CROP INSURANCE INDEMNITIES: SOME TAX TIPS

George Patrick
Purdue University

General Rule: Crop insurance indemnities are generally included in income of the year in which the indemnities are received.

Major Exception: A producer may elect to defer reporting the indemnities as income when received if the producer can show that the damaged crop would normally have been sold in the year following the year of production.

This election to defer reporting indemnities applies to all of the crops for which crop insurance indemnities and disaster payments (if any) were received. A 3-year average of more than 50% of the crops affected by the election being sold in the year following the year of production would probably show normal business practice of a producer.

Only indemnities due to physical losses of production are eligible for deferral. Given the increase in prices in 2012, this is not a problem for 2012 indemnities. Indemnities paid by county-basis group insurance are not eligible for deferral because there is no relationship between the indemnity and a producer’s yield.

Indemnities cannot be reported as income before they are actually or constructively received. An indemnity received in 2013 for a 2012 crop is reported as income in 2013 regardless of when the producer normally sells the crop.

Given the very large number of claims in 2012, there may be significant increase in the time needed to process a claim. The crop insurance agent may be able to indicate the likely time needed for processing. Checking information carefully in claim preparation helps avoid delays in processing.

Expected 2012 insurance claims of over $200,000 require a 3-year audit before this year’s claim can be paid. Help your insurance agent start the process as soon as possible and be sure settlement sheets are available.

Be aware of possible Aflatoxin infestations in corn. Check and test, if necessary, before harvest.

Producers should have alternative tax management strategies ready to be implemented depending on when the insurance indemnity is paid.

For further information, see IRS Pub. 225, The Farmer’s Tax Guide, or contact your tax advisor.