



# Ag Decision Maker

## A Business Newsletter for Agriculture

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### Crop insurance decisions for 2010

by William Edwards, extension economist, 515-294-6161, [wedwards@iastate.edu](mailto:wedwards@iastate.edu)

There are a few important changes for multiple peril crop insurance this year. In addition, some features that were introduced last year will be continued.

#### Indemnity prices

The Risk Management Agency (RMA) has announced indemnity prices of \$3.90 per bushel

for corn and \$9.15 per bushel for soybeans for APH (yield) insurance guarantees for 2009, both slightly lower than last year. Prices for revenue insurance policies will not be known until the end of February. December corn futures contracts currently are trading at about the same level as in February 2009, while November soybean contract prices are slightly higher than a year ago.

#### Premiums

Last year 74 percent of the insured acres in Iowa were protected by Crop Revenue Coverage (CRC), only 12 percent were covered by Revenue Assurance (RA). This was a complete reversal from 2008, and can be attributed almost totally to lower premiums offered for CRC in 2009. Since RA and CRC provide essentially the same coverage, producers should compare premiums carefully each year.

The two products use different approaches for calculating premiums, and it is difficult to predict which one will be cheaper in a given year.

#### Biotech endorsement (BE)

The premium discount for planting certain biotech corn hybrids has been expanded to all the major Corn Belt states. Hybrids containing YieldGuard, Herculex or Agrisure genetics may be eligible. Farmers must plant at least 75 percent of the corn acres in an insurance unit to an approved hybrid. Discounts averaged about 13 percent last year, or a little over \$3 per acre. The discounts are not available for

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#### Handbook updates

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

#### Buying Used Machinery

– A3-22 (2 pages)

#### Lean Hog Basis – B2-41

(1 page)

#### Live Cattle Basis – B2-42

(1 page)

#### Feeder Cattle Basis – B2-43

(1 page)

Please add these files to your handbook and remove the out-of-date material.

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the group risk insurance policies, GRP and GRIP, however. Producers should carefully weigh the potential savings on insurance premiums against the cost of planting a BE eligible hybrid and the need for protection against the targeted pests.

### Enterprise and whole farm units

Last year RMA increased the subsidy rates for policies in which insured acres are grouped into enterprise or whole farm units. Enterprise units combine all acres of a crop grown in the same county by one producer on a single policy. Whole farm units combine corn and soybeans into a single policy. At the 75 percent coverage level, for example, basic units receive a 55 percent premium subsidy while enterprise units will receive a 77 percent subsidy and whole farm units will receive an 80 percent subsidy (see table).

Producers with multiple farming units can apply for enterprise or whole farm units, and either keep the same coverage and spend less on crop insur-

ance, or spend the same dollars as before but raise their guarantee to a higher level. Many producers chose to do the latter last year. As the chart below shows, the proportion of acres insured at a 75 percent or lower guarantee decreased from 2008 to 2009, while the acres insured at 80 percent or 85 percent of expected revenue increased.

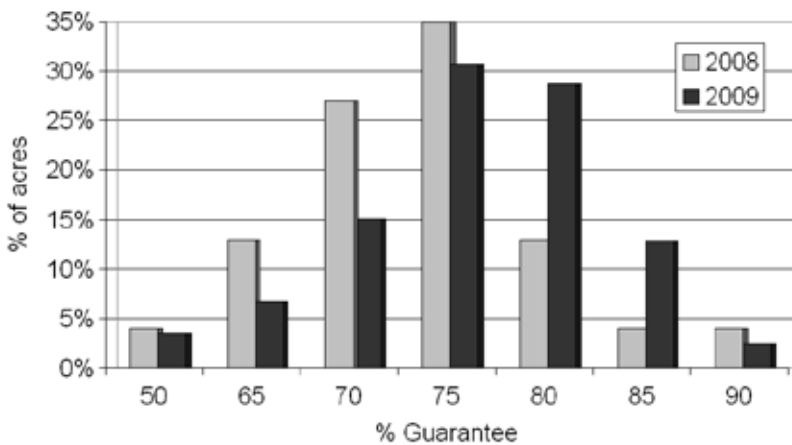
Combining several optional or basic units into an enterprise unit means less chance of receiving an indemnity payment for an isolated crop loss. Carrying companion hail insurance can help offset this. On the other hand, increasing the level of coverage with an enterprise unit provides added protection against widespread production problems or a drop in prices. Once the crops are harvested the grain and ultimately the dollars are commingled anyway, so it makes good financial sense to protect against risk at the whole farm level.

### Specialty soybeans

Certain types of specialty soybeans can now be insured separately from conventional soybeans. These include food grade, low linolenic, low saturated fat, and high protein varieties. Organically grown or non-GMO soybeans do not qualify as specialty soybeans. Because specialty soybeans typically have lower yields than conventional soybeans, insuring them separately will help increase the proven yield for the conventional crop. Producers can submit past yield records to create an APH yield for each type of specialty soybeans. The indemnity price can be the higher of the RMA price (\$9.15 for 2010) or the actual contract price for the crop. However, the contract price used for

the policy cannot be more than 15 to 50 percent (depending on the type of beans) higher than the indemnity price for standard soybeans. If a contract price is used to calculate the coverage level, the crop must be insured with an APH (yield) policy, not a revenue policy. If a CRC or RA policy is used, the standard indemnity price of \$9.23 will be in effect.

Level of Guarantee Purchased--Iowa



Rates at which premiums are subsidized, by type of insurance unit.

Coverage Level	Basic Units	Enterprise Units	Whole Farm Units
60%	64%	80%	not available
65%	59%	80%	80%
70%	59%	80%	80%
75%	55%	77%	80%
80%	48%	68%	71%
85%	38%	53%	56%



## Will you get a 2009 ACRE payment?

by Steven D. Johnson, farm and ag business management specialist, Iowa State University Extension, (515) 957-5790, [sdjohns@iastate.edu](mailto:sdjohns@iastate.edu)

If your farm was enrolled in USDA's Average Crop Revenue Election or ACRE program in 2009, you may be wondering about the possibility of receiving a payment. Using the information available today, this article provides an outlook of ACRE payments for 2009 crops.

Based on the information in the Jan. 12, 2010 USDA reports, which updated the official estimates of 2009 crop size and USDA's supply/demand estimates and price projections, it is still unlikely that Iowa will trigger 2009 ACRE payments for either corn or soybeans. That's because USDA projects the Iowa corn yield per harvested acre is 182 bushels per acre and the soybean yield per harvested acre is 51 bushels per acre.

To figure whether or not an ACRE payment is triggered, FSA uses the yield per planted acre, rather than harvested acre. So, these yield numbers will be slightly lower for ACRE calculations but not more than a half bushel per acre average on corn and relatively no change for soybeans.

The Iowa ACRE revenue guarantee in 2009 for corn is \$635.61 per acre. For soybeans, the 2009 ACRE revenue guarantee for Iowa is \$456.32 per acre. To determine a potential ACRE payment, FSA subtracts the 2009-10 marketing year actual state revenue from the revenue guarantee.

As of Jan. 12, 2010 the national cash prices for the 2009-10 marketing year are forecast at \$3.70 per bushel for corn and \$9.65 per bushel for soybeans. These are the prices used to determine 2009-10 actual revenue for the potential state and farm ACRE triggers. Payments are determined at the state level, but the actual farm revenue must fall below the revenue guarantee to qualify.

These prices represent a weighted average of all cash bushels sold nationally during the marketing year (Sept. 1, 2009 through Aug. 31, 2010).

The final national cash price will not be released by USDA until Sept. 30, 2010, and 2009 ACRE payments if triggered, would be issued in October 2010.

Bottom line for 2009, the Iowa corn and soybean yields are too high and the national cash price forecast too large to trigger a 2009 ACRE payment. However, it is possible that the drop in corn and soybean prices seen since the January 12 USDA reports were released does increase the potential for a 2009 ACRE payment, a possibility for corn more so than for beans. Should the January state yields reflect the final yield per planted acre in Iowa, the ACRE trigger prices would be \$3.49 per bushel for corn and \$8.95 per bushel for soybeans.

The potential is greater for corn to trigger an ACRE payment since a large percentage of U.S. cash soybeans have already been sold at much higher prices than \$8.95 per bushel. Remember, besides the state trigger, the farm must also trigger in order to qualify for an ACRE payment. Unless the national cash price falls below \$3.49 per bushel for corn it is likely that many farms in Iowa would not qualify for an ACRE payment.

Regarding the farm revenue guarantee, if the Iowa revenue guarantee was to trigger in 2009 the national cash price for corn would have to drop to \$3.49 per bushel or less. If this is true, you could have a farm yield up to 257 bushel per acre and still trigger an ACRE payment. So yes, if Iowa triggers an ACRE payment on corn, your farm would likely trigger as well. Remember ACRE payments are on planted acres and adjusted to 83.3 percent.

ACRE Payment information is available on the AgDM Farm Bill page, <http://www.extension.iastate.edu/agdm/info/farmbill.html>. Information File A1-33, Projected ACRE Payment Rates for Iowa Crops or Information File A1-45 provides an

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overview of the ACRE program.

If you have questions or need details about USDA farm programs contact your local USDA Farm Service Agency office. You can also get news and information about DCP, ACRE, SURE and other USDA programs at www.fsa.usda.gov. The Ag

Decision Maker site at www.extension.iastate.edu/agdm and ISU Extension farm management specialist Steve Johnson's site at www.extension.iastate.edu/polk/farmmanagement.htm are other resources for your farm management needs.



## Change of "taxpayer" after crop insurance (and disaster payment) deferral

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

Recently the question was asked, "what are the consequences of incorporating or forming an LLC after electing to defer crop insurance and disaster payments?" It is tempting to change entities (for the business entity involved), particularly if income shifting to a lower tax bracket taxpayer is possible. However, that outcome seems to be blocked by assignment of income rules of long standing.

### Provisions of the deferral statute and regulations

The statute governing deferrals of crop insurance and disaster assistance proceeds is silent on the issue of whether the income tax on deferrals must be paid by the electing taxpayer. The regulations state that an election is "... deemed to cover all such proceeds which are attributable to crops representing a single trade or business under section 446(d)." A separate election must be made with respect to insurance proceeds attributable to each crop which represents a separate trade or business under section 446(d)." Section 446(d) states that a taxpayer engaged in more than one trade or business may, in computing taxable income, use a different method of accounting for each trade or business. Thus, it would appear from that authority that an election by a sole proprietorship could be effective for a successor entity so long as the new entity is the same trade or business with no change of ownership or change in the scope of operation.

However, nowhere is the issue addressed directly in either the Internal Revenue Code, regulations or rulings. Nonetheless, it seems questionable whether the "trade or business" requirement could be stretched to allow assignment of the obligation to pay income tax on the deferred proceeds to a successor entity.

### Midstream incorporation rules

The "midstream incorporation" rules applicable to tax-free exchanges to a corporation cast some light on what types of conveyances to a newly-formed corporation are likely to be challenged by the Internal Revenue Service. Those rules include application of the "assignment of income" doctrine which can override an otherwise tax-free exchange and result in the taxing of proceeds from the subsequent recognition of gain back to the transferor. The midstream incorporation rules also include the reallocation of income, deductions, credits or allowances by the Commissioner as necessary "...in order to prevent the evasion of taxes or clearly to reflect...income..." In *Rooney v. Commissioner*, the Commissioner was upheld in reallocating to a newly-formed corporation production expenses incurred by the individual taxpayer. The case involved a July 31 transfer of a growing hop crop (which had been sold under contract the prior January 22) to the new corporation with the crop harvested in late August and early Septem-

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ber. Before the Commissioner's reallocation, the individual taxpayer had incurred a substantial net operating loss which the taxpayer sought to carry back to the three prior years. In two subsequent cases, the courts rejected the Commissioner's reallocation where no operating loss had been incurred by the transferor.

Tax-free incorporations can also be challenged under the "tax benefit" theory and lack of business purpose doctrine.

In several private letter rulings, the Internal Revenue Service has ruled that, in general, formation of a farm or ranch corporation in the regular course of business in a tax-free exchange that does not involve substantial tax avoidance motives or a manifest desire to shift income tax liability artificially should not result in recognition of income because of conveyance of stored grain, growing crops or livestock being fed out. Similarly, the IRS has ruled that the transfer of cash, prepaid expenses, feed on hand and supplies did not trigger recognition of gain; the transfer of a Commodity Credit Corporation loan and the right to receive payment in-kind program benefits to a corporation did not result in a reallocation; nor did the deductibility of prepaid feed expense. Note, however, that none of those rulings involved the handling of deferred income amounts, which is easily distinguished from the transfer of an asset.

### Assignment of income

As noted above, the assignment-of-income doctrine is the most likely barrier to shifting deferred income from crop insurance and disaster payments to a successor entity. That doctrine has a long and storied history. In 1930 the United States Supreme Court in *Lucas v. Earl* held that an individual who gave his wife the right to receive a portion of the future income generated by his law practice in what amounted to joint tenancy (one-half) remained taxable to the husband who was responsible for creating the income. In *Helvering v. Horst* the court held that an individual who gave his son interest coupons which were detached from bonds owned by the transferor was liable for the interest accrued before the gift and later paid to the son. The well-established rule has been that the assignment of income is ineffective; the conveyance must be of the income producing property to be beyond challenge. As is often stated, one cannot give away the fruit without giving away the tree.

Thus, it would seem that it is not possible to shift the responsibility for paying income tax on deferred crop insurance proceeds and disaster payments to a successor entity. As a practical matter, it only makes a difference if the successor corporation is a C corporation or any other entity with income sharing among taxpayers different from the electing entity or income sharing in different proportions.

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### Internet Updates

The following updates have been added on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

**Cash Corn and Soybean Prices** – A2-11 (4 pages)

**Farm Machinery Joint Venture Worksheet** – A3-38 (5 pages)

**Feeder Steer-Heifer Price Spread** – B2-45 (1 page)

**Financial Performance Measures for Iowa Farms** – C3-55 (8 pages)

**Adding Value** – C5-01 (2 pages)

**Using Value-Added Agriculture to Create a New Rural America** – C5-03 (2 pages)

**Should You Participate in Value-added Agriculture?** – C5-04 (2 pages)

**Capturing vs. Creating Value** – C5-05 (3 pages)

**What is an Entrepreneur?** – C5-07 (2 pages)

**Peter Drucker and Innovation** – C5-10 (1 page)

**Designing a Viable Rural Economy** – C5-20 (2 pages)

**Evaluating Marketing Outlets Using Whole-Farm Records** – C5-32 (4 pages)

**What I've Learned about Value-Added** – C5-45 (2 pages)

### Decision Tools and Current Profitability

The following tools have been added or updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

**SURE Payment Calculator** – A1-44

**Season Average Price Calculator** – A2-15

**Corn Profitability** – A1-85

**Soybean Profitability** – A1-86

**Ethanol Profitability** – D1-10

**Biodiesel Profitability** – D1-15

**Returns for Farrow-to-Finish** – B1-30

**Returns for Weaned Pigs** – B1-33

**Returns for Steer Calves** – B1-35

**Returns for Yearling Steers** – B1-35

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