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Weather-Related Sales of Livestock*

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Introduction

There are two provisions in tax law that attempt to cushion producers from the consequences of adverse weather-related livestock sales. Under the first provision, livestock held for draft, breeding, or dairy purposes and sold due to adverse weather are provided a two-year reinvestment period. This replacement period can be extended if weather conditions persist for more than three years. The second provision, which applies to all livestock (other than poultry), allows cash basis taxpayers whose primary trade or business is farming to defer receipt from sales in excess of normal business practices due to weather-related conditions that result in a disaster declaration area. Both provisions apply only to those sales that are in excess of “normal sales” for the producer. The two tax provisions for weather-related sales of livestock have slightly different requirements, so producers should evaluate their circumstances to see which would be of greater tax benefit.

Involuntary Conversion of Draft or Breeding Animal IRC Sec 1033(e)

A livestock producer who sells more draft, breeding, or dairy animals than normal due to weather-related conditions may defer recognition of the gains for up to two years. The animals must be replaced within two years with other animals used for identical purposes. This applies only to the number of animals sold in excess of normal business practices. Declaration of a disaster area is not necessary, but the producer must be able to show that weather-related conditions forced the sale of more livestock than would normally be sold. Tax basis of the replacement livestock is equal to the basis in the livestock sold plus any additional amount invested in the replacement livestock that exceeds the proceeds from the sale. If the animals are not replaced, or if replacement cost is less than the gain from their sale, the difference must be reported as a gain for the sale year by amending the tax return. The return will be subject to additional tax and interest.

* In cooperation with the participating land-grant universities, this project is funded in part by USDA-Risk Management Agency under a cooperative agreement. The information reflects the views of the author(s) and not USDA-RMA. For a list of participating land-grant universities, see RuralTax.org.

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Example 1: Bo Vine normally sells 25 cows per year. This year Bo sells 40 cows because of weather-induced limited forage and feed supplies. Gains from the sale of the 15 cows sold in excess of normal business practice would not be reported as income if Bo purchases replacement animals that cost as much or more within the next two tax years.

a) Bo sells 40 raised beef cows (with a $0 tax basis) for $50,000. The gain of $18,750 ($50,000 / 40 cows x 15 cows) is deferred. If Bo purchases the replacement cows for $18,750, the tax basis in the replacement animals would be zero. If the replacements cost $20,000, the tax basis in the replacement animals would be $1,250 ($20,000 - $18,750 of deferred gain). The $1,250 could then be depreciated over their MACRS depreciable life or expensed using the IRC Section 179 Expensing election.

b) Bo sells 40 purchased beef cows (with a remaining $16,000 tax basis) for $50,000. The gain of $18,750 ($50,000/40 cows x 15 cows) is deferred. If Bo purchases the replacement cows for $18,750, the tax basis in the replacement animals would be $16,000. If the replacements cost $21,000, the tax basis in the replacement animals would be $2,250 ($21,000 cost minus the $18,750 of gain deferred plus $16,000 remaining basis). The $2,250 could then be depreciated over their MACRS depreciable life or expensed using the IRC Section 179 Expensing election.

Making the Election

The producer makes this election by attaching a statement to his or her tax return. The election must include the following information:

- Name, address, and ID number.
- Evidence of the weather-related conditions that forced the sale or exchange of animals.
- Explanation of how the sale is related to weather conditions.
- Number and kind of livestock sold or exchanged.
- Number of livestock of each kind that would have been sold or exchanged under normal business circumstances (generally, the average number of animals sold over the last three years).
- The amount of gain realized on the sale or exchange.
- The amount of income to be postponed

Example Statement 1: Election under I.R.C. §1033(e) to Postpone Recognition of Gain from Livestock Sold Because of Weather-Related Conditions

Bo Vine (Taxpayer Identification Number)
145 County Road 541
Somares, US 12345

The weather-related conditions evidenced by the attached rainfall reports and news clippings affected availability of forage and feed, and caused taxpayer to sell 40 head of beef cows instead of 25 head in 2016. The raised cows have zero tax basis.

The number of animals sold in each of the three preceding years was:
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Example Statement 2: Election to Defer Livestock Sales Due to Adverse Weather

Guy Wyre  
(Taxpayer Identification Number)  
541 County Road 123  
Somareselse, US 54321

Taxpayer makes election under § 451(e) of the Internal Revenue Code to defer the following livestock sales in 2016 to 2017 due to adverse weather.

Decatur County, U.S., was designated as eligible for assistance by the federal government on July 3, 2016, because of drought and high temperatures beginning January 1, 2016. Taxpayer’s farm is located in Decatur County, and the drought forced the early sale of beef calves.

The number of animals sold in each of the three preceding years was:

- 2013  65 head
- 2014  100 head
- 2015  60 head

Total 225 head    The three-year average is 75 head

75 animals would have been sold in 2016 following normal business practice. The total number of animals sold in 2016 was 130 head, the total gain realized was $123,500, so the number sold because of weather-related conditions in 2016 was 55 additional head.

Computation of income to be postponed:

\[
\begin{align*}
130 \text{ head sold in 2016} & \quad $123,500 \text{ total gain realized} \\
- 75 \text{ three-year average} & \quad $71,250 \text{ gain reported in 2016} \\
55 \text{ head sold due to weather-related conditions} & \quad \text{and elected postponed to the gain 2017} \\
& \quad $52,250
\end{align*}
\]

IRS Publications

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- **IRS Publication 225, Farmer’s Tax Guide.** Chapter 11 discusses casualties, thefts, and losses including weather-related sales of livestock.

Additional Topics

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

This information is intended for educational purposes only. Seek the advice of your tax professional regarding the application of these general principles to your individual circumstances.
Related articles that might be helpful include:

- Involuntary Conversion of Business Assets
- Like-kind Exchange (Trade) of Business Assets
- Sale of Business Property

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

The land-grant universities involved in Rural Tax Education are affirmative action/equal opportunity institutions.