with limitations on expenditure of bond proceeds. Act § 15316, enacting I.R.C. §§ 54A, 54B.

Cellulosic biofuel credit

The legislation provides for a biofuel credit of $1.01 per gallon for cellulosic biofuels except for cellulosic biofuels that are alcohol (the credit for those is reduced by the amount of ethanol and other credits). Act § 15321, amending I.R.C. § 40(a).

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Tax provisions in the Food, Conservation, and Energy Act of 2008 (the 2008 Farm Bill), continued from page 3*

Ethanol credit

The 51 cents per gallon ethanol fuels credit is reduced to 45 cents per gallon, effective after 2008. Act, § 15331(b).

Ethanol tariff

The bill extends for two years (to January 1, 2011) the ethanol tariff (of 54 cents per gallon), which is levied on imported ethanol. Act § 15333.

Agricultural bonds

The Act increases from $250,000 to $450,000 the loan limit on agricultural bonds relating to the exception for first-time farmers. After 2008, the amount is to be adjusted for inflation. Act § 15341(a).

Like-kind exchange for mutual ditch, reservoir, or irrigation company stock

The legislation allows like-kind exchange treatment for exchanges involving mutual ditch, reservoir, or irrigation company stock that are under I.R.C. § 501(c)(12)(A) provided the stock has been recognized by the state's highest court as representing real property or interests in real property. Act § 15342(a), adding I.R.C. § 1031(i)

The amendment is effective for exchanges completed after the date of enactment of the legislation. Act § 15342(b).

Agricultural chemicals security credit

The Act adds a credit of 30 percent of "qualified security expenditures" with a limit of $100,000 for any "facility," and a maximum of $2,000,000 for any taxable year for any taxpayer for costs incurred to secure agricultural chemicals including employee training, security lighting, and conducting a "security vulnerability assessment." Act § 15343(a), adding I.R.C. § 45O.

Race horses

The legislation specifies that "any race horse" placed in service before January 1, 2014, is classified as three year property for depreciation purposes and race horses placed in service after December 31, 2013 if more than two years old at the time the horse is placed in service by the purchaser. Act § 15344(a), amending I.R.C. § 168(e)(3)(A)(i).

The provision is effective for property placed in service after December 31, 2008. Act § 15344(b).

Temporary relief for Kiowa County, Kansas and surrounding area.

The bill authorizes an array of special relief provisions for Kiowa County, Kansas and the surrounding area because of storms beginning on May 4, 2007. Act § 15345

Limitation on excess farm losses

For taxpayers other than a C corporation receiving an "applicable subsidy," excess farm losses (the greater of $300,000, $150,000 for married taxpayers filing separately or the net farm income for the previous five years) are disallowed against non-farm income. For partnerships and S corporations, the limitation is applied at the partner or shareholder level. The term "applicable subsidy" includes direct or counter cyclical payments or any Commodity Credit Corporation loan. The limitation is applied before the passive activity loss rules of I.R.C. § 469. Act § 15351(a), adding I.R.C. § 461(j).

The provision is effective for taxable years beginning after December 31, 2009. Act § 15351(b).

Modification of the optional method of computing net earnings from self-employment

For many years, a farmer on the cash or accrual methods of accounting has been allowed to compute net earnings from self-employment in the regular manner or to use an optional method based on gross income to compute earnings from self-employment for social security purposes. See 2 Harl, Farm Income Tax Manual § 8.05[19] (2007 ed.). In effect, this guarantees some self-employment income in years when earnings from the farming operation are low or negative. Under the rules as they have existed for several years, if gross income is $2400 or less, a farmer could report two-thirds of gross income as self-employment income. If gross income is more than $2400 and net earnings from self-employment are less than $1600, a farmer could report $1600 as self-employment income. The figures have not been adjusted for inflation.

Under the 2008 legislation, the "$2400" figure is replaced by "upper limit", which is 150 percent of the "lower limit." The "$1600" figure is replaced by "lower limit," which is the sum of the amounts required under Section 213(d) of the Social Security Act for a quarter of coverage. For 2008, that figure is $1,050.

The amount is inflation adjusted annually. Act § 15352, (a), (b), amending I.R.C. § 1402(a)(17) and the Social Security Act § 211(a)(16).

The change is effective for taxable years beginning after December 31, 2007. Act § 15352(c).

Information reporting on CCC transactions

The Internal Revenue Service had steadfastly refused to require Form 1099 (information) reporting for gains from payment of Commodity Credit Corporation (CCC) loans with generic commodity certificates, a favorite way to avoid farm program payment limitations, until publication of Notice 2007-63 in July of 2007, with required reporting of such gains effective January 1, 2007. The 2008 legislation requires such information reporting for all CCC loans repaid on or after January 1, 2007, regardless of the manner in which the loan was repaid. Act § 15353, enacting I.R.C. § 6039J.

Protection of social security

With several of the provisions in the 2008 Act affecting the social security system, particularly those involving self-employment income, the Act mandates an annual transfer of funds from the general revenues of the federal government to the social security trust funds in amounts ranging from $5,000,000 for fiscal year 2009 to $7,000,000 for fiscal year 2017. Act § 15361.

2009 flexible cash farm leases gain traction

by Steven D. Johnson, Ph.D., Farm & Ag Business Management Field Specialist, Iowa State University Extension, (515) 261-4215, sdjohns@iastate.edu, www.extension.iastate.edu/polk/farmmanagement.htm

While Flexible or Bonus Cash Leases make up a small percentage of Cash Rent Lease Arrangements to-date, the interest in these types of leases is increasing rapidly. That's because the additional payment above an established base rent is getting triggered from revenue (yield times price). That additional flexible rent payment can be determined by the specific farm revenue or by the county average revenue. If the revenue reflects the yield and/or price from that farm, then the Farm Service Agency (FSA) office will likely determine that this is a share lease and the tenant should share a portion of the government farm program payments with the landlord. To avoid additional FSA and specific farm record keeping, many tenants and landlords may choose the posted county price to determine the county average revenue for that crop year in order to finalize the size of that "flex payment." In such a case, that payment won't be made until at least March following harvest, when the final county yields are determined by the USDA National Ag Statistics Service.

Interest in flexible cash leases is likely to increase in 2009. The reason is that once tenants and landowners understand that beginning in 2009 revenue triggers at both the state and farm levels are a major portion of the new Average Crop Revenue Election (ACRE) payment, they will see that leases could be structured in a similar fashion. These revenue concepts will be incorporated by both tenants and landlords to write multi-year leases that benefit both parties through the 2012 crop year, the last year of the ACRE program.

In addition, farms that enroll in ACRE in 2009 will likely need to prove their actual farm yields by FSA farm number beginning with the 2004 crop year. That's because ACRE requires the use of both state and farm yields using a 5-year Olympic average for planted acreage. For some farms, the easiest year to prove yields will be 2008 when scale tickets, settlement sheets, grain bin measurements, and yield monitor data can be segregated by FSA farm number during and immediately following harvest. However, the FSA regulations pertinent to ACRE and farm yields have yet to be written and likely will not be completed prior to the 2008 harvest.

More information is available in Ag Decision Maker File C2-21, Flexible Farm Lease Agreements and the associated Decision Tool on analyzing a flexible lease agreement.

ACRE payment calculators

by Bruce A. Babcock, Center for Agriculture and Rural Development, babcock@iastate.edu, 515-294-6785

Average Crop Revenue Election, or ACRE, is a new commodity program included in the Food, Conservation, and Energy Act of 2008. The revenue guarantee equals 90 percent of the product of the ACRE yield and the ACRE price. The ACRE yield is the average of the state yields during the previous five years after the highest and lowest yield in the five years are eliminated. So, for example, if state yields for corn in 2004 through 2008 were respectively 180, 140, 150, 160, and 100 bushels per acre, the ACRE yield for 2009 would be 150, which is the average of 140, 150, and 160. The ACRE price is the average of the two previous years' season average prices as reported by the National Agricultural Statistics Service. So for 2009, the ACRE price used to set the 2009 guarantee will equal the season average prices for the 2007/08 marketing year and the 2008/09 marketing year.

To help farmers and others understand how ACRE works and to compare the likely payments from ACRE relative to traditional farm programs, the Center for Agricultural and Rural Development (CARD) researchers have prepared a fact sheet about ACRE, as well as three computer calculators. The fact sheet provides detailed information about ACRE and a brief description of how to use the calculators. The calculators are crop specific: one for corn, one for soybeans, and one for wheat. All ACRE calculations assume that ACRE sign-up is for the 2009 crop year, and all calculations are based on 2009 market conditions.

The information is provided at http://www.card.iastate.edu/ag_risk_tools/acre/.

We welcome your comments about the usefulness of the calculators (e-mail card-web@iastate.edu).

Hart named as new grain marketing economist at Iowa State University

When it comes to information about the grain markets, there's a new kid on the block at Iowa State University. Beginning Aug. 1, Chad Hart will pick up many of the responsibilities of Robert Wisner, who provided grain marketing information and advice to Iowa producers for more than 40 years before his retirement in December 2007.

Hart has been an agricultural economist with Iowa State's Center for Agricultural and Rural Development (CARD). He arrived at CARD in 1991 as a graduate student and joined the staff in 1999.

In this new position, Hart will be an assistant professor of economics in the College of Agriculture and Life Sciences. He also will add the title of grain marketing economist to his business card. Hart's task will be to analyze grain, forage, and energy crop markets and their interaction with the rest of the economy, then coordinate with extension specialists to communicate that information to farmers across the state.

"I'm definitely looking forward to this," Hart said. "This is an exciting time because we are having high grain prices due to a variety of factors, such as the weather, strong global demand, and the build-up of a bioeconomy."

Hart served as head of CARD's Biorenewables Policy division for the past year. He also has been the U.S. Policy and Insurance Analyst with the Food and Agricultural Policy Research Institute (FAPRI) at Iowa State. In this capacity, he was responsible for directing econometric and modeling efforts for the crop insurance component of the FAPRI modeling system. He also maintained CARD's Loan Deficiency Payment interactive Web site.

"Most of my time at CARD has been spent looking at issues for politicians," Hart said. "Now I'll be looking at those same issues, but for farmers. That gives me a completely different audience than before."

Hart received a bachelor's degree in economics with minors in mathematics, history, and astronomy from Southwest Missouri State University in 1991. He received a doctorate in economics and statistics in 1999 from Iowa State.

In 2007, Hart received both the Iowa State University Regents Award for Staff Excellence and the Iowa State University College of Agriculture and Life Sciences Professional and Scientific Award for Achievement.

Updates, continued from page 1

Your Farm Income Statement – C3-25 (8 pages)

Farm Financial Statements – C3-56 (8 pages)

Please add these files to your handbook and remove the out-of-date material.

Current Profitability

The following profitability tools have been updated on www.extension.iastate.edu/agdm to reflect current price data.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Ethanol Profitability – D1-10