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THIS ISSUE:

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New Dairy Margin Coverage Program adds to Producers' Risk Management Options

The new Dairy Margin Coverage program, or DMC, is essentially a "next generation" of the previous Margin Protection Program (MPP). Numerous changes were made to create the DMC, with the resulting program more favorable for dairy producers. This spring's rollout adds another option to the suite of risk management options available to Northeast dairy producers.

Similar to the MPP, the DMC provides coverage for the margin between the national all-milk price and feed costs according to a calculated value. The DMC offers "catastrophic" coverage, or $4.00 margin coverage, at no cost beyond a $100 administrative fee. Greater coverage options are available at varying premium levels depending on the level of coverage desired and the amount of milk being covered. Unlike the original MPP, however, the DMC contains changes that result in the program being far more likely to produce positive payouts (indemnities less premium costs).

Feed cost calculations

The feed cost calculation has been updated. While it is still based on national average costs, the values of the alfalfa hay ration were changed to more closely align with the feed actually used by producers in many parts of the country. It is still likely to be quite different than the actual feed costs of a Northeast dairy producer, but the bottom line is that calculations may result in a higher feed cost, increasing the likelihood of payments at all coverage levels.

Tier 1 and Tier 2

There are two tiers of premiums; Tier 1 for the first five million pounds of milk produced, and Tier 2 for any production exceeding five million pounds. The Tier 2 premiums under DMC, as with MPP, are significantly higher for most coverage level options. Operations can cover anywhere from 5% - 95% of their production history. New with the DMC are higher margin coverage options; $8.50, $9.00 and $9.50 per hundredweight (cwt). The premium levels for these higher levels of coverage are significantly lower for Tier 1. While the Tier 2 premiums for these coverage levels are significantly higher, the program allows producers who select $8.50 or greater coverage under Tier 1 to select

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a different coverage level for their Tier 2 milk. This allows producers of all sizes to take advantage of the attractive Tier 1 higher-level coverage without having to pay the high Tier 2 premiums for their additional production.

Production history is based on the highest year among 2011, 2012 or 2013, according to the statute. There is a procedure to establish production history for farms that began producing milk after January 1, 2014.

For producers who participated in the MPP program, they can choose to receive roughly half of their net MPP premiums paid in back in cash[1] or take a 75% credit towards DMC premiums. Producers who lock in their DMC coverage for five years will receive a 25% discount on their premium costs as well.

An important aspect of the DMC signup for this year is that it is retroactive, and the margins for the beginning months of the year are already known. So one benefit of the new program is that, at least at the higher levels of Tier 1 coverage, payouts are known to exceed premiums for this year, resulting in a guaranteed benefit. Exact payouts will depend on individual farm circumstances, but for most producers, they can expect to receive a net payout this year.

For more information, contact your local Farm Service Agency (FSA) office, or visit fsa.usda.gov.

Program and pricing options

The DMC is not the only dairy risk management option. There are federally subsidized crop insurance options and the opportunity to simultaneously enroll in DMC while participating in crop insurance programs.

The primary crop insurance programs for dairy producers are the Dairy Revenue Protection (DRP) program and Livestock Gross Margin Coverage (LGM-Dairy). Producers can participate in DMC and DRP **or** LGM-Dairy. DRP and LGM-Dairy are not allowed for the same months.

There are five decisions to make:

1. The value of the milk to protect
2. The amount of milk production to cover
3. The level of coverage from 70% to 95%
4. Which quarterly endorsements they wish to purchase
5. Protection factor, if desired

Dairy Revenue Protection program

DRP coverage is calculated quarterly and can be purchased for up to five quarters in the future. There are two pricing options; the class price and component price option. The producer chooses how much milk to cover during each quarter and there is a 70% - 95% coverage level option.[2]

DRP premiums are subsidized on a sliding scale from 59% - 44%. These premiums change daily depending on futures markets. Essentially, the program allows a producer to establish a price floor for their milk production, without losing the potential benefit of higher price levels.

Livestock Gross Margin coverage

Finally, there is the LGM-Dairy program, which continues largely unchanged. The producer chooses amount of milk to insure, up to 240,000 cwt during a 10-month period.[3] The producer chooses the months to insure, as well as the deductible. They then insure the margin of milk price less feed cost.

How to decide your coverage

Many of producers' concerns about the original MPP have been addressed in the DMC. This new program has a lot to offer, but what options works best for your operation? A primary resource for producers is the DMC

[1] Producers are eligible for MPP premiums paid between the years of 2014-2017
[2] For the 2020 crop year, the 70% and 75% coverage levels have been eliminated
[3] For 2020, the 240,000 cwt cap has been removed

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decision tool which can be found online at FSA.usda.gov/dmc-tool. Signups are now open and producers have until September 20 to enroll.

Your Crop Growers agent can also guide you through crop insurance programs and help you decide what program(s) and coverage are right for your operation. Contact Crop Growers at 1-800-234-7012 or CropGrowers.com.

Finally, Farm Credit East held a webinar in June detailing these dairy risk management options. Visit FarmCreditEast.com/webinars to access the webinar recording.

Valuable Tax Insights in *Today's Harvest* Blog

Farm Credit East publishes a new article to its *Today's Harvest* blog once per week, with posts covering a wide range of topics in agriculture, commercial fishing and the forest products industries.

Although we've posted contributions from more than 75 authors, we'd like to focus on a relatively new section of our blog: *Tax Talks*. Farm Credit East Senior Tax Consultant Dario Arezzo is the primary author of this series and shares monthly insights on a variety of tax topics. Here are some of his recent contributions.

Final Regulations Issued on Itemized Deductions

One of the most talked about reforms enacted in the Tax Cuts and Jobs Act (TCJA) was the limitation on the ability for taxpayers to deduct state and local taxes in excess of $10,000. Following the limitation, many states, including those in the Northeast, created programs and workarounds for the limitation where taxpayers could receive a state tax credit for a "charitable deduction" provided to the state. Read more about how to interpret these regulations.

Farm Rental Agreements Under 199A

Now that the dust has settled on the 2018 tax season, it is time to continue fine-tuning tax strategies for Northeast agricultural producers. One of the easiest ways to maximize the 199A deduction is to ensure the farmland being utilized in the operation qualifies for the deduction.

There are three ways for farmland to qualify for the 199A deduction. The land can either be 1) rented to a commonly controlled entity, 2) fall under the safe harbor, or 3) be considered a trade or business. Learn more about the details under 199A.

New York State Budget Revives Gifting "Claw Back"

In early April, Governor Cuomo signed into law New York State's latest budget. The big takeaway for New York State estate planning is the retroactive reinstatement of the "three-year claw back." This article reviews details of this revival.

Be sure to check out these and other articles at FarmCreditEast.com/TodaysHarvest. Subscribe to receive new posts right to your inbox.

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