

Preliminary Analysis of the Probability of the U.S. Representative Peanut Farms Becoming Ineligible for Government Payments under Multiple Alternative Levels of a 3-Year AGI Means Test

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The United States Department of Agriculture (USDA) proposed an Adjusted Gross Income (AGI) means test for the 2007 Farm Bill that could potentially restrict government payments of all commodities (DP, CCP & LDP/MLG) for a farmer whose prior three year average AGI exceeds \$200,000 per year. This concept has gained interest among some Congressional people. Under this proposed policy, a farm could regain the qualification for the government payments once the prior three year average AGI falls below \$200,000. The AGI would be what a farmer files each year on his/her tax returns. The current law sets an AGI limit of \$2.5 million.

The National Center for Peanut Competitiveness (NCPC) analyzed the potential effect of multiple alternative levels of the 3-year average AGI means test proposed by USDA on the 19 U.S. Representative Peanut Farms becoming ineligible for government payments. These 19 representative peanut farms span from Virginia to New Mexico, ranging in size of total cultivatable acreage from 700 acres to 4000 acres.

The proposed AGI means test, if triggered, would restrict a farmer's eligibility of receiving government payments of program commodities until the farmer's 3-year average AGI falls below the set AGI limit. Historically, the U.S. Representative Peanut Farms have been used to analyze the economic viability of the farm entity alone; therefore, the farms were constructed with no off-farm income being collected. The NCPC attempted to collect the average off-farm income that would be added to the farmer's reported annual AGI. However, given the timing of the farm bill debates in Washington DC, assumptions had to be made. The NCPC assumed 3 levels of annual AGI for the 19 farms. First, the farmer's AGI is assumed to be the farm income only (i.e., the farm's net cash farm income (NCFI)); secondly, \$100,000 was added the NCFI; and, third is the addition of \$150,000 to the NCFI. The AGI limit is simulated at levels of \$200,000, \$500,000, \$750,000, and \$1,000,000. With exception to the AGI means test, the farms were simulated assuming the continuation of the policy set forth by the 2002 Farm Bill. Results are summarized in Table 1.

Considering the \$200,000 AGI limit, all 19 farms have probabilities of becoming ineligible for government payments, 10 of the 19 farms having greater than 25% probability at the maximum assumed income level. Four of the 19 farms are shown to have probabilities of ineligibility at the \$500,000 AGI limit at the maximum income level, while only 1 farm has a very small probability of ineligibility at the \$750,000 AGI limit. There are not any representative peanut farms that are forecasted as having a probability of ineligibility at the \$1,000,000 AGI limit.

Table 1. Probability of Farms Becoming Ineligible for Government Payments Under Multiple Alternative Levels of a 3-Year-AGI Means Test

	With a \$200K 3-Year Avg AGI Limit			With a \$500K 3-Year Avg AGI Limit			With a \$750K 3-Year Avg AGI Limit			\$1 Million AGI Limit
	FARM INCOME ONLY	\$100K OFF FARM	\$150K OFF FARM	FARM INCOME ONLY	\$100K OFF FARM	\$150K OFF FARM	FARM INCOME ONLY	\$100K OFF FARM	\$150K OFF FARM	\$150K OFF FARM
FARM A	14.9%	29.1%	37.4%	0.1%	1.3%	3.4%	0.0%	0.0%	0.0%	0.0%
FARM B	0.0%	0.4%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM C	0.0%	0.0%	2.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM D	1.9%	18.3%	34.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM E	0.0%	0.0%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM F	0.0%	0.1%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM G	0.1%	20.4%	43.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM H	0.1%	4.9%	11.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM I	0.0%	2.4%	7.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM J	0.0%	2.1%	8.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM K	1.3%	28.9%	58.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM L	0.1%	15.9%	44.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM M	0.0%	2.7%	9.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM N	23.9%	72.1%	88.4%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
FARM O	2.7%	17.6%	29.9%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
FARM P	0.0%	1.7%	7.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM Q	3.4%	22.3%	35.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FARM R	8.3%	19.0%	26.1%	0.4%	1.9%	3.9%	0.0%	0.0%	0.1%	0.0%
FARM S	0.9%	20.6%	37.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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