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SPECIAL TAX RULE FOR CROP INSURANCE PROCEEDS AND DISASTER PAYMENTS

APRIL 5, 1994.—Ordered to be printed

Filed under authority of the order of the Senate of March 22 (legislative day,
February 22), 1994

Mr. MOYNIHAN, from the Committee on Finance,
submitted the following

REPORT

[To accompany S. 1814]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance, to which was referred the bill (S. 1814) to amend the Internal Revenue Code of 1986 to provide that a taxpayer may elect to include in income crop insurance proceeds and disaster payments in the year of the disaster or in the following year, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

The amendments to the bill are as follows:

On page 2, line 15, strike "the" and insert "a".

On page 2, line 17, strike "the" and insert "a".

On page 3, after line 16, add the following new section:

SEC. 2. TECHNICAL CORRECTION REGARDING INDEXATION OF THRESHOLD APPLICABLE TO LUXURY AUTO- MOBILE EXCISE TAX.

(a) **IN GENERAL.**—Subsection (e) of section 4001 of the Internal Revenue Code of 1986 (relating to inflation adjustment) is amended to read as follows:

“(e) **INFLATION ADJUSTMENT.**—

“(1) **IN GENERAL.**—In the case of any calendar year after 1993, the \$30,000 amount in subsection (a) and section 4003(a), shall be increased by an amount equal to—

“(A) \$30,000, multiplied by

“(B) the cost-of-living adjustment under section 1(f)(3) for such calendar year, determined by substituting ‘calendar year 1990’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(2) ROUNDING.—If any amount as adjusted under paragraph (1) is not a multiple of \$2,000, such amount shall be rounded to the next lowest multiple of \$2,000.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on January 1, 1995.

I. LEGISLATIVE BACKGROUND

The bill (S. 1814) was introduced on February 1, 1994. As introduced, the bill would amend the Internal Revenue Code of 1986 (“the Code”) to provide that a taxpayer may elect to include in income crop insurance proceeds and disaster payments in the year of the disaster or in the following year.

The Senate Committee on Finance marked up the bill on March 24, 1994, and ordered it favorably reported with an amendment to provide a correction in the application of the indexation of the threshold applicable to the luxury excise tax on automobiles as originally intended in the conference report on the Omnibus Budget Reconciliation Act of 1993.

II. EXPLANATION OF THE BILL

1. TREATMENT OF CERTAIN CROP INSURANCE PROCEEDS AND DISASTER ASSISTANCE PAYMENTS (SEC. 1 OF THE BILL AND SEC. 451(d) OF THE CODE)

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 of crops.

Reasons for change

The committee is aware of situations where calendar-year, cash method farmers have received disaster assistance payments in 1994 relating to the destruction of crops in 1993, where the income from such crop normally would have been reported in 1993. Also, the receipt of disaster assistance payments in 1994 and income

from crops planted in 1994 will result in “bunching” of income in 1994. This “bunching” of income in 1994 may result 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. The committee believes that it is appropriate to allow taxpayers to accelerate the recognition of insurance and disaster assistance payments in these and similar cases so that taxpayers may more closely replicate the tax effects that would have occurred had the destroyed crop been sold in the normal course of business.

Explanation of provision

The bill amends the special rule of section 451(d) to allow a cash method taxpayer to elect to treat certain disaster-related payments as received in the year of the disaster so long as the taxpayer establishes that, under the taxpayer’s practice, income from the crops lost in the disaster would have been recognized in that year. The bill retains the present-law election to defer the recognition of income in applicable situations.

The bill also expands 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 allows 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.

Effective date

The provision is effective for payments received after December 31, 1993, as a result of destruction or damage occurring after such date.

2. INDEXATION OF THRESHOLD APPLICABLE TO EXCISE TAX ON LUXURY AUTOMOBILES (SEC. 2 OF THE BILL AND SEC. 4001 OF THE CODE)

Present law

The omnibus Budget Reconciliation Act of 1993 (“1993 Act”) indexed the threshold above which the excise tax on luxury automobiles is to apply.

Reasons for change

The committee believes that it is appropriate to conform the statutory indexation rule to the indexation rule intended by the Congress while at the same time alleviating the administrative difficulties of providing retroactive refunds.

Explanation of provisions

The provision corrects the application of the indexing adjustment so that the adjustment calculated for a given calendar year will

apply for that calendar year rather than in the subsequent calendar year. This conforms indexation to that described in the conference report to the 1993 Act.¹ 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.

Effective date

The provision is effective on January 1, 1995, which alleviates 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 provision 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 provision if the provision were effective for calendar year 1994.)

III. BUDGET EFFECTS OF THE BILL

In compliance with paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the estimated budget effects of the bill (S. 1814) as amended and reported by the committee.

The bill as amended is estimated to have the following effects on budget receipts for fiscal years 1994–1999:

ESTIMATED BUDGET EFFECTS OF S. 1814 AS AMENDED, FISCAL YEARS 1994–1999

Provision	1994	1995	1996	1997	1998	1999
1. Treatment of certain crop insurance proceeds and disaster payments	16	-14	-3	-3	-3	-3
2. Correction in indexation of threshold applicable to luxury excise tax on automobiles	14					
Total	30	-14	-3	-3	-3	-3

IV. REGULATORY IMPACT AND OTHER MATTERS TO BE DISCUSSED UNDER SENATE RULES

A. REGULATORY IMPACT

Pursuant to paragraph 11(b) of Rule XXVI of the Standing Rules of the Senate, the committee makes the following statement concerning the regulatory impact that might be incurred in carrying out the bill (S. 1814) as reported.

Impact on individuals and businesses

Section 1 of the bill as reported will allow a cash method taxpayer to accelerate (or defer) the recognition of certain disaster-related payments and crop insurance proceeds 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). This will prevent "bunching" of income from certain disaster-related payments or from insurance proceeds in the same year as income from another year's crop is received.

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

Section 2 of the bill as reported will correct the application of the indexation of the threshold applicable to the luxury excise tax on automobiles so that the threshold adjustment calculated for a given calendar year will apply for that calendar year rather than in the subsequent calendar year.

Impact on personal privacy and paperwork

The bill makes no changes in laws affecting the personal privacy of taxpayers, and generally has no effect on the amount of paperwork for taxpayers.

B. OTHER MATTERS

Vote of the committee

In compliance with paragraph 7(c) of Rule XXVI of the Standing Rules of the Senate, the following statements made relative to the vote of the committee on the motion to report the bill. The bill (S. 1814), as amended, was ordered favorably reported by unanimous voice vote.

Consultation with Congressional Budget Office

Budget authority

In compliance with Section 308(a)(1) of the Budget Act, the committee states that the bill as reported involves no new budget authority.

Tax expenditures

In compliance with Section 308(a)(2) of the Budget Act, the committee states that the bill as reported involves no new or increased tax expenditures.

Budget estimates

In accordance with Section 403 of the Budget Act, the committee advises that the Congressional Budget Office has reviewed the committee budget estimates and agrees with the estimates as presented in Part III of this report. The Congressional Budget Office submitted the following statement:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 29, 1994.

Hon. DANIEL PATRICK MOYNIHAN,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed S. 1814, as ordered reported by the Senate Committee on Finance on March 24, 1994. The bill would provide that a taxpayer may elect to include in income crop insurance proceeds and disaster payments in the year of the disaster or in the following year. The bill would also make a technical correction regarding indexation of the threshold applicable to the luxury automobile excise tax. The Joint Committee on Taxation (JCT) and CBO estimate that the bill would increase federal government receipts by \$30 million in fiscal year 1994 and would decrease federal government

receipts by \$26 million over fiscal years 1995 through 1999. The JCT provided estimates of all provisions of the bill. CBO concurs with these estimates. The year-by-year receipt effects are summarized below.

EFFECTS OF S. 1814
[By fiscal year, in millions of dollars]

	1994	1995	1996	1997	1998	1999
Changes in outlays	(2)	(2)	(2)	(2)	(2)	(2)
Changes in receipts:						
On-budget	26	-12	-3	-3	-3	-3
Off-budget	4	-2	(1)	(1)	(1)	(1)

¹ Less than \$500,000.

² Not applicable.

Because the bill would affect receipts, it would be subject to pay-as-you-go procedures under Section 252 of the Balanced and Emergency Deficit Control Act of 1985. The pay-as-you-go effects of the bill are as follows:

PAY-AS-YOU-GO CONSIDERATIONS
[By fiscal year, in millions of dollars]

	1994	1995	1996	1997	1998
Changes in outlays	(1)	(1)	(1)	(1)	(1)
Changes in receipts	26	-12	-3	-3	-3

¹ Not applicable.

If you wish further details, please feel free to contact me or your staff may wish to contact Melissa Sampson, who can be reached at 226-2720.

Sincerely,

JAMES L. BLUM
(For Robert D. Reischauer, Director).

V. CHANGES IN EXISTING LAW MADE BY THE BILL

In accordance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

UNITED STATES CODE

* * * * *

TITLE 26—SECTION 451 AND 4001

SEC. 451. GENERAL RULE FOR TAXABLE YEAR OF INCLUSION.

[(d) SPECIAL RULE FOR CROP INSURANCE PROCEEDS OR DISASTER PAYMENT.—

[In the case of insurance proceeds received as a result of destruction or damage to crops, a taxpayer reporting on the cash receipts and disbursements method of accounting may elect to include such proceeds in income for the taxable year following the taxable year of destruction or damage, if he establishes that, under his practice,

income from such crops would have been reported in a following taxable year. For purposes of the preceding sentence, payments received under the Agricultural Act of 1949, as amended, or title II of the Disaster Assistance Act of 1988, as a result of (1) destruction or damage to crops caused by drought, flood, or any other natural disaster, or (2) the inability to plant crops because of such a natural disaster shall be treated as insurance proceeds received as a result of destruction or damage to crops. An election under this subsection for any taxable year shall be made at such time and in such manner as the Secretary prescribes.】

(d) *SPECIAL RULE FOR CROP INSURANCE PROCEEDS AND DISASTER PAYMENTS.*—

(1) *GENERAL RULE.*—*In the case of any payment described in paragraph (2), a taxpayer reporting on the cash receipts and disbursements method of accounting—*

(A) *may elect to treat any such payment received in the taxable year of destruction or damage of crops as having been received in the following taxable year if the taxpayer establishes that, under the taxpayer's practice, income from such crops involved would have been reported in a following taxable year, or*

(B) *may elect to treat any such payment received in a taxable year following the taxable year of the destruction or damage of crops as having been received in the taxable year of destruction or damage, if the taxpayer establishes that, under the taxpayer's practice, income from such crops involved would have been reported in the taxable year of destruction or damage.*

(2) *PAYMENTS DESCRIBED.*—*For purposes of this subsection, a payment is described in this paragraph if such payment—*

(A) *is insurance proceeds received on account of destruction or damage to crops, or*

(B) *is disaster assistance received under any Federal law as a result of—*

(i) *destruction or damage to crops caused by drought, flood, or other natural disaster, or*

(ii) *inability to plant crops because of such a disaster.*

SEC. 4001. IMPOSITION OF TAX.

【(e) INFLATION ADJUSTMENT.—

【(1) IN GENERAL.—If, for any calendar year, the excess (if any) of—

【(A) \$30,000, increased by the cost-of-living adjustment for the calendar year, over

【(B) the dollar amount in effect under subsection (a) for the calendar year.

is equal to or greater than \$2,000 then the \$30,000 amount in subsection (a) and section 4003(a) (as previously adjusted under this subsection) for any subsequent calendar year shall be increased by the amount of such excess rounded to the next lowest multiple of \$2,000.

【(2) COST-OF-LIVING ADJUSTMENT.—For purposes of paragraph (1), the cost-of-living adjustment for any calendar year shall be the cost-of-living adjustment under section 1(f)(3) for

such calendar year, determined by substituting 'calendar year 1990' for 'calendar year 1992' in subparagraph (B) thereof.】

(e) *INFLATION ADJUSTMENT.*—

(1) *IN GENERAL.*—*In the case of any calendar year after 1993, the \$30,000 amount in subsection (a) and section 4003(a) shall be increased by an amount equal to—*

(A) *\$30,000, multiplied by*

(B) *the cost-of-living adjustment under section 1(f)(3) for such calendar year, determined by substituting "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof.*

(2) *ROUNDING.*—*If any amount as adjusted under paragraph (1) is not a multiple of \$2,000, such amount shall be rounded to the next lowest multiple of \$2,000.*

