

Grassley, Johnson Keep Focus on Setting Hard Caps for Farm Payments, Closing Loopholes

Written by Grassley Press
Friday, 10 June 2011 12:50

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WASHINGTON – Senators Chuck Grassley of Iowa and Tim Johnson of South Dakota today introduced legislation to cap total farm payments at \$250,000, close loopholes that are being used to game the farm payment system, and target payments to actively engaged farmers who need assistance getting over the bumps that come with ensuring a safe and abundant food supply.

“This bill helps ensure that our farmers are able to provide a safe, abundant and inexpensive food supply for consumers at home and around the world, while maintaining the farm safety net that allows the small and medium sized farmers to get through the tough times,” Grassley said. “Current policies allow 10 percent of the biggest farmers to receive 70 percent of the benefits of the farm program. This puts our safety net at risk by reducing urban support for the farm bill and creating upward pressure on land prices.”

“Farm programs are going to be in for tough scrutiny as budget negotiators scour spending programs. One certainly deserves to be and that is payments of more than \$250,000 to a farming operation. This bill caps payments at \$250,000,” said Johnson. “Farm payments need to be targeted to those who need it, the small and mid-size family farmers in South Dakota and across the nation.”

The legislation would set a limit of \$250,000 for married couples for farm payments in an attempt to better target farm program payments to family farmers. Specifically, the bill caps direct payments at \$40,000; counter-cyclical payments at \$60,000; and marketing loan gains (including forfeitures), loan deficiency payments, and commodity certificates at \$150,000. It also closes loopholes that people are using to maximize their take from the federal

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government. The bill also improves the standard which the Department of Agriculture uses to determine farmers who are actively engaged in their operations.

In addition, the legislation would save the federal treasury more than \$1 billion over 10 years.

A copy of Grassley's prepared floor statement is below, followed by a summary of the bill. [The bill text can be found by clicking here.](#)

Prepared Floor Statement of Senator Chuck Grassley of Iowa

Introduction of the Rural America Preservation Act of 2011

Thursday, June 9, 2011

Mr. President, today Senator Johnson of South Dakota and I have introduced the Rural America Preservation Act. America's farmers produce the food that feeds our families. This bill helps ensure that our farmers are able to provide a safe, abundant and inexpensive food supply for consumers around the world, while maintaining the farm safety net that allows the small and medium sized farmers to get through the tough times.

Everybody sees tough times that are out of their control, but the importance of the farm safety net can be seen no further than the dinner we had last night. Stop to think if you were unable to feed your children for three days. You would do just about anything, stealing, rioting, whatever it takes, to give those kids a meal. That's why it's vitally important that we maintain a readily available food supply.

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To ensure the family farmer remains able to produce a food supply for a cohesive and stable society, we need to get the farm safety net back to its original intent-to help small and medium sized farm operators get over the ups and downs of farming that are out of their control.

The original intent of the federal farm programs was not to help the big get bigger. But, the safety net has veered sharply off course. We're now seeing only 10 percent of the largest farmers getting nearly 70 percent of the total farm payments.

There's no problem with a farmer growing his operation, but the taxpayer should not have to subsidize it. There comes a point where some farms reach levels that allow them to weather the tough financial times on their own. Smaller farms do not have the same luxury, but they play a pivotal role in producing this nation's food.

I have been approached time and time again by farmers concerned about the next generation of farmers. It is important that we keep young people on the farm, so they can take the lead in producing our food when the older generation of farmers is ready to turn over the reins.

But the current policies that allow 10 percent of the largest farmers to receive nearly 70 percent of the total farm program payments create a real barrier for beginning farmers. The current system puts upward pressure on land prices making it more difficult for small and beginning farmers to buy ground.

This allows the big farms to get even bigger. This is not unique to Iowa. This upward pressure on land prices is occurring in many other states.

It is simply good policy to have a hard cap on the amount a farmer can receive in farm program payments. We will keep in place a much needed safety net for the farmers who need it most. And it will help reduce the negative impact farm payments have on land prices.

Our bill sets the overall cap at \$250,000 for a married couple. In my state, many people would say this is still too high. But I recognize that agriculture can look different around the country, and so this is a compromise.

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Just as important as setting the payment limits, is tightening the meaning of “actively engaged,” a legal term in the farming business. Basically, people have to be actively engaged in the farming operation in order to qualify for farm payments.

This is common sense. A person should be a farmer in order to receive farm payments. But too often people exploit current loopholes, and people wrongfully receive farm payments.

This bill will further refine the standard the Department of Agriculture uses to determine if a person is actively engaged in farming. This will help make sure that farm payments only go to those who deserve them.

In light of the current budget discussions, everyone should agree that we don't want money going to those who fail to meet the criteria set for the program. This bill will help do that.

I hope my colleagues will agree this bill takes a common sense approach to improve our farm safety net, and a help to make sure the dollars spent go to those who need it most.

Grassley-Johnson (S.D.) Rural America Preservation Act of 2011

-- Summary --

Limit annual per farm commodity subsidy payments to \$250,000. The bill would establish

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caps of \$20,000 on direct (fixed) payments, \$30,000 on counter cyclical payments, and \$75,000 on loan deficiency payments and marketing loan gains. The combined limit for married couples would be \$250,000. [\[i\]](#)

These limits would be reduced by varying amounts depending on the farmer's participation in ACRE, essentially setting the payment limitations at the effective caps, less the reductions in direct payments and marketing loan gains.

Ensure that payments flow to working farmers. Current law attempts to target payments to working farmers. However, as explained in the final report of the USDA Payment Limitation Commission and as demonstrated by the 2004 Government Accountability Office Report, the lack of a defined active management test in law and regulation is a major loophole facilitating huge payments. The amendment improves the "measurable standard" by which USDA determines who should and should not receive farm payments. It requires that management be personally provided on a regular, substantial, and continuous basis through direct supervision and direction of farming activities and labor and on-site services. The combined labor and management standard is 1,000 hours annually or 50 percent of the commensurate share of the required labor and management. Landowners who share rent land to an actively-engaged producer remain exempt from the "actively engaged" rules provided their payments are commensurate to their risk in the crop produced.

[\[ii\]](#)

It also requires that the spouse be actively-engaged as was the current standard before 2008.

[\[i\]](#) In comparison, under current law the cap on direct payments and counter cyclical payments is \$80,000 and \$130,000, respectively, and there is no effective cap on loan deficiency payments and marketing loan gains, and hence no effective total limitation.

[\[ii\]](#) Under current law and regulation, to qualify as actively engaged with respect to labor, an individual must perform at least 1,000 hours of work on the farm. Alternatively, an individual may contribute management rather than labor, and management is not defined in any quantifiable, measurable way in existing law or regulation. This "management" loophole has been used creatively by many of the largest farming entities in the country as the key to creating farm partnerships with multiple "paper" partners each qualifying as active farmers eligible to collect payments, allowing a single farming operation to collect in some cases millions of dollars. GAO has documented instances in which such partners have qualified as active farmers by doing no more than participating in twice annual conference calls.

The amendment combines labor and management into a single combined standard. First, the amendment requires management contributions to be personally provided on a regular,

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substantial, and continuous basis through the direction supervision and direction of activities and labor involved in the farming operation, and on-site services that are directly related and necessary to the farming operation. Second, the amendment requires the combined labor and management to equal or exceed 1,000 hours per year, or 50% of the commensurate share of the required labor and management. The amendment also tightens the rules under which an entity may be considered to be actively engaged in farming, ensuring that, in order to receive payments, the majority of beneficial interests must be held by persons actively engaged in farming and their family members and that no individuals may use the creation of entities to collect more than the limitation.

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