

Grazing Herd Management during Drought:

Weather-Related Sales of Livestock

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- Special Income Tax reporting may be available for
 - Sales in excess of normal business practice
 - Caused by weather-related conditions
 - Drought
 - Flood
 - Other conditions causing a shortage of water and/or feed
- Special rules depend on
 - Whether market or breeding livestock
 - Whether disaster declaration issued

Involuntary Conversion Internal Revenue Code Sec. 1033(e)

- Applies to breeding, dairy or draft livestock
 - No holding period requirement
 - Does **not** apply to livestock held in the ordinary course of trade or business (Market Livestock)
- Reporting gain postponed by purchasing replacement animals
 - Replacement period runs 2 years from end of sale tax year
- Deferral of gain based on sale \$ per head
- No federal disaster declaration needed

Sec. 1033(e) Special Rules

- Replacement period is 4 years if weather conditions lead to federal disaster declaration
 - Replacement period can be further extended by IRS in cases of on-going drought
- Replacements must be like use
 - If sale conditions also make like use replacement impossible, replacement can be made with any property
 - No disaster declaration required to replace with unlike property if like-use replacement prevented

1 Year Deferral of Income

- Election made under Internal Revenue Code Sec. 451(e)
- Applies to all livestock (market and breeding, dairy, draft)
- Taxpayer
 - Principal business must be farming
 - Must use cash method of accounting
- Weather-related conditions must also cause federal disaster declaration

Making an Election

- Internal Revenue Code Sec. 451(e)
 - Election must be made by due date of return, including extensions, for the sale year
 - Election can be revoked, but cannot be made on an amended return
- Internal Revenue Code Sec. 1033(e)
 - Election can be made any time during replacement period (2 years, or 4 years)
 - If election revoked, gain must be reported in year of sale

Animals Eligible for Either Election

- Animals (breeding, dairy, draft) eligible for either election (Federal disaster declaration)
- Special rules permit revocation of Sec. 1033(e) election and adoption of Sec. 451(e) election during 4-year replacement period
 - Allows election of one-year reporting deferral (reporting in year following sale year) on amended return
 - Permits avoidance of reporting in sale year if Sec. 1033 (e) election made, and replacement subsequently deemed impractical

