Agricultural and Food Policy Center
Texas A&M University

August 2022

The Inflation Reduction Act of 2022: What's in it for Agricultural Producers?

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Briefing Paper 22-06

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08/19/2022_2

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The Inflation Reduction Act of 2022:
What's in it for Agricultural Producers?

On August 16, 2022, President Biden signed the Inflation Reduction Act (IRA) of 2022 into law. The bill covers a variety of topics, most notably extending the Affordable Care Act and making significant investments to address climate change. With respect to agriculture, the bill provides an infusion into existing conservation programs – including the Environmental Quality Incentives Program (EQIP), the Conservation Stewardship Program (CSP), the Agricultural Conservation Easement Program (ACEP), and the Regional Conservation Partnership Program (RCPP) – while extending the life of the programs through fiscal year 2031. In addition, the bill provides funding for a variety of rural development and forestry priorities.

While the IRA came together quickly in August 2022, it broke a months-long logjam over the future of an earlier version of the bill – the Build Back Better (BBB) Act. The BBB had stalled in the Senate since passing the House on November 19, 2021, largely over opposition from Senators Manchin (D-WV) and Sinema (D-AZ) and their concerns with the estimated cost of the bill. On July 27, 2022, Senators Schumer (D-NY) and Manchin announced they had reached a compromise in what they were calling the Inflation Reduction Act of 2022.

According to the Congressional Budget Office (CBO), spending under Title 2 of the IRA (under the jurisdiction of the Committee on Agriculture, Nutrition, and Forestry) is expected to total approximately $34.7 billion over the next 10 years (Figure 1). This is less than half of what had been proposed for agriculture in the BBB. The IRA was nested within the FY2022 Budget Reconciliation bill. That is important to note because funding authorized within a reconciliation bill must be spent by the end of the budget window (or, in this case, September 30, 2031).

WHAT'S IN THE BILL FOR AGRICULTURAL PRODUCERS

Conservation

As discussed in detail below, the IRA authorized just over $20 billion in conservation spending for agriculture. As noted in Figure 2, the additional budget authority ramps up significantly through fiscal year 2026 but abruptly ends in fiscal year 2027.[1] In terms of expected outlays – as highlighted by year in Figure 2 – spending (i.e. outlays) will stretch to fiscal year 2031 but are expected to total just $16.7 billion. In other words, CBO estimates that USDA will not be able to spend $3.5 billion (or 17 percent) of the conservation spending authorized in the IRA by fiscal year 2031.

Almost all the authorized spending for conservation comes in the form of increases for existing programs that were last authorized in the 2018 Farm Bill. Following are key highlights:

- **Environmental Quality Incentives Program (EQIP).** EQIP was last reauthorized in the 2018 Farm Bill and funding was gradually increased over the life of the farm bill, topping out at $2.025 billion in fiscal year 2023. EQIP is designed to share in the cost of implementing on-farm conservation practices that address natural resource concerns or provide environmental benefits. In addition, the 2018 Farm Bill created EQIP Conservation Incentive Contracts that borrow from the best features of the

[1] Budget authority is the amount of money available to a federal agency for a specific purpose along with the authority to commit to spending federal funds provided to agencies by law. Outlays occur when a federal agency actually spends money – for example, by issuing checks, disbursing cash, or making electronic transfers. For more information, see: https://www.cbo.gov/publication/57660.

Conservation Stewardship Program (CSP) – cost-sharing with producers on the implementation, adoption, management, and maintenance of incentive practices that effectively address at least one eligible priority resource concern. As of fiscal year 2022, the EQIP Conservation Incentive Contracts are now available nationwide.

What did the IRA change: the IRA provided an additional $8.45 billion for EQIP through fiscal year 2026 and extended the program through fiscal year 2031. It increased funding for conservation innovation trials from $25 million to $50 million. In implementing the IRA, USDA is expected to prioritize proposals that "utilize diet and feed management to reduce enteric methane emissions from ruminants" and to

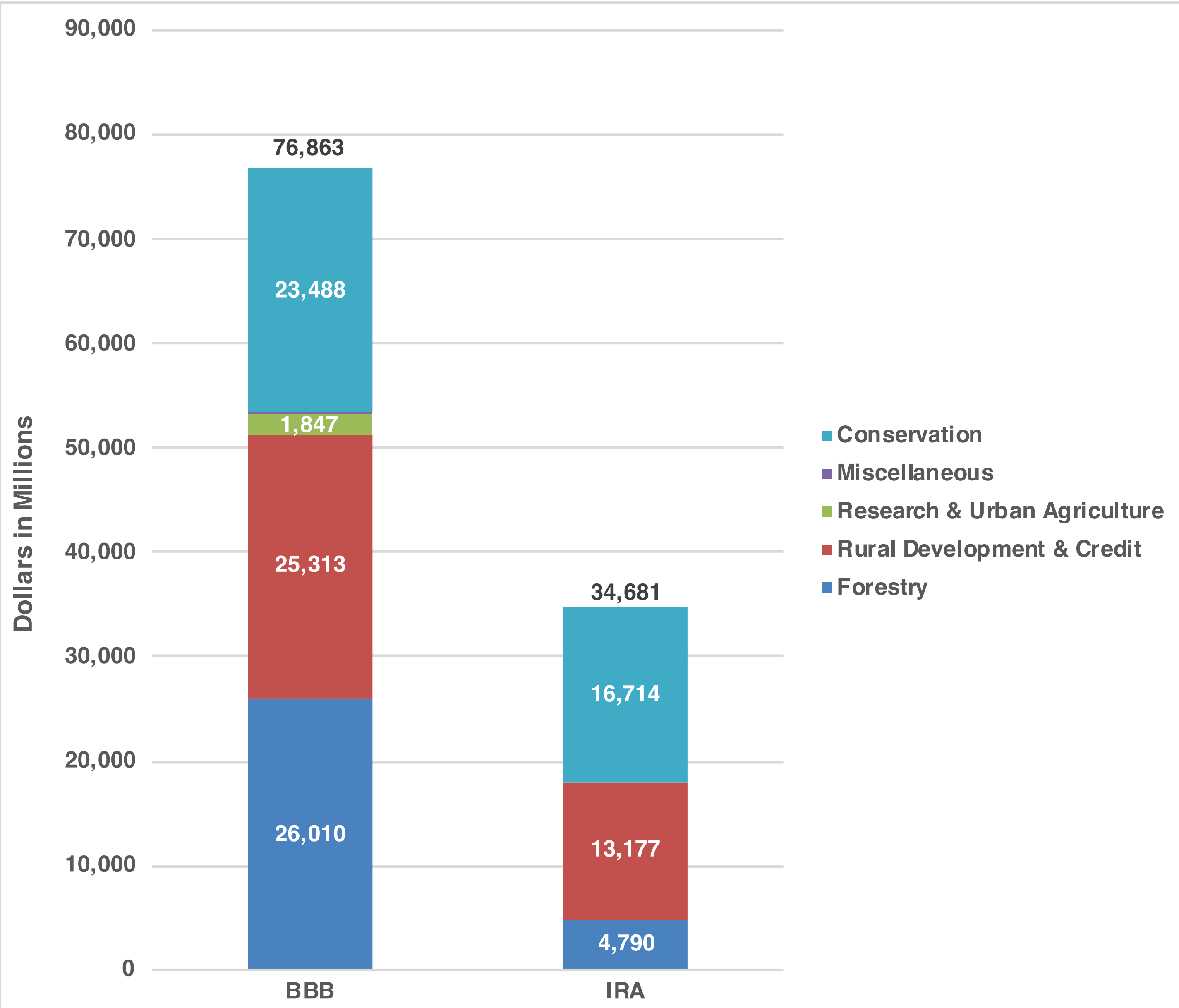

Figure 1. Comparing Estimated Outlays for Agriculture under the Build Back Better (BBB) Act and the Inflation Reduction Act (IRA), FY2022-31.
Source: https://www.cbo.gov/system/files/2021-11/hr5376_SummaryTable.xlsx and https://www.cbo.gov/system/files/2022-08/hr5376_IR_Act_8-3-22.pdf

provide funding for "one or more agricultural conservation practices or enhancements that the Secretary determines directly improve soil carbon, reduce nitrogen losses, or reduce, capture, avoid, or sequester carbon dioxide, methane, or nitrous oxide emissions, associated with agricultural production."

What to look for: EQIP already suffers from an enormous backlog (i.e. existing demand for the program far outstrips available funding). It is not yet clear if the new infusion will be used to help clear the existing backlog or if it will be limited to new applications. Similarly, considerable discretion is left to the Secretary in determining which agricultural conservation practices will meet the criteria outlined above. While the new EQIP Conservation Incentive Contracts seemingly would serve as a very effective delivery mechanism – and would fit perfectly with the IRA construct of addressing as few as one resource concern – it is unclear how USDA will implement the provision.

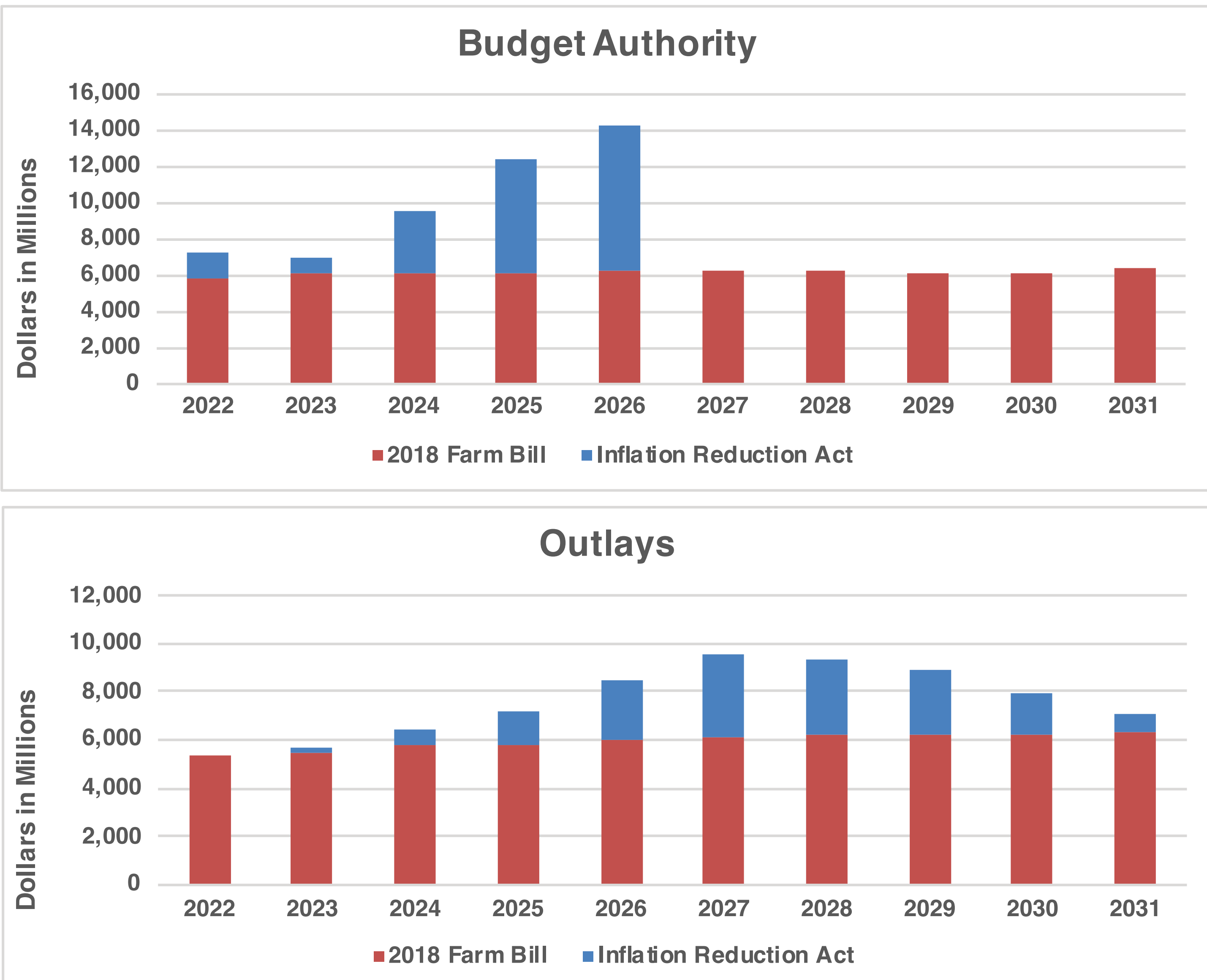

Figure 2. Estimated Budget Authority and Outlays for Agricultural Conservation Programs under the IRA, FY2022-31.

Source: https://www.cbo.gov/system/files/2022-08/hr5376_IR_Act_8-3-22.pdf

- **Conservation Stewardship Program (CSP).** While expanding funding for EQIP, the 2018 Farm Bill capped CSP at $1 billion per year. CSP is designed to help producers maintain and improve existing conservation systems with a focus on adopting conservation activities comprehensively across entire operations.

  What did the IRA change: the IRA provided an additional $3.25 billion for CSP through fiscal year 2026 and extended the program through fiscal year 2031. In implementing the IRA, USDA is to provide funding only for "one or more agricultural conservation practices, enhancements, or bundles that the Secretary determines directly improve soil carbon, reduce nitrogen losses, or reduce, capture, avoid, or sequester carbon dioxide, methane, or nitrous oxide emissions, associated with agricultural production."

  What to look for: historically, CSP chronically underperformed/underspent available funds, arguably due to the extraordinarily complicated nature of the program. It remains to be seen how this provision will be implemented by USDA and how – in practice – it will differ from EQIP and EQIP Conservation Incentive Contracts.

- **Agricultural Conservation Easement Program (ACEP).** The 2018 Farm Bill reauthorized ACEP and increased funding from $250 million in fiscal year 2018 to $450 million annually throughout the life of the 2018 Farm Bill. ACEP provides financial and technical assistance through agricultural land easements and wetland reserve easements.

  What did the IRA change: the IRA provided an additional $1.4 billion total through FY26 and extended the program through fiscal year 2031. Funding is provided for "easements or interests in land that will most reduce, capture, avoid, or sequester carbon dioxide, methane, or nitrous oxide emissions associated with land eligible for the program."

  What to look for: while the IRA expanded ACEP funding, USDA will ultimately decide the land that will qualify based on the criteria above.

- **Regional Conservation Partnership Program (RCPP).** The 2018 Farm Bill reauthorized RCPP and tripled funding for the program (from $100 million per year to $300 million per year). RCPP was created in the 2014 Farm Bill to consolidate the authorities of the many regional programs where USDA partnered with private organizations to address natural resources issues. The 2018 Farm Bill further streamlined the program and added greater flexibility for program partners.

  What did the IRA change: the IRA provided an additional $4.95 billion through fiscal year 2026 and extended the program through fiscal year 2031. In implementing IRA, USDA is expected to prioritize partnership agreements that "support the implementation of conservation projects that assist agricultural producers and nonindustrial private forestland owners in directly improving soil carbon, reducing nitrogen losses, or reducing, capturing, avoiding, or sequestering carbon dioxide, methane, or nitrous oxide emissions, associated with agricultural production."

  What to look for: while the IRA expanded RCPP funding, USDA will ultimately decide which projects qualify based on the criteria above.

- **Conservation Technical Assistance.** Conservation Technical Assistance (CTA) is a discretionary conservation program nested within the NRCS Conservation Operations appropriation. Funded at roughly $700 million per year, CTA is designed to help NRCS field staff provide conservation planning and implementation assistance to agricultural producers.

  What did the IRA change: the IRA provided an additional $1 billion for Conservation Technical Assistance to be delivered by USDA's Natural Resources Conservation Service (NRCS).

- **Quantifying Carbon Sequestration and Greenhouse Gas Emissions.** This is a new program.

  What did the IRA change: the IRA provided $300 million "to carry out a program to quantify carbon sequestration and carbon dioxide, methane, and nitrous oxide emissions, through which [NRCS] shall collect field-based data to assess the carbon sequestration and reduction in carbon dioxide, methane, and nitrous oxide emissions outcomes associated with activities carried out pursuant to this section and use the data to monitor and track those carbon sequestration and emissions trends through the Greenhouse Gas Inventory and Assessment Program of the Department of Agriculture."

  What to look for: this funding appears to be focused exclusively on launching USDA efforts to track carbon sequestration and greenhouse gas emissions on farms and ranches (in part for purposes of measuring the efficacy of the climate-related activities funded under the IRA). USDA is required to collect "field-based data," but it is not yet clear how this will impact individual farms and ranches (or whether they will be required to consent to on-farm sequestration/emission monitoring in exchange for participating in programs funded by the IRA).

- **Conservation Reserve Program.** CRP was extended through fiscal year 2031 with no additional appropriation.

  What to look for: the IRA provided no new funding or changes for CRP; consequently, no changes are expected.

Finally, USDA was provided an additional $100 million – over and above other funds already made available to USDA – for the administrative cost of implementing these program changes, and the funding will remain available until September 30, 2028.

Debt Relief for Certain Producers

As noted in a recent article in Southern Ag Today, on March 11, 2021, President Biden signed the American Rescue Plan (ARP) Act of 2021 into law.[2] Section 1005 of the act required the Secretary to make payments to socially disadvantaged farmers or ranchers "in an amount up to 120 percent of the outstanding indebtedness" of eligible producers for both direct and guaranteed loans administered by various USDA agencies.[3] While USDA immediately went to work implementing the provisions, multiple lawsuits were filed – alleging that the provision was unconstitutional because it violates the Due Process Clause of the Fifth Amendment – and 3 courts have issued injunctions prohibiting USDA from issuing any payments, loan assistance, or debt relief pursuant to

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[2] In some cases, this section draws directly from: Fischer, Bart, and Tiffany Dowell-Lashmet. "Debt Relief for Certain Farmers & Ranchers." *Southern Ag Today* 2(32.4). August 4, 2022. https://southernagtoday.org/2022/08/debt-relief-for-certain-farmers--ranchers/

[3] https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf

Section 1005.[4] At the time of passage, the Congressional Budget Office (CBO) estimated the provision would cost $3.98 billion over the next 10 years.[5]

The stalled BBB sought to remedy the concerns raised about Section 1005 in the American Rescue Plan. Specifically, Section 12101 of the BBB would have amended Section 1005 of ARP, in part, by changing the focus of the debt relief to "economically distressed borrowers" with eligibility tied to eight (8) broad criteria ranging from debt delinquency metrics to whether the farm or ranch was headquartered in a county with a poverty rate of 20 percent or greater.[6] With the presumably expanded list of eligible borrowers, CBO estimated that the provision would cost $6.647 billion over the next 10 years.[7]

What did the IRA change: while the original compromise between Senators Schumer and Manchin did not include debt relief for farmers and ranchers, an amended version of the bill that went to President Biden for signature addressed the issue. Specifically, the IRA provided $3.1 billion for loan relief to borrowers with "at-risk agricultural operations" as determined by the Secretary. It also provided almost $3 billion in assistance and support for "underserved farmers, ranchers, and foresters." Specifically, the bill provides $125 million for technical assistance to underserved producers; $250 million for grants and loans to improve land access for underserved producers; $10 million to fund the activities of one or more equity commissions to address racial equity issues within USDA and USDA programs; $250 million to support research, education, and extension along with scholarships and programs that provide internships for the 1890 and 1994 land grant institutions as well as Alaska Native serving, Native Hawaiian serving, and Hispanic serving institutions; $2.2 billion to provide financial assistance – including the cost of any financial assistance – to producers determined to have experienced discrimination prior to January 1, 2021, in any USDA farm lending programs (capped at $500,000 per recipient); and $24 million for USDA for the administrative cost of implementing these program changes. The cost of these provisions was offset by a repeal of Section 1005 of ARP.

What to look for: the IRA left a tremendous amount of discretion to USDA. Regarding the relief for "at-risk agricultural operations," who qualifies as "at-risk" is left entirely to the discretion of the Secretary of Agriculture. Until USDA publishes further guidance, anything else said on the topic is mere speculation. With respect to the almost $3 billion set aside for underserved producers, apart from the separate categories funded above, USDA is left to sort out the details. Perhaps of greatest interest to affected producers will be the $2.2 billion set aside for debt relief. The IRA makes it clear that a nongovernmental entity will administer this specific program, but USDA will select the entity and will set and enforce all standards that govern the program. Consequently, until USDA establishes further guidance, there is absolutely no way to know who will qualify for debt relief. Similarly, until USDA advises otherwise, there is no way to know if those who would have been eligible under Section 1005 of ARP (or under the proposed BBB) will remain eligible under IRA.

OTHER AGRICULTURE-RELATED PROVISIONS

While only a small portion of the IRA was focused directly on producers, there are a number of other ag-related provisions in the bill that are focused primarily on rural development and forestry.

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[4] *See Holman v. Vilsack*, 21-1085-STA-jay, Order Granting Motion for Preliminary Injunction (July 8, 2021); *Miller v. Vilsack*, 4:21-cv-00595-O, Order (July 1, 2021); *Wynn v. Vilsack*, 3:21-cv-00514-MMH-JRK, Order (June 23, 2021).

[5] https://www.cbo.gov/system/files/2021-03/Estimated_Budgetary_Effects_of_hr1319_detailed_tables.xlsx

[6] https://www.congress.gov/congressional-record/volume-167/issue-201/house-section/article/H6375-4

[7] https://www.cbo.gov/system/files/2021-11/hr5376_title_1_Agriculture.xlsx

Rural Development

- **Rural Energy for America Program (REAP).** The IRA provides $1.7 billion in new funding for REAP grants (with an increase in the maximum grant amount of 50 percent of the project cost) and an additional $303.8 million for "underutilized renewable energy technologies."

- **Biofuel Infrastructure.** The IRA provides $500 million in new funding for biofuel infrastructure grants (which are limited to a maximum of 75% of the total cost of carrying out a project). The purpose of the funding is to "increase the sale and use of agricultural commodity-based fuels through infrastructure improvements for blending, storing, supplying, or distributing biofuels, except for transportation infrastructure not on location where such biofuels are blended, stored, supplied, or distributed."

- **Rural Electric Cooperative Loans.** Provides $9.7 billion to rural electric cooperatives for loans and loan modifications made "for the long-term resiliency, reliability, and affordability of rural electric systems." Grants are limited to 25% of the total project costs. The IRA also provided $1 billion to USDA for the purpose of providing loans for rural electric cooperatives to produce renewable energy.

USDA was provided an additional $100 million – over and above other funds already made available to USDA – for the administrative cost of implementing these rural development program changes.

Forestry

- $1.8 billion for Hazardous Fuels Reduction (within the wildland-urban interface).

- $200 million for vegetation management projects carried out on National Forest System lands.

- $100 million for the Chief of the Forest Service to carry out NEPA Reviews.

- $50 million for protecting and compiling an inventory of old-growth forests on National Forest System land.

- $150 million grant program for cost sharing in climate mitigation or forest resilience practices for underserved forest landowners.

- $150 million grant program for underserved forest landowners to participate in emerging private markets for climate mitigation or forest resilience.

- $100 million grant program for forest landowners with less than 2,500 acres to participate in emerging private markets for climate mitigation or forest resilience.

- $50 million grant program that provides payments to owners of private forest land for implementation of forestry practices on private forest land that provide measurable increases in carbon sequestration and storage beyond customary practices on comparable land.

- $100 million for the wood innovation grant program, including for the construction of new facilities that advance the purposes of the program and for the hauling of material removed to reduce hazardous fuels to locations where that material can be utilized.

- $700 million for Forest Legacy Program grants for the acquisition of land and interests in land.

- $1.5 billion for the Urban and Community Forestry Assistance program for tree planting and related activities.

USDA was provided an additional $100 million – over and above other funds already made available to USDA – for the administrative cost of implementing these forestry program changes.

WHAT'S NOT IN THE BILL

While the bill provides a significant, short-term infusion for conservation programs, there are several notable provisions not included:

- While billed as inflation reducing, the IRA does not directly address the significant increase in production costs faced by agricultural producers in the 2022 crop year. As AFPC reported in May 2022, farmers are facing a huge reduction in net cash farm income (NCFI) in 2022. Despite the decline, NCFI is generally expected to remain positive in 2022. Importantly, the farm safety net, as currently designed, does not address the burgeoning costs of production faced by agricultural producers. Further, producers have placed an enormous amount of capital at risk, and there are growing concerns about the upcoming crop year, especially if output prices continue to fall as input prices remain near historic highs.

- As noted earlier, the bill provides only a short-term infusion of funding for select conservation programs. For example, the $8.5 billion addition to EQIP is authorized only through fiscal year 2026. The 2023 Farm Bill – if it followed the usual schedule – would run through September 30, 2028. In other words, the infusion does not even last through the life of the upcoming farm bill. This will undoubtedly complicate efforts to craft the next farm bill, particularly if constituent groups expect the IRA funding levels to be maintained going forward.

- Apart from the $250 million noted earlier in the section on underserved producers, all funding for agricultural research (including for agricultural research facilities) that had previously been included in the BBB was removed from the IRA.

- Finally, while the bill does include $300 million for USDA to carry out field-based sequestration/emissions monitoring, the bill did nothing to clarify the role the U.S. government will (or will not) play in carbon markets. As a result, producers continue to be left with a number of questions about the future of carbon markets.

CONCLUSIONS

From the perspective of agricultural producers, the IRA will provide a significant, short-term infusion of funding for select conservation programs. The extent to which the additional funding is perceived as helpful will largely depend on how USDA implements the provisions. Meanwhile, producers continue to face enormous costs as they approach fall harvest, and a growing number of concerns remain over the upcoming crop year.