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Crop Insurance May Affect Tax Planning Decisions

Corn and soybean yields have been better than expected for many farmers in Iowa for 2023, but for many farmers who were caught in the drought areas, reduced yields plus the reduced Fall harvest insurance price for both corn and soybeans may trigger crop insurance payments.

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 does allow the portion of the insurance proceeds that 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.

The 2023 Spring crop insurance guarantee for corn is $5.92 and soybeans is $13.76. The Fall crop insurance guarantee was determined the end of October using the average December futures price for corn and the average November futures price for soybeans during the month of October. The Fall price for corn of $4.88 was lower than the Spring price and the Fall price for soybeans at $12.84 was below the Spring price. If you do have a revenue loss and you wish to defer the crop insurance income to 2023, you may need to make an allocation between price loss and yield loss. Only the yield loss is allowed for deferral. You need to contact your tax professional for consultation on specific questions for your farm.

End-of-Year Considerations

Even though input costs have increased for raising corn and soybeans in 2023 and commodity prices are lower, for most farmers it should be a profitable year. Managing income taxes should be looked at as a long-term planning process and not just on a year-to-year basis. Farmers have a number of tools available to help manage the timing of their income. Some of these options, however, are only available through year-end.

Avoiding income spikes and dips prevents overall income from being taxed at unnecessarily high tax rates. Some common income management techniques for farmers include income averaging, prepaying expenses, making contributions to retirement accounts, gifting grain to a charity, carefully timing the purchase or sales of assets, entering into or electing out of deferred payment contracts and properly managing depreciation and expensing decisions. The Section 179 Election for 2023, accelerated depreciation, is $1,160,000. This alone can give a lot of flexibility in managing income if depreciable assets have been purchased.

Always contact your income tax advisor for specific questions relating to your farm or business.

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