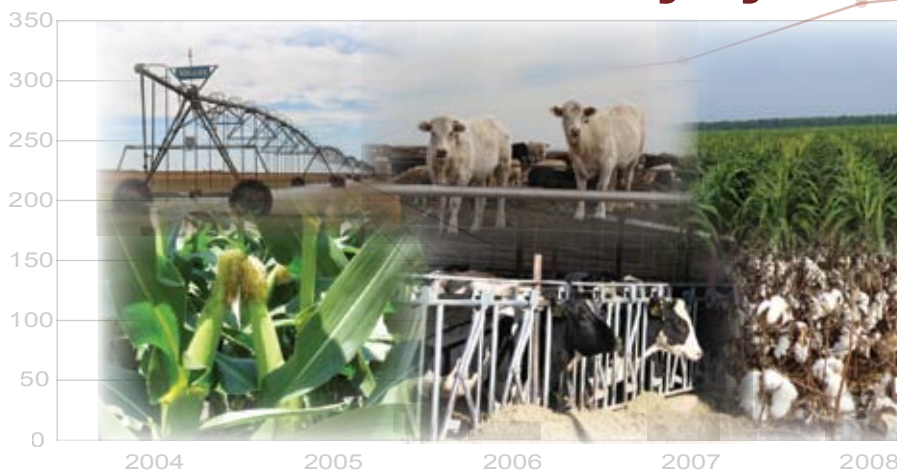# Economic Impact of a Proposed AGI Means Test on Representative Crop Farms

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The Administration has proposed revising the AGI means test for eligibility to farm program payments. The 2002 farm bill excludes producers from farm program payments (CCP, DP, and MLG/LDP) if their average adjusted gross income (AGI) for three preceding years exceeds $2.5 million and less than 75% of their AGI comes from farming, ranching or forestry operations. The revised means test would reduce the AGI cut-off to $200,000 and repeal the 75% exclusion.

The purpose of this report is to estimate the impacts of the AGI proposal on average annual government payments and real net worth in 2014 for representative crop farms. The AFPC maintains a data base of 64 representative commercial family farms in major production regions across the United States. The farms represent a full-time, commercial operation that is typical of farms in a particular area. The farmers who participate in the bi-annual farm update interviews are selected by the county agent based on farm size (typical for the area), crop mix and farming practices (typical for the area), and being full-time farmers (not employed off the farm). The farms were constructed with no off-farm income to illustrate the changes in well-being due to farm policy changes. To the extent that a farm has off-farm income, the results will be conservative.

The January 2007 FAPRI Baseline was used for the analysis. The farms were simulated assuming continuation of the 2002 farm bill, with and without the proposed $200,000 AGI means test. The farms were simulated for 10 years (2005-2014) using the historical price and yield variability for actual farms in each region. The $200,000 AGI means test was applied for 2008-2014. A three year moving average of AGI was calculated each year and used to

determine if a farm was eligible for CCP, DP, and MLG/LDP. Due to the risky nature of net income and thus AGI, a farm could be eligible for payments one year and not the next year.

The results of analyzing 64 representative crop farms are summarized in Table 1. The average annual value calculated for the three year moving average of AGI is reported. Even though farms such as the Iowa feed grain (IAG 1350) have an average AGI less than the $200,000 limit, they have a non-zero probability of being ineligible for government payments. The IAG 1350 farm has a 22.57% chance of being ineligible and over the seven years they will average 1.58 years of ineligibility. The average government payment loss when ineligible over the 2008-2014 period is also reported in Table 1, as well as the average change in real net worth in 2014 due to the $200,000 AGI means test. Continuing on with the Iowa feed grain farm, when this farm was ineligible, it lost $46,340 in government payments, which resulted in an average $20,380 or 1.05% loss in real (2006 dollars) net worth due to the AGI means test.

Seventeen of the 19 representative feed grain farms experienced at least one year between 2008 and 2014 when they lost all of their government payments under the proposed AGI means test. Of the 17 farms that lost eligibility, the large North Dakota grain farm (NDG 7500) lost $192,710 in the years when the farm was ineligible, and the large Nebraska grain farm (NBG 4300) lost $189,000. Smaller farms considered to be the typical size of family farms in an area were also made ineligible by the proposed rule change. For example the Iowa (IAG 1350), Missouri (MONG 1850 and MOCG 2050), North Dakota (NDG 2180), Nebraska (NEG 1960), Texas (TXHG 2000 and TXUG 1200), and South Carolina (SCG 1500) all were ineligible for payments for at least one year during the simulation. The impacts of farm program ineligibility were translated into lower net cash incomes and lower ending real net worth. Six of the 16 feed

grain farms that lost government payments saw more than $150,000 decrease in real net worth and four lost more than 3% of real net worth.

Eight of the 10 representative wheat farms would experience losses in government payments due to the lower AGI limits for program eligibility. The average annual losses in government payments are much smaller than for feed grains due to the lower probability of wheat farmers receiving CCP payments over the 2008-2014 period. As a result, the reductions in real ending net worth are quite small, ranging from near zero to $66,000 (less than 2%) for farmers impacted by the proposed AGI limit change.

Sixteen of the 20 representative cotton farms experienced lower average annual government payments under the AGI scenario. Lost payments were generally low, but four of the 16 farms lost more than $150,000 when ineligible due to the AGI limit. Losses in net worth under the AGI scenario were also generally low, however five farms lost more than 2% of their net worth and one of these lost 15.45%.

Low net cash income projected for the rice farms kept their AGI low. As a result only four of the 15 representative rice farms experienced a loss of farm program payments under the AGI scenario. Losses in government payments ranged from zero to more than $250,000 when ineligible. As a result decreases in real net worth in 2014 ranged from $1,800 to $215,700 for these farms.

Table 1. Summary of the Impacts of the Proposed $200,000 AGI Means Test for Determination of Eligibility for CCP, DP, and LDP/MLG Payments on the Commercial Family Farms in the AFPC Representative Crop Farms Data Base, 2008-2014.

Representative Farms*	Average of a 3 Year Moving Avg for AGI	Average No. Years 2008-14 Not Eligible	Probability of Ineligibility	Avg Lost Payments When Ineligible	Change in Real Net Worth 2014	Percentage Change Real Net Worth
	(1,000)	(Years)	(%)	(1,000)	(1,000)	(%)
Feedgrain Farms						
IAG1350	145.33	1.58	22.57	46.34	-20.38	-1.05
IAG3400	321.58	4.95	70.71	135.94	-198.85	-3.21
NEG1960	274.58	5.71	81.57	95.94	-174.90	-5.54
NEG4300	399.77	5.87	83.86	189.00	-382.03	-5.56
NDG2180	171.56	2.35	33.57	34.17	-25.97	-2.35
NDG7500	735.29	6.67	95.29	192.71	-404.14	-4.61
MOCG2050	295.50	5.50	78.57	59.81	-85.94	-1.31
MOCG3630	560.72	6.97	99.57	99.22	-204.93	-2.19
MONG1850	221.48	3.99	57.00	54.96	-71.78	-1.21
ING1000	49.11	0.00	0.00	0.00	0.00	0.00
ING2200	234.89	4.01	57.29	78.29	-93.50	-1.41
TXPG3760	-242.63	0.73	10.43	150.93	-42.31	-1.55
TXHG2000	-127.19	0.02	0.29	27.97	-0.15	-0.01
TXWG1400	-11.12	0.00	0.00	0.00	0.00	0.00
TXUG1200	-249.94	0.01	0.14	27.97	-0.12	0.14
TNG900	-41.09	0.00	0.00	0.00	0.00	0.00
TNG2750	188.60	3.03	43.29	72.86	-67.39	-1.86
SCG1500	-20.55	0.02	0.29	41.96	-0.30	-0.03
SCG3500	135.74	2.64	37.71	169.19	-166.65	-2.57
Average	160.09	2.84	40.64	77.75	-102.07	-1.81
Wheat Farms						
WAW1725	48.55	0.00	0.00	0.00	0.00	0.00
WAW5000	-26.46	0.33	4.71	115.83	-9.76	-0.18
WAAW3500	70.40	0.00	0.00	0.00	0.00	0.00
ORW4000	86.69	0.02	0.29	27.97	-0.09	-0.01
MTW4500	175.96	2.42	34.57	56.12	-44.18	-1.42
KSCW1600	-62.40	0.74	10.57	0.28	-9.70	-0.42
KSNW2800	23.53	0.00	0.00	0.00	0.00	0.00
KSNW5000	163.29	2.59	37.00	81.68	-65.58	-1.96
COW3000	128.62	0.04	0.57	15.76	-0.17	-0.01
COW5640	129.82	0.71	10.14	40.62	-5.70	-0.20
Average	73.80	0.68	9.79	33.83	-13.52	-0.42

*Farm names are abbreviated with the first two letters representing the state, the third and fourth letter representing the region of the state or the crop, and the numbers indicate the number of cropable acres on the farm.

Table 1. Continued.

Representative Farms*	Average of a 3 Year Moving Avg for AGI (1,000)	Average No. Years 2008-14 Not Eligible (Years)	Probability of Ineligibility (%)	Avg Lost Payments When Ineligible (1,000)	Change in Real Net Worth 2014 (1,000)	Percentage Change Real Net Worth (%)
Cotton Farms						
TXNP3000	-564.35	0.04	0.57	57.79	-0.46	0.12
TXNP7000	-851.74	0.46	6.57	132.86	-16.44	-1.01
TXSP2239	-296.17	0.02	0.29	45.45	-0.22	-0.06
TXSP3745	-418.55	0.05	0.71	72.83	-1.13	-0.08
TXPC2500	21.37	0.56	8.00	90.37	-15.40	-0.63
TXEC5000	14.93	2.00	28.57	166.53	-215.61	-15.45
TXRP2500	-39.76	0.10	1.43	32.19	-0.98	-0.24
TXMC1800	-128.55	0.23	3.29	53.56	-2.94	-0.34
TXCB2250	-135.58	0.14	2.00	68.00	-3.09	-0.35
TXCB5500	-688.90	0.07	1.00	156.00	-6.50	-3.72
TXVC4500	72.77	1.41	20.14	225.34	-123.58	-4.06
CAC4000	-232.56	3.41	48.71	128.09	-254.90	-1.67
LAC2640	-0.33	0.43	6.14	141.79	-23.20	-2.65
ARC6000	-2,683.00	0.00	0.00	0.00	0.00	0.00
ARNC5000	-1,340.91	0.17	2.43	122.27	-7.11	-0.21
TNC1900	189.37	2.96	42.29	79.41	-68.19	-2.17
TNC4050	-1,167.04	0.00	0.00	0.00	0.00	0.00
ALC3000	-819.64	0.00	0.00	0.00	0.00	0.00
GAC2300	120.47	1.34	19.14	182.10	-80.80	-1.78
NCC1100	-472.59	0.00	0.00	0.00	0.00	0.00
Average	-471.04	0.67	9.56	87.73	-41.03	-1.72
Rice Farms						
CAR550	-869.05	0.00	0.00	0.00	0.00	0.00
CAR2365	-4,906.58	0.00	0.00	0.00	0.00	0.00
CABR1100	-2,473.99	0.00	0.00	0.00	0.00	0.00
CACR715	-1,530.79	0.00	0.00	0.00	0.00	0.00
TXR1350	-468.07	0.00	0.00	0.00	0.00	0.00
TXR2400	-1,049.52	0.00	0.00	0.00	0.00	0.00
TXBR1800	-566.40	0.00	0.00	0.00	0.00	0.00
TXER3200	-1,593.62	0.00	0.00	0.00	0.00	0.00
LASR1200	-961.49	0.00	0.00	0.00	0.00	0.00
LANR2500	-1,251.97	0.00	0.00	0.00	0.00	0.00
MOER4500	85.99	2.38	34.00	228.97	-215.70	-2.30
MOWR4000	-282.02	0.76	10.86	253.48	-112.93	-1.23
ARSR3640	-331.33	0.04	0.57	136.60	-1.84	-0.05
ARWR1200	-1,549.44	0.00	0.00	0.00	0.00	0.00
ARHR3000	-2,579.50	0.00	0.00	0.00	0.00	0.00
Average	-1,355.18	0.21	3.03	41.27	-22.03	-0.24

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