

Using the Enterprise Risk Analyzer to Assess the Feasibility of Pitahaya as a Viable Crop Alternative



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RIGHT RISK NEWS

Noninsured Crop Disaster Assistance Program

Farmers may use insurance as a strategy to help manage the risks associated with growing crops. The Noninsured Crop Disaster Assistance Program (NAP), administered by USDA's Farm Service Agency (FSA), provides producers of noninsurable crops with at least some basic or catastrophic coverage when low yields, loss of inventory, or prevented planting occurs due to natural disasters. The catastrophic coverage level is 50 percent of the approved yield for all applicable crops with losses below that covered at 55 percent of the approved market price.

FSA FARM SERVICE AGENCY

Eligible producers are those landowners, tenants, or sharecroppers who share in the risk of producing an eligible crop and have annual gross revenue not exceeding \$2,000,000.

Eligible crops include those for which the catastrophic risk protection level of crop insurance is not available and must be crops grown for food; crops planted and grown under a controlled environment; specialty crops; value loss crops (such as aquaculture, Christmas trees, ginseng, ornamental nursery and turfgrass sod); sea oats and sea grass; and seed crops where the propagation stock is produced for sale as seed stock for other eligible NAP production.

When purchasing NAP, producers pay a service fee which is the lesser of \$250 per crop or \$750 per producer per administrative county, not to exceed a total of \$1,875 per producer with farming interests in multiple counties. The 2014 Farm Bill authorized the FSA to offer producers an opportunity to purchase higher levels of coverage on all eligible crops except those crops and grasses intended for grazing. NAP "buy-up coverage" allows a producer to select higher levels of yield protection (50, 55, 60, or 65 percent) at 100 percent of the established price.

Limited resource producers, beginning farmers, and socially disadvantaged farmers may request a waiver of service fees and reduction of "buy-up" premiums.

Buy-Up Example

Assume a farmer grows 100 acres of forage sorghum with an approved yield of 2 tons per acre on land he owns. Forage sorghum is eligible for NAP coverage in the county he resides and he chooses 60 percent yield/100 percent "buy-up" coverage. The established price is \$137.33 per ton.

The farmer would pay a \$250 administrative fee plus the buy-up premium. The premium is calculated by multiplying the yield times coverage level times the price times the number of acres calculated by multiplying the yield times coverage level times the price times the number of acres times ownership percentage times 5.25 percent. Thus, the premium for buy-up coverage would be \$250 + \$865 (2T x 60 percent x \$137.33 x 100A x 100 percent x 5.25 percent) or \$1,115.

If due to an qualifying event, the farmer harvests one ton per acre, the NAP payment would be calculated by first multiplying the approved yield by the selected yield coverage, the number of acres, and the producer share to arrive at the disaster coverage level. Any actual production

could be subtracted from the disaster coverage level to establish the net production for payment. The net production for payment can be multiplied by the price coverage level to get the calculated NAP payment.

Example: 2 tons x 60 percent x 100 acres x 100 percent = 120 tons yield coverage. Production to count: 1 ton x 100 acres = 100 tons. Net production for payment: 120 - 100 tons = 20 tons. The NAP payment would be 20 tons x \$137.33 = \$2,747.

If the producer purchased NAP insurance without buy-up coverage, he would have paid only the \$250 administrative fee. Since the coverage level is 50 percent and the farmer's 1 ton per acre actual yield would equal this disaster coverage level, there would be no loss and no payment.

Insurance is just one tool available to farmers for managing their production and price risks when crop insurance products are not available. Producers interested in possibly using NAP or NAP Buy-Up should contact their local FSA office or visit www.fsa.usda.gov

Deadline is Looming!

April 15th is the annual deadline by which most people must file their tax returns and pay any taxes owed for the past tax year. It is also the deadline for making the first installment payment for any estimated taxes due for the current tax year.

Estimated tax payments should be the lesser of: (1) 90 percent of the tax expected for the current year or (2) 100 percent of the tax owed for the prior year with a tax liability of \$1,000 or more should file quarterly estimated taxes to avoid possible penalties and interest charges. For calendar year taxpayers, estimated payments are due quarterly on April 15th, June 15th, September 15th, and January 15th.

Producers may choose to make a single estimated tax payment by the 15th of the month following the close of their tax year or by the first day of the third month following the close of their tax year - January 15th and respectively, for calendar year taxpayers.

The 2014 Farm Bill (Section 225 (Farmer's Tax Guide) explains how the federal tax laws apply to farming. This publication and other information on tax returns and making estimated payments is available at www.irs.gov. The Rural Tax Education web site (www.ruraltax.org) is a valuable resource for articles on tax topics, sample tax returns, and other general tax information.

Producers should consult with their tax advisor about the proper filing of their taxes and whether they may be required to make quarterly estimated payments of their taxes for the current year.

RURAL TAX EDUCATION

How Much Risk is Right for You?

RightRisk helps decision-makers discover innovative and effective risk management solutions.

RightRisk News is brought to you by the RightRisk Team

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