

November 1987

# FARM PAYMENTS

Payments to Entities  
Exempt from the  
\$50,000 Limit and to  
SPOIL RECOVERIES

C40455



United States  
General Accounting Office  
Washington, D.C. 20548

Resources, Community, and  
Economic Development Division  
B-225866

November 4, 1987

The Honorable Silvio O. Conte  
House of Representatives

Dear Mr. Conte:

In response to your May 13, 1987 letter, we reviewed payments made under the U.S. Department of Agriculture's (USDA) 1984-86 farm programs to growers of wheat, feed grains, cotton, and rice to identify payments made to entities that are exempt from the statutory \$50,000 per-person limit on such payments. States, political subdivisions, and their agencies who participate in the farm programs are exempt from the limit, provided that the lands they own are farmed primarily in the direct furtherance of a public function. As you requested, we also identified payments made to persons with foreign addresses.

In summary, from 1984-86, USDA made payments to 172 different entities that were exempt from the \$50,000 limit. Most of these entities received no benefit from their exemption because they received payments of less than \$50,000 each and, therefore, were not affected by the limit. However, during the 3-year period, 21 different exempt entities received payments greater than \$50,000 in at least one year. Payments to these 21 entities in excess of the \$50,000 limit totaled \$10.6 million during the 3-year period.

We found that over 15 percent of the exemptions granted in 1986 were incorrect because the entities did not qualify. One of these entities received more than \$50,000. USDA is taking actions to recover this overpayment. Such errors could lead to higher than necessary program costs in the future. (See sec. 2.)

Payments to producers with addresses outside the United States (who may or may not be U.S. citizens or business enterprises) totaled \$3.1 million for 1984-86. For the 3-year period, over 87 percent of the payments was sent to Canadian addresses. While your letter did not specifically ask us to address payments to foreign owners, we included them in our review because we found that most payments to

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foreign owners of U.S. cropland are mailed to U.S. addresses. Such payments totaled about \$22 million for 1984-86. (See sec. 3.)

Section 1 of this report provides details on the objectives, scope, and methodology of our work. The information presented in sections 2 and 3 is based on data extracted from USDA's computerized files on farm producers for crop years 1984-86.

We discussed the contents of this report with USDA officials, who generally agreed with the information presented. However, as agreed with your office, we did not obtain official agency comments on a draft of this report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Agriculture; and other interested parties. Copies will be available to others upon request.

Should you need further assistance, please contact me at (202) 275-5138. Major contributors to this report are listed in appendix I.

Sincerely yours,



Brian P. Crowley  
Senior Associate Director

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ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
GAO	General Accounting Office
PCED	Resources, Community, and Economic Development Division (GAO)
USDA	United States Department of Agriculture

## SECTION 1

### INTRODUCTION

#### SUMMARY

- Total price and income support payments under USDA's crop programs for wheat, feed grains, cotton, and rice increased from \$4.4 billion in 1984 to \$11.6 billion in 1986. Generally, support payments are limited to \$50,000 per person annually. However, some entities are exempt from this limit. There is no requirement that a recipient of farm program payments live in the United States or be a U.S. citizen or business enterprise to receive support payments. (See p. 6.)
- Our objectives were to determine (1) the number of entities exempt from the payment limit who received payments and (2) the number of persons whose payments were mailed to foreign addresses and then to determine the payments to both of these groups for 1984-86. (See p. 7.)
- To accomplish our objectives, we relied on information maintained in USDA's automated farm and producer files. From these files, we identified the producer identification numbers of entities that are exempt from the limit and persons who have payments mailed to foreign addresses. We then searched the USDA payment files for crop years 1984-86 to determine payments made to these identification numbers. (See p. 8.)

## BACKGROUND

The Agricultural Act of 1949, as amended, authorizes USDA to make price and income support payments to farmers under annual commodity and acreage reduction programs for wheat, feed grains, cotton, and rice. There is no requirement that a person live in the United States or be a U.S. citizen or business enterprise to receive support payments.

Support payments have increased from \$4.4 billion in 1984 to \$11.6 billion in 1986. Since 1973, these support payments have been made in the form of deficiency payments. Deficiency payments are based on the difference between the government-established target price for a commodity and the commodity's average market price or its loan rate,<sup>1</sup> whichever is higher. In 1986, for example, participating corn producers received \$0.63 per bushel in deficiency payments based on the difference between the government-established target price of \$3.03 and the loan rate of \$2.40, which was higher than the average market price, for each bushel produced.

In addition, beginning in 1978, USDA was authorized to make land diversion payments for specific program crops. Diversion payments compensate farmers who agree to take a percentage of their acreage out of production for specific commodities. In 1986, for example, a diversion payment of \$0.73 per bushel was paid to participating corn producers for the crops they would have grown on the idled acreage.

In general, total combined deficiency and diversion payments are limited under current law to a maximum of \$50,000 per person per year. However, certain entities--states, counties, townships, cities, and school districts, or the agencies thereof--are exempt from the \$50,000 payment limit. USDA also makes some deficiency payments that are not subject to the \$50,000 limit. This occurs when the Secretary of Agriculture lowers the established loan rate or the loan repayment rate. For example, as discussed above, the 1986 regular deficiency payment rate for corn, based on the difference between the target price of \$3.03 and the loan rate of \$2.40, was \$0.63 per bushel--all of which was subject to the \$50,000 limit. However, the Secretary adjusted the original loan rate downward by 20 percent to \$1.92 per bushel. The additional payment due to the difference between the original loan rate and the adjusted loan rate--\$0.48 per bushel--was not subject to the \$50,000 limit. (See table 1.1.)

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<sup>1</sup>Price support loans are designed to assure farmers of a minimum price for their crop. If the market price is below the loan rate for a crop, the farmer can keep the loan amount and turn over the crop to the government as payment in full.

Table 1.1

1986 Corn Deficiency Payments

Payment subject to the limit

Target price	\$3.03/bushel
Established loan rate	\$2.40/bushel
Difference	\$0.63/bushel

Payment not subject to the limit

Adjusted loan rate	\$1.92/bushel
Difference between established and adjusted loan rates	\$0.48/bushel
Total deficiency payment	\$1.11/bushel

OBJECTIVES, SCOPE, AND METHODOLOGY

In a May 13, 1987 letter, Representative Silvio O. Conte requested that we report on payments being made to entities exempt from the \$50,000 payment limit and to persons with addresses outside the United States. The specific objectives of our review, which was conducted from May through August 1987, were to determine

- the number of entities exempt from the \$50,000 payment limit who received payments and the amount of those payments for crop years 1984-86 and
- the number of persons who had payments mailed to addresses outside the United States and the payments made to those persons for crop years 1984-86.<sup>2</sup>

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<sup>2</sup>Data throughout this report are presented by crop year. A crop year is determined by the time of harvest, regardless of the calendar year in which payments are actually made. We selected the 3 most recent crop years for which data were available. The data presented for 1986 are preliminary because USDA is still making payments for that crop year and data entry is not yet complete.

Number of Exempt Entities  
and Their Payments for 1984-86

USDA maintains an automated data base that lists entities that are exempt from the \$50,000 per-person annual limit for deficiency and diversion payments. The data base also lists the reason why the entity is exempt. (As discussed before, exemptions are granted for farming operations of states, counties, townships, cities, and school districts.) Therefore, to determine which entities are exempt from the limit, we made a computer search of the data base and extracted the name, producer identification number, and exemption category for each exempt entity. The identification numbers were then matched against USDA's producer payment files for 1984-86 to determine payments subject to the \$50,000 limit made to exempt entities. We did not call county offices to confirm the accuracy of the data reported in the producer payment files.

The list of exempt entities included some entities whose names suggested that they might not be eligible for exemption from the \$50,000 limit. To determine whether some producers were incorrectly granted exemptions, we selected 44 entities from the 1986 list whose names implied a type of organization ineligible for exemption. We then called the county office officials or reviewed documentation they provided to determine whether the exemption was correct.

In addition to states, counties, townships, cities, and school districts, Indian tribal ventures are also treated as exempt from the limit; however, this is done for administrative purposes only. In cases where Indian tribes participate in government agricultural support programs, the payment is made to the tribe in one payment, rather than to the individual members of the tribe. The Bureau of Indian Affairs within the Department of the Interior has the responsibility of assuring that no individual receives more than \$50,000 per year. Because the exemption for Indian tribes is merely administrative and does not constitute an actual exemption from the \$50,000 limit, we excluded payments to Indian tribes from our review.

Number of Persons With Foreign  
Addresses and Their Payments, 1984-86

USDA has no central source of data that tracks payments mailed outside the United States. USDA has no reason to maintain such a data base because there is no restriction prohibiting payments from being sent to foreign addresses. However, from the automated producer name and address file maintained at USDA's Kansas City Management Office, we were able to identify the names and identification numbers of producers whose addresses had no

entry in the field used for zip codes. In general, the addresses lacking a zip code were foreign addresses. However, we determined that some were, in fact, U.S. addresses, and these names and addresses were deleted from our data base. The resulting data base contained the names, addresses, and identification numbers of producers whose payments were mailed to addresses outside the United States.

Once we completed our listing of all producers receiving payments at foreign addresses, we matched their identification numbers against the USDA payment files for 1984-86. We did this to determine all payments, both subject to and not subject to the \$50,000 limit, sent to foreign addresses for those years. We did not independently verify the accuracy of the data reported in the producer payment files.

The above methodology did not permit us to distinguish between U.S. citizens and foreign owners of U.S. cropland receiving payments at foreign addresses. However, most foreign owners of U.S. cropland have their payments mailed to addresses within the United States and, therefore, they would not have been identified using our methodology. To account for payments to foreign owners with U.S. mailing addresses, we used information from an earlier GAO report on payments to foreign owners of U.S. cropland in 1984 and 1985.<sup>3</sup> To the extent possible, we updated that information to include 1986 payments to these foreign owners. However, our figure for 1986 payments to foreign owners may be understated because some foreign owners may not have participated in government programs until 1986 and, therefore, would not have been identified in the earlier study.

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<sup>3</sup>See Farm Programs: Payments and Loans to Foreign Owners of U.S. Cropland (GAO/RCED-87-81FR, Mar. 19, 1987).

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## SECTION 2

### NUMBER OF ENTITIES THAT ARE EXEMPT FROM THE \$50,000 PAYMENT LIMIT AND PAYMENTS TO THOSE ENTITIES

#### SUMMARY

- The number of entities exempt from the \$50,000 payment limit who received payments ranged from 106 in 1984 to 152 in 1986. Payments to those entities totaled \$15.4 million for 1984-86. The average payments to exempt entities are much higher than the average for all entities. In 1986, the exempt entities had an average payment nearly six times greater than the overall average payment. (See p. 12.)
- Farming operations on state-owned lands account for the largest number of exemptions from the payment limit. (See p. 14.)
- Only a few entities benefit from their exempt status because most exempt entities earn payments of less than \$50,000. However, for the 21 entities that did exceed the \$50,000 limit, additional yearly payments received ranged from \$2,500 to \$2.2 million. On average, these producers received \$215,619 over the \$50,000 they would have received if they were not exempt from the payment limit. (See p. 16.)
- Some USDA county offices incorrectly granted exemptions to ineligible entities. In 1986, about 15 percent of the exempt entities paid should not have been granted an exemption. Generally, the improper exemptions were granted for religious organizations and other tax-exempt entities. (See p. 20.)

Table 2.1

Total and Exempt Entities  
Paid in 1984-86

	<u>1984</u>	<u>1985</u>	<u>1986</u>
Total entities paid	767,156	979,698	1,145,287
Exempt entities paid	106	131	152

Table 2.2

Total and Exempt Payments Subject to the  
\$50,000 Limit in 1984-86

	<u>1984</u>	<u>1985</u>	<u>1986</u>
	----- (millions) -----		
All payments	\$4,196	\$5,863	\$8,753
Exempt payments	\$4.3	\$4.2	\$6.9

Table 2.3

Average Annual Payments to Exempt Entities  
and to All Entities for 1984-86

	<u>1984</u>	<u>1985</u>	<u>1986</u>
All entities	\$ 5,470	\$ 5,984	\$ 7,643
Exempt producers	\$40,248	\$31,985	\$45,562

TOTAL AND EXEMPT ENTITIES  
RECEIVING PAYMENTS IN 1984-86

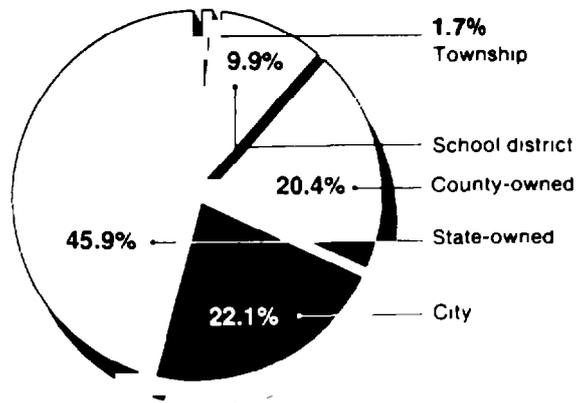
Tables 2.1 and 2.2 show that exempt entities accounted for very few of all entities paid and all payments made in 1984-86. In 1986, for example, they accounted for only about 1/100 of 1 percent of all entities and 8/100 of 1 percent of all payments. However, as shown in table 2.3, average payments to exempt entities are much higher than average payments to all entities. For example, in 1986, the average payment to an exempt entity was \$45,562--nearly six times as great as the average payment to entities overall.

Table 2.4

Distribution of Exemptions by  
Exemption Category

	<u>1984</u>	<u>1985</u>	<u>1986</u>
State-owned	58	66	70
County-owned	21	25	29
Township-owned	1	3	2
City-owned	15	23	36
State-leased	0	0	0
School district	<u>11</u>	<u>14</u>	<u>15</u>
Total	<u>106</u>	<u>131</u>	<u>152</u>

**Figure 2.1: Percentage Represented by  
Each Exemption Category for 1984-86**



DISTRIBUTION OF EXEMPTIONS  
BY CATEGORY FOR 1984-86

Table 2.4 shows the distribution of exemptions granted by category of exemption for 1984-86. Overall, a total of 172 different entities were granted exemptions for 1984-86. (Some entities did not participate in USDA farm programs in every year.) Figure 2.1 shows the distribution of the 172 entities by exemption category. The single largest group of exemptions was for farming operations on state-owned lands, accounting for almost 46 percent of the exemptions during the 3-year period.

Table 2.5

Exempt Producers Paid More Than  
\$50,000 in 1984-86

<u>State</u>	<u>Entity</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Alabama	Board of Corrections	(b)	(b)	162,029
Arizona	University of Arizona	229,289	336,412	385,594
Arkansas	Department of Corrections	313,624	377,636	360,074
	University of Arkansas	(b)	(b)	68,110
California	Reclamation District No. 108	337,709	491,804	351,595
	Reclamation District No. 1004	(c)	127,024	(b)
	Sacramento County Real Estate	113,168	117,649	112,370
Illinois	University of Illinois	129,894	133,418	176,440
Iowa	Iowa State University	(b)	(b)	96,493
Louisiana	State Penitentiary	54,723	98,626	132,430
	Vermilion School Board	58,999	75,762	69,386
Michigan	Muskegon County Wastewater System	124,535	139,019	201,352
Mississippi	Correctional Institution	(c)	75,622	(c)
Montana	State Land Department	1,345,201	797,569	2,239,754
Oklahoma	Dept. of Human Services	(b)	(b)	53,365
Tennessee	Fort Pillow State Farm	(b)	(b)	52,565
Texas	Department of Corrections	299,400	148,643	344,981
	Texas A&M <sup>a</sup>	139,814	152,122	182,959
	Stiles Farm Foundation <sup>a</sup>	87,659	108,044	120,154
	Texas Tech University	73,031	105,834	153,650
Washington	Dept. of Natural Resources	<u>319,761</u>	<u>164,649</u>	<u>675,397</u>
	<b>Total</b>	<b><u>\$3,626,807</u></b>	<b><u>\$3,449,833</u></b>	<b><u>\$5,938,698</u></b>
	Payments to all exempt entities	\$4,266,313	\$4,190,097	\$6,925,381
	Payments to these entities as a percentage of payments to all exempt entities	85	82	86
	Payments beyond the \$50,000 limit attributable to these exemptions	\$2,926,807	\$2,649,833	\$4,988,698

<sup>a</sup>Payments for Texas A&M were for the Agricultural Experiment Station. The Stiles Farm Foundation is also part of Texas A&M University System.

<sup>b</sup>Payments were less than \$50,000 for this year.

<sup>c</sup>No record of program participation as an exempt producer in this year.

PAYMENTS TO EXEMPT ENTITIES THAT  
RECEIVED MORE THAN \$50,000

Most exempt entities did not earn payments greater than \$50,000 and therefore did not benefit from their exempt status. However, 21 different exempt entities exceeded the limit in at least one year, and many of these benefited substantially. On an individual basis, additional payments received because of the exemption ranged from about \$2,500 to about \$2.2 million. Although the 21 entities represented only 12-13 percent of all the exempt entities paid during 1984-86, they received 82-86 percent of their payments. Total additional payments attributable to the payment limit exemption for these 21 producers is \$10.6 million for 1984-86. On average, these producers received \$215,619 over the \$50,000 they would have received if they were not exempt from the payment limit. Table 2.5 lists the 21 entities and the payments they received for 1984-86.

## ADMINISTRATIVE PROBLEMS

On the basis of information provided by producers, county office officials of USDA s Agricultural Stabilization and Conservation Service (ASCS) determine which entities are eligible for exemption from the \$50 000 limit. Of the 152 exempt producers paid in 1986, we found that 23, or about 15 percent, did not meet the criteria for exemption. As discussed in section 1, an entity is eligible for exemption from the \$50,000 payment limit if the entity is a state or other political subdivision. However, we found that in some cases, religious organizations and nonprofit corporations were incorrectly granted exemptions. We also found two financial institutions that were incorrectly granted exemption as well as inconsistent treatment of local chapters of the Future Farmers of America--a school-based organization that is exempt.

Thirteen of the exemptions we found to be in error were granted to religious organizations. In 10 of these cases, the word "church" or the name of the religious denomination appeared in the entity's name. Follow-up interviews with county office officials and documentation they provided revealed that some county office officials believe that tax-exempt organizations are also exempt from the payment limitation. However, USDA guidance is clear that only states, political subdivisions, and school districts are exempt.

Exemptions were also incorrectly given to eight nonprofit organizations. In five of these cases, county or state names were part of the title of the entities, which may explain why county officials believed them to be county- or state-owned. However, we were able to determine through telephone calls with or documentation provided by the county officials who granted the exemptions that the entities were not county- or state-owned. In fact, in some cases, the ASCS documents showed that the entity should have been subject to the \$50,000 per-person payment.

Finally, two financial institutions were incorrectly granted exemption from the payment limit. County office officials said that they may have assumed these institutions were county-owned because both had the county name as part of their organization names.

With the exception of the two financial institutions, the exemptions granted incorrectly did not result in overpayment because none of the entities received payments over the \$50,000 limit. However, in the case of the financial institutions, an overpayment occurred, not only because they were incorrectly granted exemptions from the \$50,000 payment limitation, but also because an improper person determination was made. Since one of these financial institutions is the majority shareholder of the other, they should not have been considered two persons for payment limitation purposes. Payment limitation provisions state that a corporation must be combined with a shareholder if the shareholder

owns more than 50 percent of the corporation's stock. Therefore, because the two entities should have been considered one person and they were improperly exempted from the limit, an overpayment of \$5.387 occurred for 1986. We informed USDA officials of this error, and they are taking actions to recover the excess payments. In addition, for 1987, county office officials have combined the two entities as one for payment limitation purposes and have corrected the exemption status.

We also found that county offices were inconsistent in determining the exemption status of the Future Farmers of America. Four local chapters of Future Farmers of America were granted exemptions from the payment limitation in 1986. However, another local chapter in California was not granted exemption from the \$50 000 payment limit. USDA headquarters officials stated, however, that chapters of Future Farmers of America are exempt from the payment limitation because they fall under the jurisdiction of local school systems.

Because of the errors we found, USDA plans to issue a notice to county offices to clarify which entities are and which are not exempt from the payment limit. In a recent report,<sup>1</sup> we pointed out that there were problems with the administration of the \$50,000 payment limitation because of inadequate guidance to and training of county office officials who are responsible for making person determinations. We made recommendations to the Secretary of Agriculture to improve the administration of the payment limitation. If implemented, the recommendations, particularly those dealing with increased guidance and training for ASCS officials, should improve the determination of which entities are exempt from the \$50,000 limit.

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<sup>1</sup>See Farm Payments: Basic Changes Needed to Avoid Abuse of the \$50,000 Payment Limit (GAO/RCED-87-176, July 20, 1987).

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SECTION 3

PRODUCERS RECEIVING  
PAYMENTS AT FOREIGN ADDRESSES  
AND PAYMENTS TO FOREIGN OWNERS  
OF U.S. CROPLAND

SUMMARY

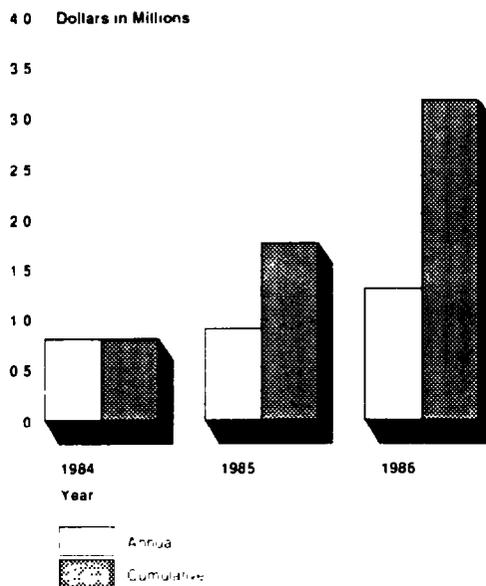
- The number of producers receiving payments at foreign addresses ranged from 159 in 1984 to 259 in 1986. These producers may or may not be U.S. citizens or business entities. For the 1984-86 period, payments to this group totaled \$3.1 million. (See p. 22.)
- Over 87 percent of the payments mailed to addresses outside the United States were sent to Canada. (See p. 24.)
- In addition to payments mailed to foreign addresses, foreign owners of U.S. cropland who have U.S. mailing addresses were paid a total of \$22 million from 1984-86. (See p. 26.)

Table 3.1

Producers Whose Payments Were Mailed to Foreign Addresses, 1984-86

	<u>1984</u>	<u>1985</u>	<u>1986</u>
Total producers	767,156	979,698	1,145,287
Producers with foreign addresses	159	208	259

Figure 3.1: Annual and Cumulative Payments Mailed to Foreign Addresses, 1984-86



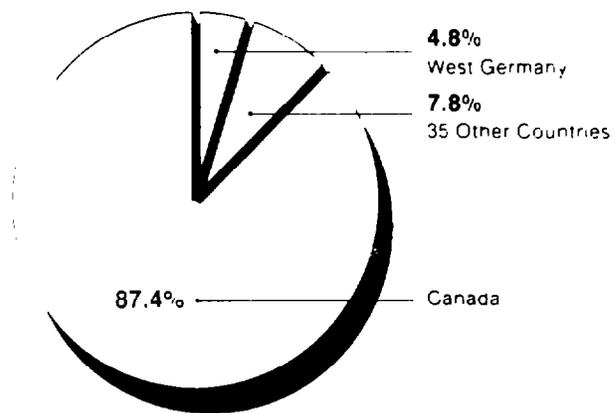
NUMBER OF PRODUCERS WITH PAYMENTS  
MAILED TO FOREIGN ADDRESSES

Table 3.1 shows the number of producers who had payments mailed to addresses outside the United States in 1984-86. This group of producers represents about 2/100 of 1 percent of all producers who received payments during each of those years. Other producers who live outside the United States may have payments sent to U.S. mailing addresses. However, this information cannot be determined from USDA's files on farm producers and payments.

ANNUAL AND CUMULATIVE PAYMENTS  
MAILED TO FOREIGN ADDRESSES, 1984-86

As shown in figure 3.1, payments mailed to foreign addresses increased by over 63 percent from about \$847,000 in 1984 to about \$1.38 million in 1986. Cumulative payments for the 3 years 1984-86 were about \$3.1 million.

Figure 3.2: Countries to Which  
Payments Were Mailed in 1984-86



DESTINATIONS OF PAYMENTS  
MAILED TO FOREIGN ADDRESSES

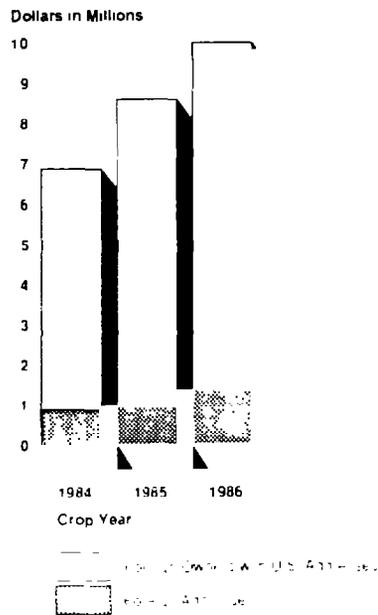
Figure 3.2 shows the distribution of the countries to which payments were mailed in 1984-86. As shown, 87.4 percent of all payments, or about \$2.7 million, was sent to Canadian addresses. The next largest total was payments mailed to West Germany--a distant second with 4.8 percent, or about \$150,000. The remaining 7.8 percent or \$250,000, was divided among 35 other countries.

Table 3.2

Payments to Foreign Owners of  
U.S. Cropland, 1984-86

	<u>1984</u>	<u>1985</u>	<u>1986</u>
	----- (millions) -----		
Foreign owners with foreign addresses	0.185	0.139	0.204
Foreign owners with U.S. addresses	<u>5.983</u>	<u>7.594</u>	<u>8.408</u>
Total	<u>\$6.168</u>	<u>\$7.733</u>	<u>\$8.612</u>

Figure 3.3: Payments to Foreign Addresses and to Foreign Owners of U.S. Cropland With U.S. Addresses for 1984-86



PAYMENTS TO FOREIGN ADDRESSES AND  
FOREIGN OWNERS OF U.S. CROPLAND

Farm program payments may be made to the landowner, but also may be made to producers who rent the land being farmed or who are in partnership with the owner. Accordingly, payments mailed to foreign addresses could include payments to owners and nonowners who are either foreign or U.S. citizens.

In an earlier review, we identified foreign owners of U.S. cropland. Payments to these foreign owners were about \$22.5 million for 1984-86. In the current review, we found that most of these payments--about 97 percent--were sent to U.S. addresses. Table 3.2 shows payments to foreign owners for the individual crop years 1984-86.

Figure 3.3 shows payments to foreign addresses combined with payments made to foreign owners with U.S. addresses for 1984-86. There is no double counting of payments to foreign owners with foreign addresses. Cumulative payments to both groups were \$25.1 million for the 3 years.

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