



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF  
CHIEF COUNSEL

February 26, 2009

Number: **INFO 2009-0024**

Release Date: 3/27/2009

CONEX-103722-09

UIL: 451.23-00

The Honorable Tim Johnson  
United States Senate  
Washington, DC 20510

Attention:

Dear Senator Johnson:

I am responding to an email from your staff dated January 14, 2009, sent to the Internal Revenue Service Governmental Liaison for South Dakota. Your constituents have questions about whether a farmer can elect to defer proceeds from a federal crop insurance policy that includes a revenue assurance component.

In general, under section 451(a) of the Internal Revenue Code, a taxpayer must account for any item of gross income for the taxable year in which the taxpayer received it, unless that amount is properly accounted for under the taxpayer's method of accounting for a different taxable year. Most individual farmers use the cash method of accounting and must include an amount in income in the year received. However, a special rule under section 451(d) applies for crop insurance proceeds and disaster payments. If a taxpayer on the cash method receives insurance proceeds compensating for damage to or destruction of crops, the taxpayer may elect to include those proceeds in income for the taxable year following the taxable year of destruction or damage, if the taxpayer establishes that he or she would have reported the income from the crops in a following taxable year.

Federal crop insurance policies are administered within the Department of Agriculture. There are many different types of policies with varying terms. Some federal crop insurance policies protect against both destruction or damage to crops and revenue loss due to the decrease in the price of the crops (revenue assurance). Proceeds attributable to the destruction/damage component are deferrable under section 451(d) of the Code as described above. Proceeds attributable to the revenue assurance component are not deferrable because they do not compensate for destruction or damage to crops. A farmer receiving insurance proceeds for both destruction or

damage to crops and revenue loss may defer only the proceeds attributable to the destruction/damage component of the insurance.

I hope this information is helpful. If you need further assistance, please contact me at  
or at .

Sincerely,

George J. Blaine  
Associate Chief Counsel  
(Income Tax and Accounting)