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FARM BUREAU®
2018 Farm Bill

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What Are Farm Savings Accounts?

BACKGROUND

A key benefit attributed to FSA programs is the accumulation of readily available funds to access in years of financial stress. Instead of the farmer investing available cash back into the farming operation in high net-revenue years, at least some of the free cash could be deposited into the FSA. If a farmer or the government has deposited funds in the account, the funds could be withdrawn to meet household needs during years with insufficient income.

Some have equated the FSA with a counter-cyclical payment, which provides a safety net in times of financial stress. It is different from the counter-cyclical payment previously in law in that it is not tied directly to parcels of land, creating a disconnect between land values and government support. By creating this disconnect, the capitalization of farm programs into farmland values may be reduced.

The FSA could provide the farmer with funds to be used to service debt (in low cash-flow years), thus reducing the possibility of default on a loan. If a FSA account is held by a local financial institution, more deposits might be available for local loans, thus creating the potential for increased economic development in rural communities.

FSAs are most attractive when farm debt levels are low. Otherwise debt repayment may be a more attractive option.

One of the main problems with FSA programs is building a meaningful fund balance in the early years of the program or for farmers with persistent low incomes. Farmers with low levels of farm income might be precluded from building a sufficient amount of funds necessary to cover poor income years.

If the program is built with a change in the tax code, the program would likely be administered by the House Ways and Means Committee and the Senate Finance Committee rather than the House and Senate Ag Committees. Generally speaking, agriculture has more friends on the Ag Committees than on other Congressional committees.

ISSUE

For several years, Farm Bureau policy has supported Farm Savings Accounts (FSA) as a way to reduce the income risk that farmers face and to provide an additional "safety net." Such accounts encourage farmers to put money aside, allowing funds to be available when needed to mitigate financial risk and potentially to help pay expenses during a farmer's retirement years.

Savings accounts have been discussed as an addition to current commodity and crop insurance programs and alternatively as a replacement for existing farm programs. The primary idea behind FSAs is to encourage farmers to set aside funds in high-income years that would then be available to pay farm and family living expenses in low-income years.

Several years ago, Canada implemented a program called the Net Income Stabilization Account (NISA) program. Under that program, farmers could make voluntary contributions into a NISA account using two different deposit methods. The first method allowed the producer to deposit up to three percent of eligible net sales (maximum eligible net sales was Canadian $250,000) that was matched by an equal contribution from the government (two percent federal and one percent from the provincial governments). Government expenditures were capped at Canadian $7,500 per year per farmer.

Net eligible sales were defined as revenue from sales of qualifying commodities (excluding poultry, dairy, and eggs) produced on the farm, minus any purchases of qualifying commodities, plus the value of any feed produced for on-farm livestock consumption.

Under the second deposit method, there were no government contributions, and the farmer was able to deposit up to 20 percent of net eligible sales (maximum eligible net sales was again Canadian $250,000). All producer contributions receive a three percent bonus return above a competitive interest rate at a cost to taxpayers, while government contributions earned 90 percent of the 90-day Treasury bill interest rate. All money contributed to the account by the producer was in after-tax dollars; therefore, tax was only paid on the interest earned and government contributions when the farmer withdrew the funds. Farmers could make withdrawals when their income fell below their five-year average net returns after cost or when their taxable income fell below a fixed level. The amount of money that could be withdrawn from their account could not exceed what was necessary to equate the year's income with one of the two thresholds.

Two exceptions were allowed to the withdrawal rule. Those were when a farmer retires or when the farmer chose to withdraw from the program. The farmer could then withdraw all remaining funds from his/her account.

A 2001 report by the USDA Commission on 21st Century Production Agriculture suggested a U.S. version of the savings account that would have had all contributions tax deferred, in contrast to the NISA framework, where only the government contributions are tax-deferred and producer contributions are after-tax dollars. The Commission's proposal was to use the accounts as a supplement to other farm programs.

In 2007, Senator Richard Lugar (R-IN) offered a legislative proposal for farm savings accounts. Under the Lugar proposal, commodity programs would have been replaced by the FSA. The accounts would have been "seeded" by government contributions determined as a percentage of the participating farmer's "adjusted gross revenue," with the percentage contribution declining with higher gross revenues. The legislation provided for withdrawals from the account when "adjusted gross revenue" for a year declines to 95 percent of its average level in the prior five years, or for value added farm investments.

OPTION #1

Do not attempt to implement an FSA.

OPTION #2

Support an FSA where government payments could be directly deposited in qualified savings accounts, with the opportunity for additional voluntary contributions from farm income. This account would be established so that the funds deposited by farmers and/or the government would be tax deductible or receive other tax advantages.

OPTION #3

Support an FSA where government payments could be directly deposited in qualified savings accounts, with the opportunity for additional voluntary contributions from farm income, however, have this account administered within USDA and have no tax benefits attached. This would allow the account to remain under the jurisdiction of the House and Senate Ag Committees.