

## 2002 FARM BILL

By Karen E. Morais, CPA

"The farm bill will strengthen the farm economy over the long term. It helps farmer independence, and preserves the farm way of life for generations. It helps America's farmers, and therefore it helps America." With these words, on May 13, 2002, President Bush signed into law the "Farm Security and Rural Investment Act of 2002."

The 2002 Farm Bill consists of ten separate sections or titles:

- I. Commodity Programs
- II. Conservation
- III. Agricultural Trade and Aid
- IV. Nutrition Programs
- V. Farm Credit
- VI. Rural Development
- VII. Research
- VIII. Forestry
- IX. Energy
- X. Miscellaneous Provisions

Agriculture Secretary Ann Veneman indicated in an address broadcast to her staff at the USDA that the "USDA is committed to a timely and efficient farm bill implementation process." The USDA has created a farm bill website to answer questions at <http://www.usda.gov/farmbill>. This website will be updated on a continuous basis as new material becomes available. Some anticipated enhancements include the ability for producers to complete and submit forms on-line.

The website includes a section for "most frequently asked questions." Some questions and answers from the website:

**1. When does the 2002 Farm Bill take effect, replacing the 1996 bill?**

Certain provisions of the 2002 Farm Bill take effect immediately. Some provisions, such as the new loan rates, take effect upon harvest. Other provisions, such as direct and counter-cyclical payments, will take effect when producers sign contracts later this fall. And a number of provisions in the 1996 farm bill, such as availability of production flexibility contract payments, will continue for the balance of this fiscal year.

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***Some anticipated enhancements include the ability for producers to complete and submit forms on-line.***

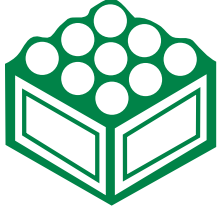
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**2. What are the major provisions of the new farm bill?**

The major provisions of the new farm bill include:

- Higher loan rates for most crops.
- Direct payments for wheat, feed grains, cotton, and rice (previously called production flexibility contract payments).
- Expanded eligibility for direct payments to producers of oilseeds and peanuts.
- Additional payments (called counter-cyclical payments) to farmers when commodity prices fall below their target prices.
- An option for producers to update the bases and yields used to calculate counter-cyclical payments.
- New programs for dairy, pulse crops (dry peas, lentils, and chickpeas), peanuts, honey, wool, and mohair.
- Reauthorizing the Conservation Reserve Program and expanding the acreage cap

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from 36.4 million acres to 39.2 million acres.

- Authorizing the Grassland Reserve Program at two million acres for restored, improved, or natural grassland, rangeland, and pastureland, including prairie.
- Authorizing a Conservation Corridor Demonstration Program on the Delmarva Peninsula in parts of Delaware, Maryland, and Virginia.
- Authorizing the Conservation Security Program to assist producers in maintaining or adopting practices on private agricultural land and incidental forested land.
- Reauthorizing the Wetlands Reserve Program and increasing the acreage cap to 2.275 million acres.
- Reauthorizing the Environmental Quality Incentives Program and increasing the funding from about \$200 million to \$400 million this year, ranging to \$1.3 billion in fiscal year 2007
- Reauthorizing the Wildlife Habitat Incentive Program and increases the funding to \$85 million by fiscal year 2007

### 3. What is a target price?

The target price is a safety net price used to calculate the counter-cyclical payment rate. For some crops—including soybeans, upland cotton, rice, and peanuts—the target prices are set for the duration of the 2002 Farm Bill, 2002-2007. For the other crops, the target

Crop	2002-2003	2004-2007
Corn \$/bu.	2.60	2.63
Sorghum \$/bu.	2.54	2.57
Wheat \$/bu.	3.86	3.92
Barley \$/bu.	2.21	2.24
Oats \$/bu.	1.40	1.44
Soybeans \$/bu.	5.80	5.80
Minor Oilseeds \$/lb.	.0980	.1010
Upland cotton \$/lb.	.7240	.7240
Rice \$/cwt.	10.50	10.50
Peanuts \$/ton	495.00	495.00

prices will change for 2004-2007.

For covered commodities, the counter-cyclical payment rate is the difference between the target price and the effective price. The effective price is the higher of the 12-month average market price, or the loan rate, plus the direct payment rate. (Direct payments are similar to the previous annual production flexibility contract payments.)

Using corn as an example:

- Target price: \$2.60
- Loan rate: \$1.98
- Fixed payment rate: \$0.28
- If the 12-month average price is \$1.95, then the counter-cyclical payment rate would be:  $\$2.60 - (\$1.98 + \$0.28) = \$0.34$
- If the 12-month average price is \$2.00, then the counter-cyclical payment rate would be:  $\$2.60 - (\$2.00 + \$0.28) = \$0.32$

### 4. When are counter-cyclical payments made and how are they calculated?

Counter-cyclical payments will be made when the effective price for a crop year is less than the target price. They will be paid on 85 percent of the base acres (the payment acres) and not necessarily on land currently planted to that crop. Payments will be calculated by multiplying the counter-cyclical payment rate for the covered commodity times the payment acres times the counter-cyclical payment yield.

### 5. How do counter-cyclical payments work?

The counter-cyclical payment rate is the difference between the target price and the sum of the direct payment plus the higher of the loan rate or the 12-month average market price. Both counter-cyclical and direct payments are made on 85 percent of base times the payment rate times the program yield.

Direct payments and maximum counter-cyclical rates for commodities are as follows:

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**Direct Payments and Maximum Counter-Cyclical Rates for Covered Commodities and Peanuts, Crop Years 2002-2007**

Commodity	Units	Target Price	Direct Rate	Loan Rate	Minimum Effective Price	Maximum Counter-Cyclical Rate
<b>2002-03</b>						
Wheat	\$/bu.	3.86	0.52	2.80	3.32	0.54
Corn	\$/bu.	2.60	0.28	1.98	2.26	0.34
Sorghum	\$/bu.	2.54	0.35	1.98	2.33	0.21
Barley	\$/bu.	2.21	0.24	1.88	2.12	0.09
Oats	\$/bu.	1.400	0.024	1.350	1.374	0.026
Upland cotton	cents/lb.	72.40	6.67	52.00	58.67	13.73
Rice	\$/cwt.	10.50	2.35	6.50	8.85	1.65
Soybeans	\$/bu.	5.80	0.44	5.00	5.44	0.36
Other Oilseeds	\$/cwt.	9.80	0.80	9.60	10.40	0.00
Peanuts	\$/ton	495.00	36.00	355.00	391.00	104.00
<b>2004-07</b>						
Wheat	\$/bu.	3.92	0.52	2.75	3.27	0.65
Corn	\$/bu.	2.63	0.28	1.95	2.23	0.40
Sorghum	\$/bu.	2.57	0.35	1.95	2.30	0.27
Barley	\$/bu.	2.24	0.24	1.85	2.09	0.15
Oats	\$/bu.	1.440	0.024	1.330	1.354	0.086
Upland cotton	cents/lb.	72.40	6.67	52.00	58.67	13.73
Rice	\$/cwt.	10.50	2.35	6.50	8.85	1.65
Soybeans	\$/bu	5.80	0.44	5.00	5.44	0.36
Other Oilseeds	\$/cwt.	10.10	0.80	9.30	10.10	0.00
Peanuts	\$/ton	495.00	36.00	355.00	391.00	104.00

Note: Minimum effective price equals loan rate plus direct payment rate.

**Tax Tip**

For the 2003 through 2007 crop years, a producer may elect to receive up to 50% of the direct payment in advance. When the producer has the option of receiving a program payment in advance (for example receiving 50% of the 2003 payment in 2002), the IRS has deemed that “constructive receipt” applies. They will tax the payment in 2002 even if you elect to receive the payment in 2003. Legislation has been recommended to Congress to make the direct payments under this Act not subject to constructive receipt. Be sure to check the status of this legislation before you start your tax planning this fall.

The USDA website (<http://www.usda.gov>) includes many other questions and answers, late breaking news from the USDA, and the complete text of the Farm Bill.

***A producer may elect to receive up to 50% of the direct payment in advance.***

# BUSINESS STIMULUS PACKAGE

By Dennis Veeh, CPA

President Bush signed into law the "Job Creation and Worker Assistance Act of 2002" on March 9, 2002. This new legislation includes a variety of business economic stimulus provisions designed to provide certain tax breaks for businesses. The following are the most significant provisions included in this new legislation:

- Taxpayers can claim an additional first-year depreciation deduction equal to 30% of the adjusted basis of qualified property. Generally, new property with a MACRS recovery period of 20 years or less will qualify. This provision applies to purchases acquired after September 10, 2001 and before September 11, 2004. The additional first-year depreciation deduction is allowed for both regular tax and alternative minimum tax purposes.
- The first-year depreciation dollar cap on new luxury autos bought for business purposes is increased by \$4,600 effective for autos acquired after September 10, 2001 and before September 11, 2004. For qualifying autos under the current limitations, this means a maximum first year write-off of \$7,660 (the regular \$3,060 first year dollar cap plus the additional \$4,600). The extra write-off applies only if the auto is used more than 50% for business, and is fully available only if the auto is used 100% for business.
- The net operating loss (NOL) carry back period is increased from two or three years to five years, for NOLs that arise in tax years ending in 2001 or 2002. The previous three-year carry back period only applied to casualty or theft losses or from certain presidentially-declared disaster areas. Farming NOLs were previously allowed a five-year carryback period.

Under this new legislation, a taxpayer may elect to forgo the five-year carryback and instead carry back the NOL two years (or three years, if applicable) and forward 20 years.

- Under the alternative minimum tax rules, an alternative minimum tax net operating loss deduction (AMTNOL) cannot reduce a taxpayer's alternative minimum taxable income (AMTI) by more than 90% of the AMTI. Under this legislation, an AMTNOL attributable to either (1) NOL carrybacks arising in tax years ending in 2001 or 2002, or (2) NOL carry forwards to 2001 and 2002 tax years, may offset 100% of a taxpayer's AMTI. Prior to this change, taxpayers with losses could end up paying alternative minimum tax because of the 90% limitation.

The new Act includes other provisions that may affect your business or your individual income tax return. Please call us if you have questions about this new legislation.

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## BONUS DEPRECIATION... IS LEASING "OLD HAT"?

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**FARM BILL • BUSINESS STIMULUS PACKAGE • BONUS DEPRECIATION • READER SURVEY**

**CALENDAR**

- June 27** Fresno Historical Society Summer Lecture series, "The Milkmen—Stories of Early Dairies and Dairyman," Fresno City Hall Council Chambers, (559) 441-0862
- July 25** Fresno Historical Society Summer Lecture series, "This was Logging—Past Lives and Times in the Sawmills of Central Sierra," (559) 441-0862
- September 8** Ag Boosters' Barbecue, Coombs Ranch in Madera. Ticket information (559) 432-2346 or (559) 278-4266
- September 18** Neil Harl Ag Income Tax Seminar. Reservation information (559) 432-2346

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