

IRS Tax Issues for Livestock Sales in Drought Year

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Source: IRS Publication 225, *Farmer's Tax Guide, 2005*

Two Issues: Postponement vs. forgiveness

1. Income from any livestock sold abnormally early may be postponed for tax purposes until the next (normal marketing) year.

Example: Normally, you background feeder calves and sell in February. Due to drought and lack of feed, calves are sold in October.

- Income can be postponed if:
 - principal business is farming or ranching (IRS def: 2/3 of income generated from farm)
 - cash method of accounting
 - prove sale occurred because of drought
 - an area (not necessarily your county) must have been designated for federal assistance
 - specific information must be attached to tax return in year of sale

- Breeding, dairy, and draft livestock sales due to drought (or other perils) may be treated as “Involuntary Conversion”

Gain does not have to be reported if the same number and kind are repurchased by the end of the 4th full year after the drought sale.

Example: Normally you cull 15 cows, but in drought year 25 cows are sold. Only the additional 10 cows are eligible and must be replaced.

- If 4 years elapse without repurchase, a 1 year extension may be filed, but is not guaranteed.
- If “not practical” to replace same type of livestock, tangible replacement property (not real estate) may be purchased

- Tax return in year livestock are sold must contain:
 - documentation of drought conditions
 - exact number and kind of livestock
 - amount of gain
- Tax return in year livestock are repurchased must contain:
 - date of purchase
 - number, kind, and cost
- Check with your tax accountant, because IRS provisions are complex and other provisions such as income averaging may be considered