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CROP INSURANCE STRATEGIES

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With major drought hitting most of the Corn Belt, it's an appropriate time to refresh on the election to defer crop insurance proceeds one tax year. It seems simple, but there are a surprising number of details.

THE ALL-OR-NONE RULE. Many producers will receive multiple payments on private crop insurance and also collect USDA disaster payments. Any crop insurance deferral election must cover all proceeds received within the year of the disaster. It is not possible to defer a portion or to be selective among different payors.

PAST DEFERRAL PATTERN. To be eligible to make the election, a cash method farmer must establish that under normal business practice, more than 50% of the income from the damaged crop would have been reported in the subsequent year. Further, all crops within a single business must be subject to the same election. A Midwest corn and soybean farmer, who collects insurance on damage to corn and beans and uses a single set of books for that grain farming operation, would be required to show that more than half of corn and bean income is normally deferred to the subsequent tax year.

TIMING OF INSURANCE COLLECTION. The deferral election is only available for insurance proceeds and disaster payments collected in the year of damage. Checks that appear in the following year have been effectively deferred, and no additional tax election can be made.

TAX RETURN ELECTION. Your tax preparer will need to place a special written election in the tax return, identifying the cause of the damage, the payor and the amount received. Some of that information will be on the Form 1099, so be sure to capture those documents for your preparer. In some cases, the Form 1099 will exceed the cash proceeds because the carrier has reduced the payout for an unpaid installment premium. A corresponding deduction for the premium charge can be claimed.

DEFERRAL TO HIGHER RATES? It's no secret that we are in the midst of a high-stakes political poker game over the direction of tax rates for 2013. And sadly, those rates may not be determined until a new Congress comes into session in early 2013. If this rate decision lingers past a March 1 farm tax return filing date, the crop insurance could be reported as 2012 income, and an amended return could be filed later to defer the crop insurance to 2013 if subsequent legislation retains today's rates. Stated differently, this is one of the few tax elections that can be accomplished via an amended return.

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