

CFAP 2 Summary for Upland & ELS Cotton September 21, 2020

Background

President Trump and Secretary of Agriculture Sonny Perdue announced up to an additional \$14 billion dollars for agricultural producers who continue to face market disruptions and associated costs because of COVID-19.

The U.S. Department of Agriculture (USDA) will use available funds from the Commodity Credit Corporation (CCC) Charter Act and CARES Act to support upland and ELS cotton as well as other additional commodities.

Upland cotton CFAP 2 payments will be made under the category Price Trigger Commodities with ELS cotton payments being in the Flat-Rate Crops category.

Price Trigger Commodities

Upland cotton is a price trigger commodity because it meets a minimum 5% price decline threshold in a comparison of the average prices for the week of January 13-17, 2020, and July 27-31, 2020. Payments will be based on 2020 planted acres, **included failed acres**. Prevented planting and experimental acres are excluded from eligibility. Payments based on the price trigger will be the greater of: 1) the eligible acres multiplied by a payment rate of \$15/acre; or 2) the eligible acres multiplied by a nationwide upland cotton marketing percentage (46%), multiplied by the upland cotton payment rate (\$0.08)¹, and then by the producer's weighted RMA yield. If a yield is not available, 85% of the 2019 Agriculture Risk Coverage-County Option (ARC-CO) benchmark for that crop will be used.

Example:

2020 planted acres = 1,000 acres

2020 RMA yield = 800 lbs/acre

CFAP 2 Payment = max [(1,000 acres * \$15/acre = \$15,000), (1,000 acres * 46% * \$0.08/lb * 800 lbs/acre = \$29,440)] = \$29,440

Flat-rate Crops

Flat-rate crops such as ELS cotton did not meet the 5-percent decline trigger from mid-January to the end of July based on available price information available. ELS payments for CFAP 2 will be calculated based on eligible 2020 planted acres multiplied by \$15 per acre.

Example:

2020 planted acres = 1,000 acres

CFAP 2 Payment = 1,000 acres * \$15/acre = \$15,000

¹ Upland payment rate of \$0.08 is determined as 80% of the \$0.10 change in the Dec futures contract from mid-Jan to late-July

Payment Limitations and AGI Tests on Direct Assistance

CFAP payments are subject to a per person or legal entity payment limitation of \$250,000. This limitation applies to the total amount of CFAP payments made with respect to all eligible commodities.

Unlike other FSA administered programs, special payment limitation rules will be applied to participants that are corporations, limited liability companies, and limited partnerships (corporate entities). These corporate entities may receive up to \$750,000 based upon the number of shareholders (not to exceed three shareholders) who are contributing substantial labor or management with respect to the operation of the corporate entity.

For a corporate entity with one such shareholder, the payment limit for the entity is \$250,000; for a corporate entity with two such shareholders, the payment limit for the entity is \$500,000 if at least two members contribute substantial labor or management with respect to the operation of the corporate entity; and for a corporate entity with three such shareholders, the limit is \$750,000 if at least three members contribute substantial labor or management with respect to the operation of the corporate entity. If payments are calculated for a corporate entity and those payments exceed the applicable limit of \$250,000, \$500,000 or \$750,000, the reduction will be attributed to all members of the entity to ensure that a net payment to the entity is not in excess of the applicable limitation. A corporate entity may receive more than \$250,000 in CFAP payments if the applicant, under penalty of perjury, certifies that two or three members of the corporation each provide at least 400 hours of active personal management or personal active labor, in which case the corporate entity may be eligible to receive up to \$500,000 or \$750,000, respectively. The sole-member of an embedded LLC or grantor of a revocable trust using an SSN may qualify the corporation, LLC, or LP for the optional increase in payment limitation.

To be eligible for payments, a person or legal entity must have an average adjusted gross income of less than \$900,000 for tax years 2016, 2017, and 2018. However, if 75% of their adjusted gross income comes from farming, ranching, or forestry, the AGI limit of \$900,000 does not apply. CFAP payments are not subject to sequestration.

Applying for Assistance

Producers can apply for assistance beginning Monday, September 21 with applications being accepted through December 11, 2020. Additional information can be found at farmers.gov/cfap or by contacting your local FSA Service Center.