Crop Insurance and Disaster Payments

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Section 451(d)
Deferral (1 year) Questions

- Is taxpayer a cash-basis farmer?
  If no – STOP!

- Is farming the taxpayer’s principal trade or business?
  If no – STOP!

- Were insurance proceeds the result of actual crop damage or destruction?
  If no – STOP!

- Normally, would most* of the crop have been sold in a subsequent tax year?
  If no – STOP!

*most = more than 50%
451(d) Election Tidbits

- **Timing** – tax return (or amended return) for the year loss occurred and payment received.

- **Made by attaching a statement to the return.**

- **Revocation** – election once made is revoked only with approval of Commissioner.
451(d) Attachment

- Name, “SSN”, and address
- Declaration of election under Section 451(d)
- Identification of crops destroyed or damaged
- Declaration that under normal business practice the destroyed or damaged crops would have been included in gross income of a subsequent tax year
- Cause of destruction or damage and dates on which loss occurred
- Indemnity payment amounts and dates received for each specific crop
- Name of insurance carriers that made the payments
Crop Revenue Coverage (CRC)

- CRC policies guarantee a minimum amount of revenue per acre based on two factors: yield and price.

- 451(d) can only be utilized to defer insurance proceeds from actual crop destruction or damage.
Crop Revenue Coverage (CRC)

Pete’s CRC Policy Factors:

- Approved Yield: 140 bu.
- Base Price: $4.06
- Harvest Price: $3.60
- Coverage Level: 65%
- Acres: 200
- Production Per Acre: 50 bu.
Pete’s CRC Proceeds

- **Final Guarantee:**
  \[\text{Approved yield} \times \text{Greater Price} \times \text{Coverage Level} \times \text{Acres}\]
  \[140 \text{ bu.} \times $4.06 \times 65\% \times 200 \text{ A.} = $73,892\]

- **Calculated Revenue:**
  \[\text{Production} \times \text{Harvest Price} \times \text{Acres}\]
  \[50 \text{ bu.} \times $3.60 \times 200 \text{ A.} = $36,000\]

- **Insurance Proceeds:**
  $37,892
Pete’s CRC Proceeds

➢ Yield Loss:

- Approved Yield: 140
- Production Yield: -50
- Damage Loss: 90
- Harvest Price: x $3.60
- Acres: x 200

Revenue Loss from Damage: $64,800
Pete’s CRC Proceeds

Price Loss:

Greater “Price” $ 4.06
Harvest Price  - 3.60
Price Loss $ .46
Production Yield x 50
Acres x 200

Revenue Loss from Reduce Price $ 4,600

Revenue Loss from Damage + $64,800

Total Revenue Loss = $69,400
Pete’s CRC Proceeds

- Amount Eligible for 451(d) Deferral:

  Insurance Proceeds $37,892
  Damage Loss / Total Loss \( \times 93.37\% \)
  Proceed Eligible for 451(d) $35,380