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More on handling CSP payments

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price. As a result, LDP/MLGs have allowed prices to fall below the loan rate with most of the benefits being picked up by integrated cattle feeders, importing countries, and the transporters and processors of grains and seeds.

Ignored in the discussion of trade distorting subsidies is the impact of government funded agricultural research and extension programs. In WTO parlance these payments are put in the green box and are considered non-trade distorting. We find it hard to understand how research programs which increase yield potential and decrease crop loss can be considered to have no impact on trade. By their very nature these programs result in increased production and, in the presence of weak price responsiveness, lower prices.

We are not arguing for the elimination of agricultural research and extension programs, but rather for recognition that the fruits of this research have had more impact on increasing the supply of food than farm subsidies. Since 1996, US corn and soybean yields have increased by 16 percent and much of this gain has its roots in basic research that can be tied to government funding.

If US subsidies are the cause of low prices, then we should see a different picture for those crops for which the US has no subsidies and no tariffs. Absent the presence of US programs these crops should have stable prices. Between 1980 and 2002, cocoa prices fell by 58 percent, coffee prices fell by 70 percent and pepper prices fell by 32 percent. Clearly US subsidies are not the cause of these low prices.

If both unsubsidized tropical crops and subsidized temperate zone crops have similar price/income problems, then maybe we should look at something other than "the obvious suspect:" subsidies. And that other suspect is the low price responsiveness for aggregate crop agriculture, both tropical and temperate.

More on handling CSP payments*

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On June 24, 2005, the Federal Register (at page 36,557) carried a Notice of Determination by the Secretary of Agriculture that payments under the Conservation Security Program, under criteria specified in the USDA regulations, are ". . . primarily for the purpose of conserving soil and water resources or protecting and restoring the environment." The Secretary is charged with making such a determination in order for the payments to be eligible for the cost share exclusion available under federal income tax law. The Secretary of the Treasury is obligated to make a determination that the payments under the program do not increase ". . . substantially the annual income derived from the property."

The Secretary of Agriculture, in the June 24, 2005 notice, proceeded to state that ". . . this determination permits recipients to exclude from gross income, for Federal income tax purposes, all or part of the existing practice, new practice, and enhancement activity payments under the extent allowed by the Internal Revenue Service." However, as discussed in a November 18, 2005 Agricultural Law Digest article**, the exclusion provision is limited to "capital improvements." Cost-share payments for the adoption of land-based structural practices should be eligible for the exclusion from income if the practice is a capital improvement." Cost-share payments for the adoption or main-

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tenance of management or vegetative practices would not be excludible from income nor would "existing practice, new practice, and enhancement activity payments" necessarily be excludible from income. Those payments are very likely to be reportable as ordinary income except to the extent the payments are for capital improvements.

The misleading statement in the June 24, 2005 Notice has contributed to the belief by some taxpayers, augmented by statements from Natural Resource Conservation Service offices, that perhaps the entire amount of CSP payments could be excluded from income. That would only be possible if the entire payment amount were to be directed into capital improvements. Considering the nature of the CSP program, that is highly unlikely.

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*** This article appeared in the January issue of the Ag Decision Maker newsletter.*

Updates, continued from page 1

Internet updates

The following updates have been added to www.extension.iastate.edu/agdm.

How to Use Grants – C5-08 (3 pages)

Creating a Mission Statement, Setting Goals and Developing Strategies (action plans) – C5-09 (4 pages)

When to Do and How to Use a Feasibility Study – C5-64 (2 pages)

What is a Feasibility Study? – C5-65 (3 pages)

Feasibility Study Outline – C5-66 (4 pages)

Writing a Value-Added Business Plan – C5-68 (3 pages)

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