

**UNITED STATES DEPARTMENT OF AGRICULTURE**

Farm Service Agency  
Washington, DC 20250

<b>Payment Eligibility, Payment Limitation, and Average Adjusted Gross Income 4-PL</b>	<b>Amendment 18</b>
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**Approved by:** Deputy Administrator, Farm Programs



**Amendment Transmittal**

**A Reasons for Amendment**

Subparagraph 188 B has been amended to clarify, without change of policy, how the term “taxable income” is used for average AGI compliance.

Exhibit 2 has been amended to provide a definition of the term “taxable income” for average AGI compliance purposes.

<b>Page Control Chart</b>		
<b>TC</b>	<b>Text</b>	<b>Exhibit</b>
	6-5, 6-6	2, page 9 page 10 (add)



188 AGI Definitions and Determinations

**A Definition of AGI**

[7 CFR 1400.501] AGI means, for a:

- person, the amount reported to IRS on the appropriate tax filing documents as AGI
- legal entity, the comparable measure according to this handbook.

**B Definition of Average AGI for a Person or Legal Entity**

Average AGI for a person or legal entity means the average AGI, or comparable measure, of the individual or entity over the 3 taxable years preceding the most immediately preceding complete taxable year for which benefits are requested.

**\*--Note:** Exclude any years that the person or legal entity did not have taxable income. In this context, the term “taxable income” includes having \$0 of taxable income on IRS Form 1040, line 43 because of tax exemptions and tax deductions. The term “taxable income” for average AGI purposes is used in determining whether or not the person or legal entity had any income upon which a tax filing was required; not whether there was a tax liability level of income.--\*

**C Definition of Average Adjusted Gross Farm Income**

Average adjusted gross farm income of a person or legal entity means income or benefits derived from the following sources.

<b>Income Related to Livestock and Crops</b>	<b>Other Types of Income</b>
Production of livestock, including but <b>not</b> limited to: <ul style="list-style-type: none"> <li>• cattle, sheep, goats, swine</li> <li>• elk, reindeer, bison, deer</li> <li>• horses</li> <li>• poultry</li> <li>• fish and other aquaculture products used for food</li> <li>• honeybees.</li> </ul>	The sale of land that has been used for agriculture. The sale of easements and development rights to: <ul style="list-style-type: none"> <li>• farmland, ranchland, or forestry land</li> <li>• water or hunting</li> <li>• environmental benefits.</li> </ul>
The feeding, rearing, or finishing of livestock. Products produced by or derived from livestock.	The rental or lease of land or equipment used for farming, ranching or forestry operations, including water or hunting rights.
Production of crops, specialty crops, and unfinished raw forestry products.	Any payment or benefit, including benefits from risk management practices, crop insurance indemnities, and catastrophic risk protection plans.

188 AGI Definitions and Determinations (Continued)

**C Definition of Average Adjusted Gross Farm Income (Continued)**

Income Related to Livestock and Crops	Other Types of Income
The processing, packing, storing, shedding, and transporting of farm, ranch, and forestry commodities, including renewable energy.	Payments and benefits authorized under any program made applicable to payment eligibility and payment limitation rules. Production of farm-based renewable energy.
Any other activity related to farming, ranching, or forestry as determined by the Deputy Administrator.	
Any income reported on IRS Schedule F or other schedule used by the person or legal entity to report income from farming, ranching, or forestry operations to IRS.	
The sale of equipment to conduct farm, ranch, or forestry operations and the provision of production inputs and services to farmers, ranchers, foresters, and farm operations, if the average adjusted gross farm income is <b>at least</b> 66.66 percent of the average AGI.	

**Note:** Wages earned through employment by a farming operation are **not** farm income.

**D Definition of Income From Fishing**

Income from fishing means income derived from catching, taking, harvesting, cultivating, or farming aquatic resources such as fish, shellfish, crustacea, and other aquatic forms of animal or vegetable life according to IRS Publication 595 or other applicable IRS instructions.

**E Sources of Income Data**

Income from farming, ranching, forestry operations, and related activities is:

- recorded on the IRS Schedule F, Form 4835, or comparable form
- any other schedule as allowed by applicable IRS tax code to report farming, ranching, forestry operations, and related activity income
- reflected in and attached to IRS Form 1040 or other appropriate IRS income tax return filed by the person or legal entity with the IRS for tax purposes.

Income from fishing is:

- recorded on IRS Schedule C, or Schedule C-EZ, as allowed by applicable IRS tax code
- reflected in and attached to IRS Form 1040 or other appropriate IRS income tax return filed by the person or legal entity for IRS tax purposes.

## Definitions of Terms Used in This Handbook (Continued)

### Public School

Public school means a primary, elementary, secondary school, college, or university which is directly administered under the authority of a governmental body or which receives a predominant amount of its financing from public funds.

### “Right-Hand” Contribution

“Right-hand” contribution to the farming operation means 1 or a combination of the following:

- active personal labor
- active personal management.

### Separate and Distinct Contribution

Separate and distinct contribution is a contribution to the farming operation that is:

- unique and apart from other contributions
- distinguishable from the contributions of other partners, stockholders, or members of the same legal entity or joint operation.

### Sharecropper

Sharecropper means an individual who:

- performs work in connection with the production of the crop under the supervision of the operator
- receives a share of the crop in return for the provision of such labor.

### \*--Taxable Income

Taxable income, for average AGI purposes, means income used by FSA to determine if the person or legal entity had any amount that could be included as income on an IRS tax return and is subject to taxation. AGI has nothing to do with the person’s or legal entity’s taxable income liability. A person or legal entity with AGI as defined in 7 CFR Part 1400 in any year is considered to have taxable income in that year regardless of the amount shown as taxable income on the person’s or legal entity’s tax return for that year.

**Example:** A person has total adjusted gross income of \$7,600 in 2008. The person claims 2 exemptions on the tax return and thereby reduces taxable income using IRS-allowable exemptions and/or deductions to \$0. For AGI purposes under 7 CFR Part 1400, the person has taxable income for 2008, and that taxable income is \$0.--\*

**Definitions of Terms Used in This Handbook (Continued)**

**Total Value of a Farming Operation**

Total value of a farming operation means the total of the costs, excluding the value of active personal labor and active personal management that is contributed by a member of the farming operation, needed to carry out the farming operation for the year for which the determination is made.

**Tribal Venture**

Tribal venture means a joint operation conducted by members of a Native American or Indian tribe.