

# USDA Final Rule Implements Significant Payment Limit and Eligibility Changes

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## Overview

The USDA's Commodity Credit Corporation has issued a highly anticipated final rule. Published and effective June 2, 2026, the rule incorporates the payment-limit and eligibility modifications enacted under the One Big Beautiful Bill Act (OBBBA) into the federal regulations at 7 CFR Part 1400.

For agricultural producers operating through entity structures, this rule represents a monumental shift in how payment limitations are calculated and how "actively engaged in farming" determinations are made. Multi-owner family operations stand to benefit substantially, but navigating these structural nuances before upcoming deadlines is critical.

## Stacking Limits: LLCs and S Corporations Achieve Parity with Partnerships

Historically, agricultural operations structured as standard corporations, S corporations, or Limited Liability Companies (LLCs) faced a severe disadvantage regarding USDA farm program payment limits. While general partnerships and joint ventures could "stack" payment limitations - multiplying the program limit by the number of qualifying partners - LLCs and S corporations were capped at a single, entity-level payment limit, regardless of how many owners actively participated in the farm.

The OBBBA effectively eliminates this disparate treatment by establishing a new regulatory category: the Qualified Pass-Through Entity (QPTE). Under the final rule, a QPTE includes:

- Any partnership under Subchapter K of the Internal Revenue Code (provided it is a separate tax entity and not a corporation, trust, or estate);
- An S corporation;
- An LLC that has not elected to be taxed as a C corporation; and
- Joint ventures and general partnerships.

Beginning with the 2026 program year, a QPTE is no longer restricted to a single payment cap. Instead, the entity's total payment limit is calculated by multiplying the base program limit by the number of owners who are "actively engaged in farming". For nested or multi-tiered structures, the regulations dictate that the Farm Service Agency (FSA) will bypass embedded pass-through entities and look through up to four levels of ownership to count the actual individuals or qualifying entities.

**Caution:** While the regulatory text suggests that Limited Partnerships (LPs), Limited Liability Partnerships (LLPs), and Limited Liability Limited Partnerships (LLLPs) taxed as partnerships should qualify as QPTEs, the preamble discussion focuses heavily on LLCs and S corporations. Producers utilizing these specific limited partnership variants should verify their status with their local FSA office before assuming stacked limits apply.



**The financial impact of stacking.** To illustrate the shift, we must look at the actual indexed program limits rather than outdated statutory baselines. While the rule text references the historical \$125,000 baseline, a January 12, 2026, final rule indexed the Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC) limits for inflation. The adjusted limit is \$160,000 for 2025 and stands at a tentative \$164,000 for 2026.

Applying the new stacking rules to the 2026 tentative limit demonstrates the clear economic advantage for multi-owner entities:

Operation Type	Pre-OBBBA Entity Cap	2026 Per-Owner Stacked Limit
S Corporation (2 active shareholders)	\$164,000	\$328,000
Family LLC (4 active members)	\$164,000	\$656,000
LLC (Owned by two GPs, each with 2 active partners)	\$164,000	\$656,000

Consider a three-generation family LLC with four active members. Under the old regime, if the farm generated \$700,000 in ARC/PLC payments, the entity was capped at \$164,000, leaving \$536,000 on the table. Under the 2026 rule, the stacked limit expands to \$656,000, allowing the family to retain an additional \$492,000.

**Compensated Labor and Management Now Qualify**

To utilize a stacked payment limit, each owner must still meet the statutory "actively engaged in farming" criteria. This requires a commensurate, at-risk contribution of capital, equipment, or land, alongside personal labor or active personal management.

The final rule removes a historical trap regarding how these contributions are evaluated. Previously, if an owner or member received a salary or a guaranteed payment from the entity, that compensated labor or management was completely disregarded when determining if they were "actively engaged".

Effective for 2026, compensated labor and management now count toward the actively engaged determination for all QPTEs. For example, if a daughter operates as an S corporation shareholder and draws a \$90,000 salary for her day-to-day management, her management contribution is no longer penalized or ignored. Her participation now qualifies her as an active owner, effectively adding a full separate payment limit to the operation.

**AGI Certifications and the 75% Farm Income Waiver**

Consistent with the treatment of pass-through entities, the final rule clarifies that QPTEs will not certify compliance with the \$900,000 Average Adjusted Gross Income (AGI) limitation at the entity level. Instead, AGI compliance tracking is pushed entirely to the individual member level, skipping embedded pass-through layers.



More importantly, the OBBBA provides a critical relief valve for high-income producers hit by severe weather or market disruptions. The standard \$900,000 AGI cap is completely waived for specific disaster and conservation programs if at least 75 percent of the producer's average gross income is derived from farming, ranching, or silviculture.

This waiver applies strictly to "excepted programs," which include:

- Livestock Forage Disaster Program (LFP)
- Livestock Indemnity Program (LIP)
- Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish (ELAP)
- Tree Assistance Program (TAP) and Noninsured Crop Disaster Assistance Program (NAP)
- NRCS Conservation Programs (*e.g.*, CRP, EQIP, CSP, ACEP) for benefits received on or after October 1, 2024.

**Crucial distinction.** The standard \$900,000 cap evaluates *Adjusted Gross Income* (net income after deductions). Conversely, the 75 percent exception evaluates *Gross Income* (total revenue before expenses). Because agricultural operations typically generate massive gross revenues relative to net returns, a legitimate farming operation with a high AGI due to non-farm investments or unique tax years can often easily clear the 75 percent gross farm income threshold.

To claim this waiver for the 2026 program year, producers must evaluate their gross income over the three-year baseline period spanning tax years 2022, 2023, and 2024. The certification must be verified by a licensed attorney, a CPA, or an Enrolled Agent (EA). However, if a producer utilizes a joint tax return and requires a breakdown of how the income would have been reported on separate returns, only an attorney or CPA may sign the verification.

**Note:** This waiver does *not* apply to traditional commodity programs like ARC or PLC. A producer exceeding the \$900,000 AGI cap remains disqualified from commodity program payments, even if they meet the 75 percent gross farm income test.

### **Broadened Definition of "Farm Income"**

To make the 75 percent gross income test more achievable, the final rule expands the definition of what constitutes income derived from farming, ranching, or silviculture.

- **Direct-to-Consumer and Agritourism:** Revenue from farm stands, U-pick operations, CSAs, farmers' markets, and online sales of farm-produced goods now explicitly qualifies as farm income.
- **Equipment Sales and Trades:** The restrictive "66.66 percent rule" - which barred equipment sale proceeds from being counted as farm income unless the producer already met a high threshold of farm-to-non-farm income—has been permanently removed. Furthermore, the trade-in value of equipment toward new purchases is now recognized as legitimate farm income.



## Deadlines and Immediate Action Items

These structural and eligibility updates apply strictly to the 2026 program year and forward; they cannot be applied retroactively to 2025 or prior years. Producers must navigate several key dates and procedural requirements:

- **September 15, 2026:** This is the hard operational snapshot date for the 2026 program year. The entity structure, ownership percentages, and member contributions in place on this date dictate a farm's total payment limits and attribution.
- **June 1 (2027 and beyond):** This serves as the annual, recurring snapshot date for determining entity classification and foreign-person status for subsequent crop years.

## Conclusion

The USDA's final rule represents the most significant modernization of farm program payment mechanics in a generation, shifting hundreds of millions of dollars back to multi-owner family operations. By treating LLCs and S corporations with the same structural flexibility long enjoyed by general partnerships, the regulations finally align farm safety-net policy with the realities of modern business planning. The removal of the salary penalty for "actively engaged" determinations further ensures that operational leadership is not structurally punished simply for utilizing standard corporate payroll practices.

However, these benefits are neither automatic nor retroactive. Producers cannot afford to treat these changes as mere administrative paperwork to be handled at their next routine FSA visit. Because the rule takes effect immediately for the 2026 crop year, existing entity structures must be meticulously reviewed against the strict September 15, 2026, operational snapshot date. If an operation previously consolidated into a single-member LLC for simplicity, or if a multi-tiered entity structure has not been clearly mapped through to the individual owner level, immediate restructuring may be required to avoid leaving substantial program payments on the table.

Producers must execute three immediate planning steps before the clock runs out:

- **Map Ownership and Contributions:** Formally document that every owner counting toward a stacked limit contributes significant, commensurate capital, land, or equipment, alongside personal labor or management that is truly at risk.
- **Audit Gross Income Metrics:** For operations tracking near or above the \$900,000 AGI threshold, work with a tax professional to isolate gross revenue streams from 2022, 2023, and 2024 to verify compliance with the new, broader 75 percent farm gross income exception for disaster and conservation programs.
- **File Updated Form Operating Plans:** Prepare and submit revised entity certifications to the FSA well in advance of September 15. Keep in mind that larger pass-through structures containing six or more members are subject to an automatic, 60-day state-level review timeline - meaning early submission is vital to ensure timely program compliance.



The financial stakes are high, and the implementation window is narrow. Producers should coordinate immediately with their CPA and legal counsel to ensure their corporate structures and operational realities are perfectly aligned before the September deadline.

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