

**Treatment of Certain Crop Insurance Proceeds and Disaster Payments**

**Present Law**

A taxpayer engaged in a farming business generally may use the cash receipts and disbursements method of accounting ("cash method") to report taxable income. A cash method taxpayer generally recognizes income in the taxable year in which cash is received, regardless of when the economic events that give rise to such income occur. Under a special rule (sec. 451(d) of the Internal Revenue Code), in the case of insurance proceeds received as a result of destruction or damage to crops, a cash method taxpayer may elect to defer the income recognition of the proceeds until the taxable year following the year of the destruction or damage, if the taxpayer establishes that under his practice, income from such crops would have been reported in a following taxable year. For this purpose, certain payments received under the Agricultural Act of 1949, as amended, or title II of the Disaster Assistance Act of 1988, are treated as insurance proceeds received as a result of destruction or damage to crops.

**Description of Proposal**

S. 1814 would amend the special rule of section 451(d) to allow a cash method taxpayer to elect to accelerate (or defer) the recognition of certain disaster-related payments so long as the taxpayer establishes that, under the taxpayer's practice, income from the crops lost in the disaster would have been accelerated (or deferred). The bill also would expand the payments for which these elections are available to include disaster assistance received as a result of destruction or damage to crops caused by drought, flood, or other natural disaster, or the inability to plant crops because of such a disaster, under any Federal law (rather than only payments received under the Agricultural Act of 1949, as amended, or title II of the Disaster Assistance Act of 1988).

Thus, for example, the bill would allow a calendar-year, cash method taxpayer who has received disaster assistance payments in 1994 relating to the destruction of crops by a flood in 1993 to elect to treat such payments as received in 1993, so long as the taxpayer establishes that, under the taxpayer's practice, income from such crops would have been reported in 1993. Without the benefit of the bill, the income of such a taxpayer would be "bunched" in 1994, possibly resulting in the loss of itemized deductions in 1993, a higher marginal income tax rate in 1994, and the loss of several AGI-based deductions and exemptions in 1994.

**Effective Date**

S. 1814 would be effective for payments received after December 31, 1992, as a result of destruction or damage occurring after such date.

## **Indexation of Threshold Applicable to Excise Tax on Luxury Automobiles**

### **Present Law**

The 1993 Act indexed the threshold above which the excise tax on luxury automobiles is to apply.

### **Description of Proposal**

The proposal would correct the application of the indexing adjustment so that the adjustment calculated for a given calendar year would apply for that calendar year rather than in the subsequent calendar year. This would conform the indexation to that described in the conference report to the Omnibus Budget Reconciliation Act of 1993.<sup>1</sup> The intent of Congress, as reflected in the conference report, was that current year indexation be effective on the date of enactment of the 1993 Act. The proposal would, however, be effective on January 1, 1995, to alleviate the difficulties that both taxpayers and the Treasury would experience in administering a retroactive refund effective for the period from August 10, 1993 through December 31, 1993. (The proposal has no effect on the threshold for calendar year 1994. Under present law, the threshold for calendar year 1994 was indexed to \$32,000, which is the same as it would be under the proposal if the proposal were effective for calendar year 1994.)

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<sup>1</sup> See Conference Report on H.R. 2264, Omnibus Budget Reconciliation Act of 1993 (H. Rept. 103-213), August 4, 1993, at page 558.