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Ag Decision Maker
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Additional disaster payments for 2009 Iowa soybeans

by Chad Hart, Extension Grain Marketing Specialist, 515-294-9911, chart@iastate.edu

USDA has announced additional disaster payments for the 2009 crop year via the Crop Assistance Program (CAP). Payments will be made to producers of rice, upland cotton, sweet potatoes, and soybeans in counties that received Secretarial disaster designations in 2009 for excessive moisture or related conditions. In Iowa, 30 counties qualify for the payments. A list of the counties and a map are provided at the end of this article.

In order for producers to qualify for payments, they must have suffered a five percent crop loss in 2009 from excessive moisture or related conditions. The five percent crop loss requirement is based on a comparison of the producer's 2009 actual yield to the higher of the producer's crop insurance APH yield or the county expected yield as determined by the Farm Service Agency (FSA) State Committee. The payment is based on a flat dollar per acre amount, $15.62 for soybeans. If the total payments under the CAP exceed $550 million, then the payment rate will be prorated to cap payments at $550 million. A qualified producer will receive the payment on all 2009 planted acres for the eligible crops on land that is physically located in one of the Secretarially declared disaster counties.

Producers will initially receive 75 percent of their expected payment, with the remaining amount being paid when sign-up is complete and the final payment rates are determined. There is a payment limit of $100,000 per producer in this program. And the payments will be considered as revenue under the Supplemental Revenue Assistance Payments (SURE) program for 2009.

The CAP payments are being administered by the FSA. To sign-up, visit your local FSA office. Sign-up for the payments began Oct. 25, 2010 and continues through Thursday, Dec. 9, 2010. Producers will self-certify the crop losses, but should have documentation to support the crop loss claim. Acreage will be certified from FSA acreage reports. CAP is being funded from a standing USDA program that allows the Secretary of Agriculture to reestablish the purchasing power of agricultural producers.

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Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Deductible Livestock Costs for Adjusting 2010 Income Tax Returns -- B1-15 (1 page)

2009 Iowa Farm Costs and Returns -- C1-10 (12 pages)

Farmland Value Survey (Realtors Land Institute) -- C2-75 (2 pages)

Please add these files to your handbook and remove the out-of-date material.

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Inside . . .

IOWA STATE UNIVERSITY
University Extension

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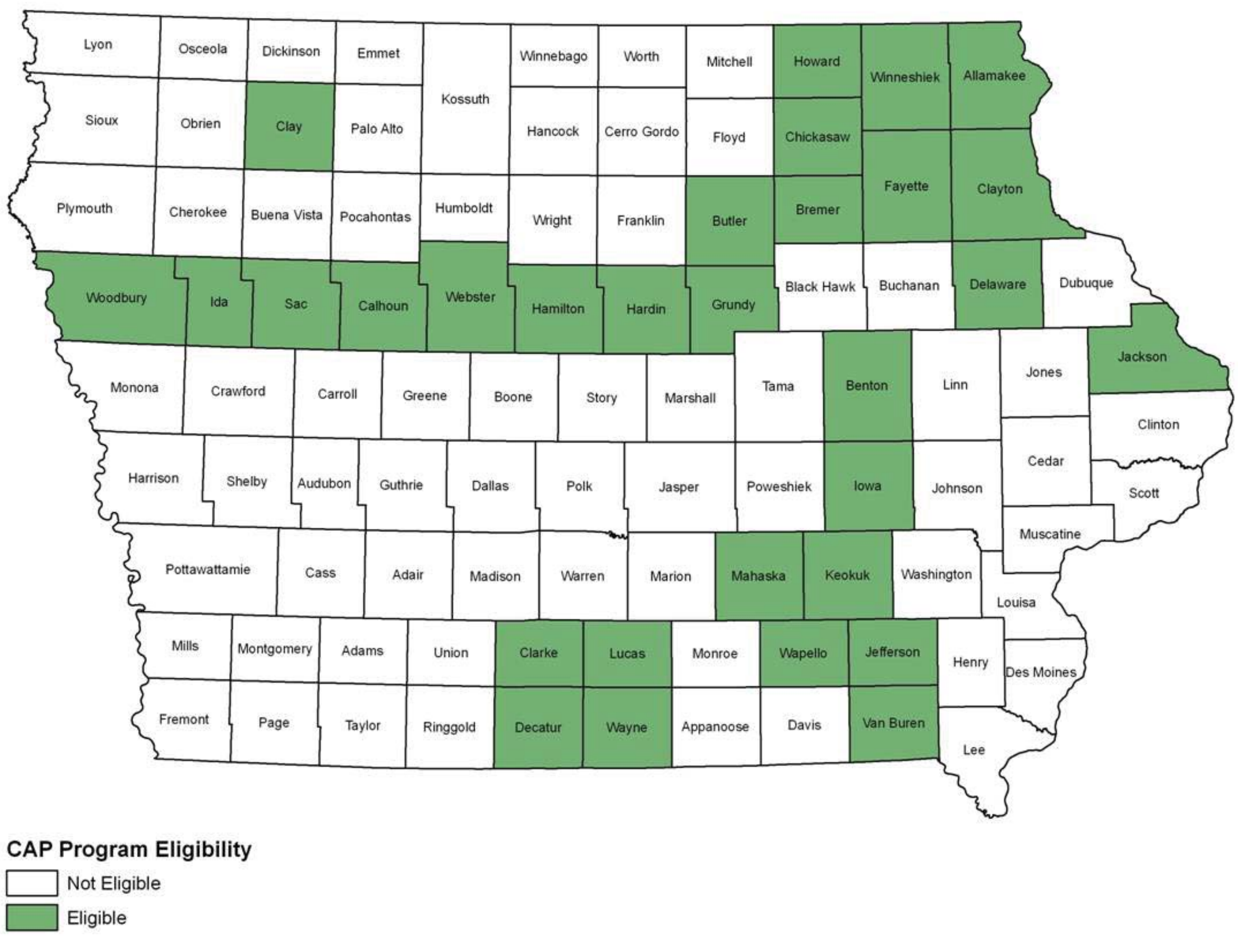
Additional disaster payments for 2009 Iowa soybeans, continued from page 1

Eligible Counties in Iowa

Allamakee	Delaware	Keokuk
Benton	Fayette	Lucas
Bremer	Grundy	Mahaska
Butler	Hamilton	Sac
Calhoun	Hardin	Van Buren
Chickasaw	Howard	Wapello
Clarke	Ida	Wayne
Clay	Iowa	Webster
Clayton	Jackson	Winneshiek

Iowa Counties Eligible for Crop Assistance Program Payments



Fall harvest prices and indemnity payments

by Steven D. Johnson, farm and ag business management specialist, Iowa State University Extension, (515) 957-5790, sdjohns@iastate.edu

The Risk Management Agency (RMA) released the final fall harvest prices for revenue crop insurance prices at $5.46 per bushel for corn and $11.63 per bushel for soybeans. These numbers were the final piece of information to finalize potential indemnity payments for many revenue insurance products including Crop Revenue Coverage (CRC) on corn and soybeans and Revenue Assurance with the Harvest Price Option (RA-HPO) for soybeans. Many Iowa farms that suffered significant production losses in 2010 will receive indemnity payments reflecting these harvest prices over the next few weeks, especially if they insured using CRC coverage.

In 2010, Iowa farmers insured 89 percent of all the corn and soybean acres. Of these insured acres, 74 percent were covered by CRC and 12 percent with RA. The CRC policies use the higher of the spring base price or harvest price to determine the revenue guarantee, which is very similar to the RA-HPO coverage. Farmers have to designate on an RA policy whether to elect the Harvest Price Option (HPO) or simply use only the spring base price (RA-BP). An insured that chose to use RA or CRC coverage in 2010 would have made the designation on or before the March 15 enrollment deadline.

CRC and RA-HPO policies are very similar products except for small differences in the premium charged and the fact that CRC uses the month of October average for December corn futures prices while RA-HPO uses the November average. Thus, indemnity payments for RA-HPO coverage on corn will be determined in December. It's quite possible that the November average futures prices might be higher than the October average, so those with RA-HPO may have a slight advantage insuring corn in 2010 because it uses the November price. The insured using RA-HPO would have less risk of the "buy-back" bushel price being lower than the insurance harvest price, compared to those CRC policy holders.

CRC and RA-HPO both provide protection against a decline in market prices as well as a shortfall in production. The guarantee is in dollars and a loss situation occurs when the dollar value reflecting actual production falls below the dollar guarantee. CRC or RA-HPO offers protection whether prices increase or decline:

- In most years when the price usually declines as harvest approaches, you are guaranteed a predetermined amount of income per acre using the Spring Base Price.
- In a year of rising futures prices at harvest, a production shortfall would be compensated at the higher market-based harvest price. This is critical if any lost production must be replaced at higher market prices for on-farm feeding or to fulfill delivery on a forward contract.
- Should a significant shortfall of production occur, the insured may need to "buy back" bushels through their grain merchandiser at the prevailing cash price.

Buying Back Bushels

The key to the issue surrounding "buying back" bushels is fairly straight forward but is often confusing until the insured receives their indemnity check. However, the crop revenue insurance products that feature the fall harvest price will create a higher harvest guarantee and a larger indemnity payment when harvest futures price rises, like occurred in 2010. In the example below, crop insurance bushels total 105 bushel per acre (140 bu/A APH X 75 percent). For someone that commits a large portion of these "insurance bushels" to delivery on an annual basis they should consider the use of either a CRC or RA-HPO policy. In 2011, these policies will be combined into one policy called Revenue Protection (RP).

To illustrate how indemnity payments are determined

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Fall harvest prices & indemnity payments, continued from page 3

an example of CRC coverage for corn will be used.

2010 Minimum Guarantee Example = Average APH yield x spring base price x coverage level

Example: 140 bushels per acre x $3.99 x $0.75 = $419 per acre minimum guarantee

Harvest Price — The price used to determine calculated revenue and harvest guarantee is based on the December CBOT futures average daily price during October 2010 for a CRC policy on corn.

Harvest Guarantee = Average APH yield x harvest price x coverage level

Example: 140 bushels per acre x $5.46 x $0.75 = $573.30 per acre harvest guarantee

Calculated Revenue = Value of your production determined by bushels produced x harvest price

Example: 100 bushels per acre produced x $5.46 = $546 per acre calculated revenue

Note: The actual price you receive for selling your crop is not a factor in CRC calculations.

Final Guarantee — Higher of the minimum or harvest guarantee.

Note: Your premium will not increase if final guarantee is higher than the minimum guarantee.

Indemnity = Final guarantee − calculated revenue

Example: $573.30 − $546 = $27.30 per acre indemnity payment estimate.

Summary

As long as the insured did not commit to delivery more than the 105 bushels per acre, they should have adequate funds to "buy back" any shortfall in bushels. In the example above, the insured has an extra $27.30 per acre as an indemnity payment to make up the difference for the missing 5 bushels. The indemnity payment will reflect the higher fall harvest price of $5.46 per bushel. As long as the insured can find replacement bushels for a cash price less than this amount, the indemnity payment covers any shortfall in dollars for those bushels forward contracted for delivery. Thus, there is basis risk should the cash price exceed the futures price average or the basis narrow at harvest should the "buy back" of bushels be required.

The problem for a few Iowa farms in 2010 was that they didn't produce enough bushels to meet their forward contract obligations. In a rising futures price scenario as witnessed during October 2010, as long as the local cash price is less than this average harvest price the indemnity payment should allow for the "buy back" of any shortfall in those bushels committed for delivery.

If a producer with CRC coverage on corn delays their "buy back" strategy beyond early November, they assume risk should cash prices increase. In this case, the indemnity payment might not cover the total amount needed to "buy back" bushels.

Always contact your insurance representative with specific questions regarding the coverage on your farm.

Adapted from USDA RMA's 2010 COMMODITY INSURANCE FACT SHEET, Corn—Crop Revenue Coverage, March 2010.

When is an operating arrangement a partnership?*

by Neil E. Harl, Charles F. Curtiss Distinguished Professor in Agriculture and Emeritus Professor of Economics, Iowa State University, Ames, Iowa. Member of the Iowa Bar, 515-294-6354, harl@iastate.edu

A 2010 Tax Court case addressed the informality of a father-son farming operation that had been running for more than three decades. The gist of the controversy was that the father and son shared the income roughly on a 50-50 basis but the father consistently claimed more than 50 percent of the expenses which were used to offset a profitable accounting practice that, in the years in question, generated an average of $253,365 in Schedule K-1 income.

The case will undoubtedly create heartburn for many such operations characterized by vague and seemingly inconsistent rules for allocation of income and expenses.

What is a partnership?

When the arrangement was initially formed, in 1977, the father did not transfer any interest in the separately owned properties (held in the father's name) to the son and took no steps to clarify their respective interests in the livestock or equipment although the father and son had an understanding that all properties involved in the farming operation would pass to the son at the father's death. By 2004, the first year under scrutiny on audit, the operation had developed into a profitable cattle farming venture.

The father and son argued that the arrangement was a joint venture between two individual proprietorships although they offered little in the way of evidence as to the justification for the unequal allocation of expenses which had varied from year to year. As an example, the father deducted 11.4 percent of the operation's depreciation (including expense method depreciation) in 2004, 79.4 percent in 2005 and 47.2 percent in 2006. Moreover, the arrangement was never committed to writing. The Internal Revenue Service took the position that the arrangement was a partnership with two equal partners and pressed the issue to the point of levying accuracy-related penalties on the father. The regulations, for the years in question, presumed that all partners' interests are equal, on a per capita basis. That regulation was amended, effective for taxable years beginning on or after May 19, 2008 to remove the presumption, but the amended regulations were not applicable in Holdner.

The Tax Court agreed that the existence of a partnership for federal income tax purposes is a question of federal law, in accordance with a lengthy array of cases, The Tax Court noted that the Internal Revenue Code defines a partnership as ". . . a syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on , and which is not . . . an estate or trust or a corporation."

The court acknowledged that a partnership for federal income tax purposes is basically the same as the definition of a partnership for commercial law purposes but more detailed, although the federal statute controls for determining the existence of a partnership for federal income tax purposes. The Tax Court in Holdner then proceeded to cite approvingly to a 1964 Tax Court decision, Luna v. Commissioner, which listed eight factors that are relevant in determining whether an enterprise is a partnership for federal income tax purpose –

(1) the agreement of the parties and their conduct in executing its terms;
(2) the contributions, if any, which each party has made to the venture;
(3) the parties' control over income and capital and the right of each to make withdrawals;
(4) whether each party was a principal and co-proprietor, sharing a mutual obligation to share losses;
(5) whether business was conducted in the joint names of the parties;
(6) whether the parties filed federal partnership income tax returns or otherwise represented to others that they were joint venturers;
(7) whether separate books of account were maintained for the venture; and
(8) whether the parties exercised mutual control over and assumed mutual responsibilities for the enterprise.

Interestingly, the Tax Court in the 1964 case refused to

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When is an operating arrangement a partnership?, continued from page 5

find that a partnership (or joint venture) existed.

The Tax Court in Holdner found that seven of the eight factors supported the holding that the operation was a partnership for federal income tax purposes and the one remaining factor neither supported nor weighed against the court's finding.

The outcome

The Tax Court held that the arrangement in Holdner was a partnership for federal income tax purposes in the years in question (2004 through 2006) and that the individuals involved were equal partners in the partnership. It followed that the income, expenses and other partnership items had to be allocated accordingly.

Would the result have been different under the regulations in effect for taxable years beginning on or after May 19, 2008? That would seem to turn on the perceived importance of the presumption in the earlier regulations.

**Reprinted with permission from the August 27, 2010 issue of Agricultural Law Digest, Agricultural Law Press Publications, Brownsville, Oregon. Footnotes not included.*

Updates, continued from page 1

Decision Tools and Current Profitability

The following tools have been added or updated on www.extension.iastate.edu/agdm.

Season Average Price Calculator -- A2-15

Corn Profitability -- A1-85

Soybean Profitability -- A1-86

Ethanol Profitability -- D1-10

Biodiesel Profitability -- D1-15

Returns for Farrow-to-Finish -- B1-30

Returns for Weaned Pigs -- B1-33

Returns for Steer Calves -- B1-35

Returns for Yearling Steers -- B1-35