

Iowa Ag Review

CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT

Winter 1999

Vol. 5 No. 1

Government Payments to Supplement Iowa Farm Income

—by Phil Kaus, CARD

On October 21, after much debate and political wrangling, Congress passed and the President signed into law the \$500 billion Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999. Central to the budget debate: how to help U.S. farmers during a time of economic stress due to crop disasters and low commodity prices. Producers have been faced with a substantial drop in net farm income as a result of the agricultural situation in recent months.

Congress provided nearly \$6 billion in an aid package for U.S. producers imbedded in the Omnibus-spending bill. The bulk of this amount, \$2.8 billion, will be in the form of direct payments to producers who were eligible under the 1996 Farm Bill to receive 1998 production flexibility contract (PFC) payments. Producers should have begun to receive those payments in November 1998, and the amounts should be around 49.72 percent of their 1998 contract payment. On a per-bushel basis, this amounts to approximately \$.19 for contract corn, \$.33 for

wheat, and \$.23 for sorghum. Payments for other crops include \$.035 per pound for cotton and \$1.46 per hundredweight for rice. Iowa producers should receive about \$270 million in the form of supplemental PFC payments and should also be eligible to receive some disaster assistance. For disaster assistance, producers will need to see their local Farm Service Agency (FSA) agent.

Other allocations of the \$6 billion aid package include the following.

- \$200 million in assistance to dairy producers. Distribution will be determined by the Secretary of Agriculture through a formula yet to be determined. In essence, this could provide \$.12 per hundredweight.
- \$1.5 billion for single-year disaster. This is set aside specifically for crop losses in 1998.
- \$875 million for multi-year disasters. This was established primarily for Northern and Southern Plains producers who have suffered production problems, either weather or

disease related, during successive years (three of the last five).

- \$200 million in livestock feed assistance. This provision provides cost-share assistance to livestock producers who lost 1998 feed supplies to disaster.
- Permanent income averaging. This will help spread producers' income tax burden over three years.
- Changes in health insurance deductibility for the self-employed. Presently, deductibility is 45 percent. This increases to 60 percent in 1999, 70 percent in 2002, and goes to 100 percent in 2003.
- Net operation loss carryback. Farmers can carryback a net loss for up to five years and receive a tax refund.
- Farmers will not have to pay taxes on contract payments until they are actually received.
- Fuel use credits for biodiesel.

Other legislation also provides assistance to producers.

Under the 1998 Emergency Farm Financial Relief Act, eligible producers are able to receive their PFC payments early. With a visit to the county FSA office, farmers can determine which of several options in this one-time program to use. They can request the entire payment for December 1998 or January 1999. They also have the option of receiving half of the payment in December 1998 and the other half in January 1999. Producers who don't request the early option will either receive the first half in December 1998 or January 1999 and the other half in September 1999, or the whole payment in September.

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ISSN 1080-2193

<http://www.card.iastate.edu/card/news/home.html>

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Farmers are also eligible under the 1996 Farm Bill to claim loan deficiency payments (LDP) when commodity prices fall below established levels. The LDPs vary from day to day and county to county, but producers have been very active in taking advantage of this program this year. LDPs for this year's crop can be taken anytime between the harvest of the crop and next May, as long as the producer still has control. Also, for this year, producers who harvested

feed grains in forms other than whole kernel are eligible. As of December 1, Iowa farmers had claimed LDPs on 283.6 million bushels of corn for \$44 million, 216 million bushels of soybeans for \$82.3 million, and 2.1 million bushels of oats for \$259 thousand. Using this program, Iowa's producers have claimed, for all eligible crops, more than \$127.6 million. (See the CARD Web site for specific information www.card.iastate.edu)

The government payments will be a shot in the arm to those in farm country as they head into 1999. Producers should be aware of the tax implications when exercising some of their payment options. The tax adjustments should provide more long-term benefits for producers by allowing them to average out the fluctuations in income that occur in agriculture. ♦

Three-Year Outlook for Iowa Agriculture

—by Phil Kaus, CARD

In November, the Food and Agricultural Policy and Research Institute (FAPRI) established its preliminary annual baseline projections. An updated outlook for Iowa agriculture from 1999 to 2002 was generated from the results of these projections. Currently, Iowa producers wrapped up near-record harvests of corn and soybeans last fall; unfortunately, these large yields are being added to already large world supplies. Thus, producers have been met with low prices.

To add to the bleak situation, pork producers were faced with the worst October and November prices in recent history. Packing plants slaughtered, on average, more than 2 million head per week during October and November. The situation was similar in other pork producing countries.

Large world supplies have decreased the need for American agricultural products abroad. For the first 11 months of 1998, overall exports of agricultural goods dropped 6 percent. A 14 percent drop in corn exports punctuates this decline.

Implications for Iowa Agriculture

CORN AND SOYBEANS

Iowa producers will continue to use the options available in the Federal Agriculture Improvement and Reform (FAIR) Act of 1996. Corn producers will respond by reducing the acres planted to corn by about 2 percent next year, and increasing acreage slightly during the following two years. Yields will dip slightly in

1999 before increasing through the rest of the period, as there is a return to more normal weather conditions during the growing season. Iowa corn production for 1999/00 is projected to decline to 1.747 billion bushels and then increase to 1.8 billion bushels by the end of the period. Soybean acreage is projected to drop about 1 percent for each of the next two years and increase slightly in 2001/02. Like corn, soybean yields are expected to drop next year and then end the period on an up note. Soybean production is projected to be 490 million bushels in 1999/00 and increase to 498 million bushels by 2001/02.

The season-average price of corn for 1998/99 is projected to be 15 percent lower than the 1997/98, price at \$1.98 per bushel. This is projected to increase \$0.15 by the end of the period, as the world supplies remain large. Soybean prices for 1998/99, when compared to the 1997/98 marketing year, are projected to decline 16 percent to \$5.32 per bushel. Bean prices are then expected to decline slightly in 1999/00 before recovering toward the end of the period. Receipts from crop sales are projected to decline about 15 percent in 1998/99 and bottom out at

