

**Impact of Proposed Farm Sales Limits  
for Receiving Direct Government Payments on Kansas Farms**

**Michael Langemeier and Sam Funk  
Department of Agricultural Economics  
Kansas State University**

**March 13, 2009**

The proposed phase out of direct payments based on sales will impact a large percentage of Kansas farms representing a large proportion of total production in the state. Over three years the direct payments paid to farms with total sales over \$500,000 would be eliminated. Using the 2007 Census of Agriculture, 6 percent of farms in Kansas have sales over \$500,000. However, these farms represent approximately 78 percent of all farm sales in the state. Information from the Kansas Farm Management Association (KFMA) can be used to examine the impact of proposed income limits and their impact on farm financial performance. The KFMA program is one of the largest farm management programs in the United States and has direct ties to Kansas State University. Financial and production data from farms participating in the program are used to provide benchmarks to members and for educational purposes. Using data from the KFMA program, 21 percent of KFMA farms in 2007 had farm sales over \$500,000. Sales on these farms represented approximately 60 percent of all farm sales by KFMA farms.

From the proposed language of the Office of Management and Budget (OMB), it is not clear how the sales threshold would be defined. Total farm sales for the Census of Agriculture includes sales of products purchased for resale, sales of products raised, and Commodity Credit Corporation (CCC) loans (Schedule F lines 1, 4, and 7, respectively). Information on CCC loans, line 7 of Schedule F, is not available for KFMA farms so the analysis of total sales for KFMA farms excludes CCC loans. Inclusion of CCC loans or other items that might be included in the proposal's calculations of farm sales would increase the number of Kansas farms impacted and show an even larger decrease in total farm receipts from government payments.

Using the information in Table 1 below, approximately 16 percent of KFMA farms with data from 2003-2007 and 21 percent of KFMA farms with 2007 data would be impacted by a total farm sales limit of \$500,000. Note that in 2007 the average total farm sales was \$393,533 or 79 percent of the sales limit. This illustrates that a sales limit of \$500,000 impacts numerous farms and that it is not particularly unusual for family farms to have total farm sales exceeding \$500,000. Moreover, it is important to note that some farms with farm sales above \$500,000 have low net farm incomes. In 2007, 13 percent of the farms with total farm sales above \$500,000 had a net farm income that was below average family living for all KFMA farms.

Additional information pertaining to farm characteristics and total sales for KFMA farms with continuous data from 2003-2007 and for KFMA farms with data in 2007 is reported in

Table 1. Definitions of the farm characteristic variables are as follows. Value of farm production equals the sum of livestock, crop, and other income computed on accrual basis minus feed purchased. Net farm income is the return to operator's labor, management, and equity computed on an accrual basis. Total acres include non-irrigated, irrigated, pasture, and farmstead acres. The number of workers includes unpaid family labor, unpaid operator labor (number of operators), and hired labor.

**Table 1. Farm Characteristics and Modified Gross Income, KFMA Farms.**

Item	2003-2007	2007
Number of Farms	1,081	1,453
<u>Farm Characteristics</u>		
Value of Farm Production	\$303,738	\$407,787
Net Farm Income	\$70,685	\$115,035
Total Acres	1,861	1,927
Percent of Labor Devoted to Crops	78.22%	78.29%
Number of Operators	1.02	0.99
Number of Workers	1.45	1.41
<u>Total Farm Sales</u>		
Total Farm Sales (TFS)	\$330,761	\$393,533
TFS < \$100,000 (% of farms)	22.29%	20.92%
\$100,000 < TFS < \$250,000 (% of farms)	37.65%	31.93%
\$250,000 < TFS < \$500,000 (% of farms)	24.51%	25.67%
TFS > \$500,000 (% of farms)	15.54%	21.47%

Source: Kansas Farm Management Association Databank, 2003 to 2007.