Business point

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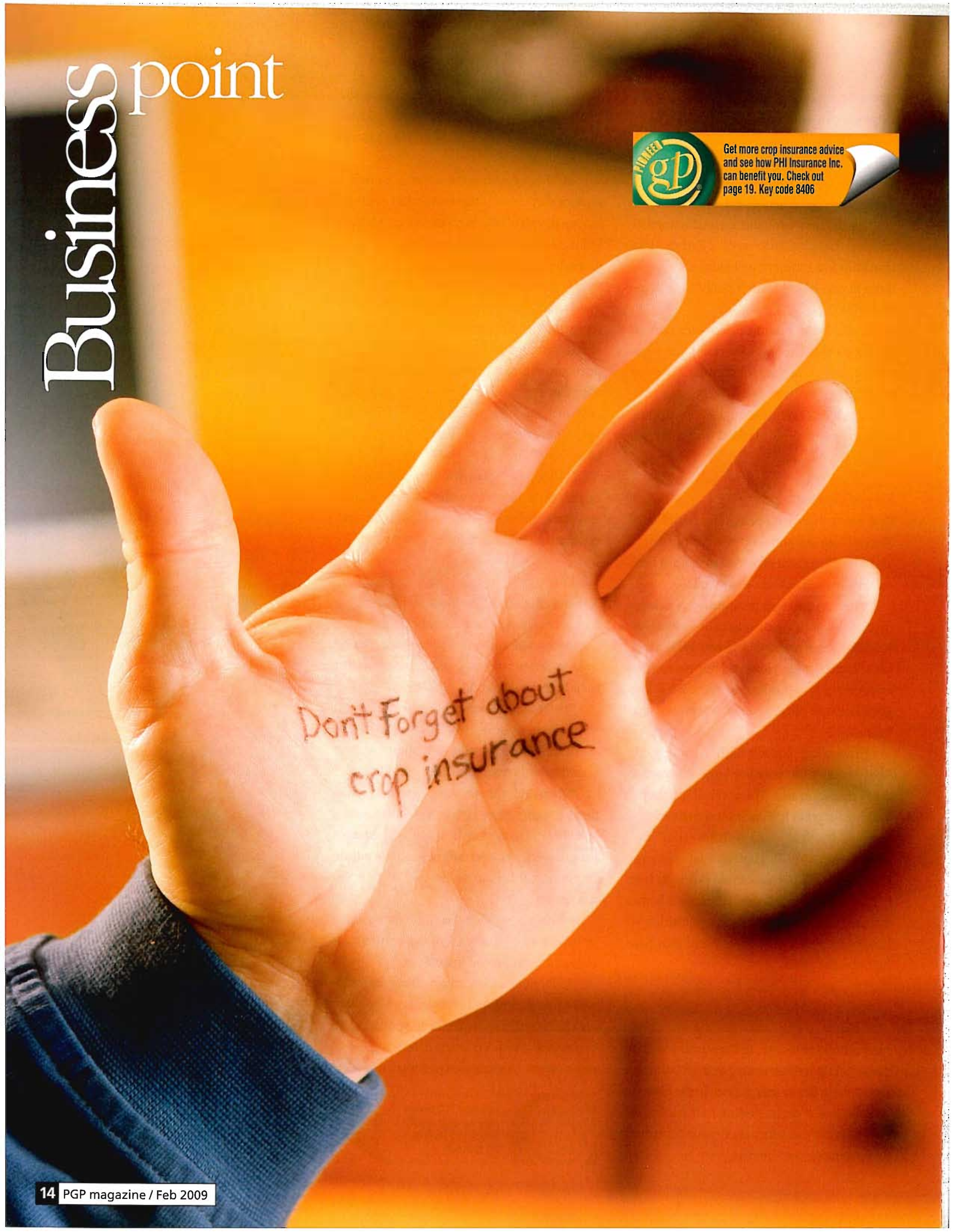

Crop insurance base prices were set in February 2008 at relatively high levels. The decline in commodity futures prices in the fall may have generated a claim for many of the crop revenue insurance products — Crop Revenue Coverage (CRC), Revenue Assurance (RA) and Group Risk Income Plan (GRIP).

CRC and RA products insure your farm revenue by using your farm yields to establish guarantees. This could even be true if you experienced average or above-average crop yields. Growers received the majority of claims from crop insurance coverage based on their farm's performance in 2008. Unless deferred, these are taxable in 2008.

GRIP products are different in many ways. For one thing, GRIP products make payments based on county yields instead of individual farm yields. County yields are not released until March 2009, so payments on GRIP insurance claims can't be paid until 2009 and, consequently, will be taxed in 2009.

Base Price. CRC, RA and GRIP coverages use base prices in setting their revenue guarantees. The base price for these crop insurance products was determined by the February 2008 closing prices for December 2008 corn and November 2008 soybean futures contracts. Those base prices were $5.40 per bushel for corn and $13.36 per bushel for soybeans.

Harvest Price. The harvest price for CRC crop insurance products is determined by the October 2008 closing prices for December 2008 corn and November 2008 soybean futures. The harvest price for RA crop insurance products is determined by the November 2008 closing prices for December 2008 corn and November 2008 soybeans.

These harvest prices, along with farm-level yields, are part of the revenue calculation used to determine crop revenue. CRC and RA products generate a claim when the revenue is below the guaranteed level. Thus, not only lower yields but lower harvest prices can generate a crop insurance claim.

When reviewing your 2008 financial documents, make sure you've included as an end-of-the-year "account receivable" any crop insurance you'll collect in 2009 based on the 2008 growing season. Omitting a large crop insurance settlement can drastically alter your accrual net farm income and net worth for both 2008 and 2009.

This account receivable entry for crop insurance also should appear as a current asset on your Dec. 31, 2008, balance sheet. If you don't handle this correctly in your financial reporting at the end of 2008, it's possible you'll understate your 2008 income and net worth. You also may overstate your 2009 income and net worth.

In these times of volatile input prices and equally volatile commodity prices, it's more important than ever to keep in contact with your lender. It's equally important to provide your lender with complete and accurate financial documents that represent the "financial facts" of your 2008 crop year.

'Deferring' crop insurance income

Before the end of 2008, you should have done some tax planning, including the effects of any crop settlements you received in 2008. The insurance proceeds received in 2008 are considered taxable in 2008.

Look ahead and consider the next year in your planning process. If you can look at the tax plans for 2008 and 2009 at the same time, you usually can do a better job of planning. Tax planning for 2009 based on known inventories and estimated (or known) selling prices can provide a relatively reliable idea of the gross income for 2009.

Knowing about the income and expenses of 2008 as well as 2009 allows you to formulate a better tax plan for the two years. Make sure you include any crop insurance you know will be received in 2009 in your 2009 tax plan.

There's a well known crop insurance deferral under section 451(d) of the Internal Revenue Code and Regulations section 1.451-6. The Internal Revenue Service states you must include as income any crop insurance proceeds received as a result of crop damage. Further, you generally need to include these proceeds as income in the year they're received.

However, you can elect to "defer" or postpone reporting crop insurance proceeds as income until the year following the year damage occurred if you meet these conditions:

- You use the cash method of accounting.
- You receive the crop insurance proceeds in the same tax year as the crops are damaged.
- You can show that under your normal business practice you would have included income from the damaged crops in any tax year following the year the damage occurred.

If you chose to defer reporting, you generally must defer all crops, and you can't change your mind. However, if you have more than one farming business, you can make separate decisions for each one. Consult your tax adviser for specifics about postponing the reporting of crop insurance proceeds. You'll need to follow precise instructions to defer income. Also consult your tax adviser if you have questions about whether you qualify as a single farm business.

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Editor's note: *Kent Vickre and Dwight Raab write a tax and finance column for each issue of Pioneer* GrowingPoint® *magazine. Vickre is state coordinator of the Iowa Farm Business Association. Raab is state coordinator of Illinois Farm Business Farm Management. They address issues that influence agribusiness success.*