Ag Decision Maker

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Crop disaster payments are now a SURE thing

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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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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)*

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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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