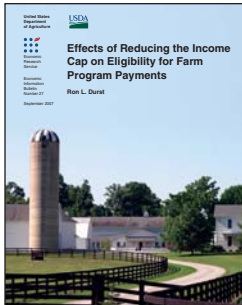


ERS *Report Summary*

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*This is a summary
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Effects of Reducing the Income Cap on Eligibility for Farm Program Payments

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Farm commodity program payment limits have been in effect since the Agricultural Act of 1970. However, these payment limits have not had much effect on the distribution of farm program payments. Only a small percentage of producers reach the current payment limit (\$360,000 per person) because of various legal and regulatory provisions available for avoiding the limits.

The Farm Security and Rural Investment Act of 2002 supplemented program payment limits with a cap on the income farmers can earn and still receive farm program payments. An individual or taxable entity with average AGI over \$2.5 million for the previous 3 tax years is ineligible for farm program payments. An exception applies to those with 75 percent or more of their average AGI from farming, ranching, or forestry operations. Thus, the cap only affects farm program participants with very high off-farm earnings both in absolute terms and relative to farm income. As a result, a substantial portion of program payments continue to go to large farms and high-income farm households.

What Is the Issue?

To increase the effectiveness of farm program payment limits and reduce payments going to farmers with high incomes, the Administration's 2007 farm bill proposal would reduce the current \$2.5 million AGI eligibility cap to \$200,000 and eliminate the exception for those with 75 percent or more of their income from farming, ranching, or forestry. The proposed cap would apply only to farm commodity payments. This report investigates the share of payment recipients and program payments likely to be affected by the lowering of the AGI income cap.

What Did the Study Find?

The current \$2.5-million cap on eligibility for farm program payments affects only a small number of farm program payment recipients each year. A reduction in the cap to \$200,000 and the elimination of the farm income exception would affect a larger number of farm households but still only a small share of government payment recipients. Based on Internal Revenue Service (IRS) tax data for 2004, about 1.2 percent of all farm sole proprietors and about 2 percent of crop share landlords would be potentially subject to the proposed lower AGI cap. Total government payments to these proprietors and landlords totaled \$399 million, or about 5 percent of farm program payments to all proprietors and share-rent landlords in 2004.

ARMS data suggest that a similar share of farm sole proprietors (1.1 percent) could be affected. When partnerships and farm corporations are included, about 1.5 percent of all farm operator households could be affected since a larger share of farm partnerships (2.5 percent) and farm corporations (9.7 percent) could be subject to the proposed cap. ARMS data indicate that \$807 million in payments were received in 2004 by farm operators organized as proprietors, partner-

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ships, and corporations with incomes exceeding \$200,000. However, not all of these payments would be affected by a \$200,000 income cap on eligibility for payments due to differences in IRS and ARMS data and changes by producers in how they manage their incomes and expenses. The study also found that farm income averaged \$271,749 and net worth averaged over \$1.86 million for farm households with AGI estimated to be over \$200,000 based on the ARMS data.

The share of farm households potentially affected by the proposed lower cap would vary considerably by State. The share ranges from 1.5 percent for North Dakota to 13.4 percent for New Jersey. The Northeast and West report the highest share of farm returns with AGI over \$200,000, while the Corn Belt and Plains States report the lowest share.

How Was the Study Conducted?

This report uses both published and special tabulation data obtained from the IRS to evaluate the proposed lower AGI cap on farm sole proprietors and crop-share landlords. It also uses ARMS farm-level data to estimate an AGI measure of income. The effects of the proposed lower cap on eligibility was evaluated by farm typology, farm commodity type, and organizational structure. The share of all government payments subject to the proposed limit was also estimated based on detailed government payment data from the ARMS survey.