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"Farm Bill" Components Finally Reach the Finish Line

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After more than three years of debate and two annual extensions, earlier this month, several components of the traditional farm bill that address commodity and risk management programs finally became law as part of a budget reconciliation bill better known as the One Big Beautiful Bill Act. By rule, this legislation included only parts of the farm bill that impact the federal budget (i.e., U.S. government revenues and expenses.) Other proposed non-budget issues that have been a part of discussions related to the farm bill, such as reauthorization of the Conservation Reserve Program (CRP), addressing animal housing issues, hemp regulations, modifications to USDA loan programs, rural broadband assistance, enabling permanent price-support status for certain ag commodities, among other issues may be considered later this year in a separate piece of legislation.

The timing of the commodity provisions within the budget reconciliation legislation is critical with anticipated financial losses in grain farming this year given depressed grain prices and relatively high input prices. However, government payments for eligible farm bill crops planted this year will not occur until fall of 2026, following the completion of the 2025-2026 marketing year.

The two primary crop safety net programs, the Agricultural Risk Coverage (ARC) and the Price Loss Coverage (PLC) programs along with the Dairy Margin Coverage (DMC) program. are retained in this legislation through 2031. Farmers have two options within the ARC program – a county revenue-based program (ARC-CO) and an individual farm revenue program (ARC-IC). Historically most farmers selecting the ARC program have chosen the county-based revenue program. ARC-CO program payments are triggered when the actual county crop revenue of a covered commodity is less than the ARC-CO revenue guarantee for the crop. PLC program payments are triggered when the average U.S. market price for the covered crop in any given year falls below the established effective reference price for that crop. (Click here for an explanation of ARC/PLC payment calculations.) The budget reconciliation bill which became law on July 4th allows farmers to receive the higher payment between PLC or ARC for the 2025 crop, irrespective of their program selection chosen earlier this year. For 2026 to 2031, farmers will be required to make an annual choice between PLC and ARC.

A few of the major changes in this Act related to the farm bill are the following:

- Increases statutory reference (safety net) prices beginning with the 2025 crop for program commodities (primarily corn, soybeans and wheat in Kentucky).
    - Corn -- $4.10/bu (+$0.40/bu or +11%)
    - Soybeans -- $10.00/bu (+$1.60/bu or +19%)

    - Wheat – ($6.35/bu (+$0.85/bu or +15%)
- Beginning with the 2031 crop, the reference price for all covered commodities will increase 0.5% annually and cannot exceed 113% of the statutory reference price (down from 115% under the previous farm bill).
- Increases the ARC-CO coverage guarantee from 86% to 90% of benchmark revenue and caps the ARC-CO payments at 12% of benchmark revenue (up from a 10% cap under the previous farm bill) for the 2025-2031 crops.
- Increases the effective price calculation of the PLC program to 88% of the Olympic average of market prices for the five previous marketing years, excluding the high and low prices (versus 85% under the previous farm bill).
- Allows for an increase of up to 30 million base (payment) acres in the U.S. under the ARC/PLC programs beginning with the 2026 crop year. This one-time, voluntary adjustment will be reduced on a pro rata basis if requested new base acres across the U.S. exceeds 30 million acres. A University of Illinois Farm Doc base acre analysis provides an "indicator" that this could add nearly 700,000 base acres (+22%) to Kentucky's existing base acres for covered crops. Another evaluation by the University of Missouri's Rural and Farm Finance Policy Analysis Center indicates that Kentucky could add well over 1,000,000 base acres (+37% to +44%) under a couple of different scenarios depending on how USDA implements this provision. Of course, there are many complications surrounding this policy change for which USDA will have to address in deciding the future allocation of base acre expansion.
- Allows for an update of dairy production history under the DMC program to the highest annual milk marketings during any one of the 2021, 2022 or 2023 calendar years with coverage under Tier 1 expanded to the first 6 million pounds (up from 5 million pounds in the previous farm bill).
- Increases payment limits to $155,000 (up from $125,000 under the previous farm bill), adjusted annually for inflation. The Act allows eligible farmers to be exempt from the current $900,000 adjusted gross income (AGI) limit if one derives more than 75% of their average gross income from farming.
- Increases USDA crop insurance premium subsidies and coverage levels, along with increasing premium assistance available to beginning farmers extending their time to qualify as a beginning farmer from five years to ten years.
- Creates a pilot insurance program for contract poultry growers to receive index-based insurance to cover higher utility cost caused by extreme weather.
- Extends existing USDA conservation programs to 2031 and provides for annual funding increases. However, overall funding for conservation programs will be affected by the cancellation of conservation projects under the Inflation Reduction Act, and implementation may be challenged due to ongoing staffing issues.
- Effectively doubles USDA trade promotion programs designed to promote and expand U.S. ag and food exports.
- Provides additional funds to fight animal diseases and feral swine, while expanding coverage under the Livestock Indemnity Program (LIP).
- Increases funding for the Specialty Crop Block Grant Program and provides additional funds to support organic agriculture.

In addition to addressing commodity and risk management programs, the One Big Beautiful Act also address other non-farm bill components of interest to agriculture, including permanently increasing the federal estate and gift tax exemption to $15 million per individual (indexed for inflation), capital gains benefits for farmland owners who sell the land to an active farmer committing to keep the land in active production for ten years, and expanding business expensing limits and depreciation allowances. Future issues of the Economic and Policy Update newsletter will address these issues.

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