

Crop Insurance and Disaster Payments

Parman R. Green

University of Missouri Extension

Ag Business Mgmt. Specialist

(660) 542-1792

greenp@missouri.edu

UNIVERSITY OF MISSOURI
 **Extension**

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:

Approved yield x Greater Price x Coverage Level x Acres
140 bu. x \$4.06 x 65% x 200 A. = \$73,892

➤ Calculated Revenue:

Production x Harvest Price x Acres
50 bu. x \$3.60 x 200 A. = \$36,000

➤ Insurance Proceeds: \$37,892

Pete's CRC Proceeds

➤ Yield Loss:

Approved Yield	140
Production Yield	- <u>50</u>
Damage Loss	90
Harvest Price	x \$3.60
Acres	x <u>200</u>
Revenue Loss from Damage	\$64,800

Pete's CRC Proceeds

➤ Price Loss:

Greater "Price"		\$ 4.06
Harvest Price		- <u>3.60</u>
Price Loss		\$.46
Production Yield	x	50
Acres	x	<u>200</u>

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	x <u>93.37%</u>
Proceed Eligible for 451(d)	= \$35,380