Handling income from crop revenue insurance—
price loss versus yield loss

A farmer who uses the cash accounting method may elect to postpone reporting insurance proceeds on damaged crops from the year of damage to the following year if 50% or more of the crop is normally sold the year following production. This is determined on a crop-by-crop basis. It is done by making the election IRC Sec. 451(d); Reg. 1.451-6 on the tax return for the year of loss. A statement must be attached to the tax return and include the following:

1) This election is made under IRC Sec. 451 (d) and Reg. 1.451-6.
2) Identification of the specific crop or crops destroyed or damaged.
3) A statement that under normal conditions the crop would have been sold the following year.
4) Identification of the cause of destruction or damage and the dates it occurred.
5) The amount of payment received and the date each payment was received for each crop.
6) The name of the insurance carrier or payer from whom the amounts were received.

If you defer the insurance income received for one crop you must do it for all crops for which insurance money was received. This would include any disaster money received from USDA. Crop revenue insurance guarantees a certain level of income based on yield and price.

What does the tax code allow?

Federal tax code Sec. 451(d) allows the deferral of crop insurance proceeds "received as a result of destruction or damage to crops" or the inability to plant crops because of a natural disaster. IRS has previously ruled that insurance programs which provide payments without regard to actual losses fall outside the statutory definition of destruction of damage to crops. Therefore, crop revenue insurance proceeds would not be eligible for deferral.

However, if you can prove a portion of the insurance proceeds was the direct result of crop damage due to hail, flooding, drought or some other destruction, or some portion of the proceeds was the result of damage, then that portion of the insurance proceeds should be allowed for the deferral election. The portion of the proceeds that was related to price would have to be reported as income in the year received.

This year, 2019, it is possible that the harvest price could be lower than the spring price and a portion of the insurance proceeds will be because of price loss. You need to contact your tax professional for consultation on specific questions for your farm.

Prevent plant payments will be eligible for deferral; MFP payments would not be eligible for deferral.

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