

Weather-Related Sales of Livestock*

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Introduction

There are two income tax provisions 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 (other than poultry), which are 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, allows cash basis taxpayers whose primary trade or business is farming, to defer tax recognition of 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 Breeding, Draft or Dairy Animals IRC Sec 1033(e)

A livestock producer who sells more draft, breeding, or dairy animals than normal due to adverse weather-related conditions may defer recognition of the gain 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 excess 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 amended return will be subject to additional tax and interest.

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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 tax identification 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 three preceding years).
- The amount of gain realized on the sale or exchange.
- The amount of income to be postponed

The following example presents the reporting required in the year that the animals are sold and the reporting needed when the animals are replaced in a later year.

Example 1: IRC Section 1033(e) Election

Bo Vine normally sells about 25 cull cows per year. In 2024, Bo sells 40 cows (15 head more than his prior 3-year average cull number of 25 head) because of drought induced limitations on his forage and feed supplies. The sale proceeds for the 40 cows totals \$60,000. Bo decides that he will replace the 15 cows sold in excess of normal within the 2-year replacement period, therefore he makes an IRC Section 1033(e) election on his 2024 tax return. He attaches the following statement to his tax return.

Statement: 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 the sale of 40 head of beef cows instead of the normal 25 head in 2024.

The number of cows sold in each of the three preceding years and the 3-year average:

2021 28 head

2022 23 head

2023 24 head

Total 75 head

The preceding 3-year average is 25 head ($75 \div 3$) per year.

Example 1: continued

Computation of the gain to be postponed:

Total sale proceeds for the 40 head	\$60,000 or \$1,500 per head ($(\$60,000 \div 40)$)
Sale proceeds from the extra 15 head sold	\$22,500 ($\$1,500 \times 15$)
Total remaining adjusted tax basis of the 15 head	\$1,875
Gain on the sale to be postponed with the election	\$20,625 ($\$22,500 - \$1,875$)

The sale proceeds from the extra 15 cows sold is \$22,500. I am electing to postpone reporting the \$20,625 of gain.

Replacement of the cows and basis calculations.

Example 1a: Replacements Cost \$22,500 (Purchase value equals sale proceeds from the extra cows)

If Bo purchases the replacement cows during 2026 for \$22,500 (which is exactly what he sold the extra 15 head for in 2024), the tax basis in the replacement cows will be the \$1,875, which is the amount of basis remaining in 15 extra cows sold in 2024. Bo will attach a statement to his 2026 tax return showing that he bought \$22,500 worth of cows and the resulting depreciation deduction will be reported on his 2026 and subsequent Schedule Fs (Form 1040) Profit or Loss from Farming.

Example 1b: Replacements Cost \$27,000 (Purchase value is greater than the sale proceeds from the extra cows)

If Bo purchases the replacement cows during 2026 for \$27,000 (which is \$4,500 more than what he sold the extra 15 head for in 2024), the tax basis in the replacement cows will be \$6,375 ($\$1,875 + \$4,500$). Bo will attach a statement to his 2026 tax return showing that he bought \$27,000 worth of cows and the resulting depreciation deduction will be reported on his 2026 and subsequent Schedule Fs (Form 1040) Profit or Loss from Farming.

Example 1c: Replacements Cost \$19,000 (Purchase value is less than the sale proceeds from the extra cows)

If Bo purchases the replacement cows during 2026 for \$19,000 (which is \$3,500 less than what he sold the extra 15 head for in 2024), he will need to amend his 2024 tax return to report gain of \$3,500 which is the amount not reinvested in the replacement cows and also report the depreciation to be recaptured from the sale as well.

Bo's adjusted tax basis in the 15 head sold in 2024 was a total \$1,875 or \$125 per head. Since Bo only purchased 11 head of replacement cows in 2026 (4 less than he sold in 2024), he will have to report \$500 of depreciation ($\125×4 head) to be recaptured as ordinary income on the 2024 amended tax return. For additional information refer to IRS Publication 544, Sales and Other Dispositions of Assets.

Deferral of Income for One Year of Sale of Animals, IRC Sec 451(g)

Livestock producers using the cash method of accounting can elect to defer for one tax year the proceeds from the sale of certain livestock due to weather-related conditions. The area must be federally recognized and declared as eligible to receive federal assistance. It is not necessary for the animals to be raised or sold in the declared disaster area, just that a weather-related event caused the area to receive federal disaster designation and caused the sale of the animals. However, only livestock sales in excess of normal business practice qualify for deferral. The animals are not replaced and the elected gain is simply put off to the next year.

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 tax identification number.
- A declaration that the election is made under I.R.C. § 451(g).
- Evidence of weather-related conditions that forced the sale or exchange of animals and federal disaster designation.
- Explanation of how the sale is related to weather conditions.
- 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 three preceding years).
- Total number of animals sold in the current year and the number sold due to the weather-related circumstance.
- The amount of income to be deferred.

Example 2:

Due to weather-related conditions that caused the area to receive a federal disaster area designation, Barb Wyre sold 130 head of beef calves in 2024 instead of the usual 75 head. She also sold 25 cows instead of her normal culling of 15 head. She received \$117,000 for the 130 head of calves and \$37,500 for the 25 cows. Barb makes an election to defer reporting the sale proceeds from the excess animals sold in 2024 until 2025 under IRC Section 451(g) by the due date of the 2024 tax return (including extensions).

Statement: Election under I.R.C. §451(g) Postpone Recognition of Livestock Sale Proceeds Because of Weather-Related Conditions

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

I am making an election under § 451(g) of the Internal Revenue Code to defer the proceeds from the sale of cows and calves sold in excess of my normal annual sales for 2024 until 2025 due to adverse weather conditions.

Example 2: continued

Decatur County, U.S., was designated eligible for assistance by the federal government on July 3, 2024, because of drought and high temperatures beginning January 1, 2024. Taxpayer's farm is located in Decatur County, and the drought forced the early sale of an additional 55 head of beef calves and 10 head of beef cows.

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

Calves		Cows	
2021	79 head	2021	23 head
2022	80 head	2022	25 head
2023	66 head	2023	27 head
Total	225 head	Total	75 head

The preceding 3-year average is 75 ($225 \div 3$) head of calves and 25 ($75 \div 3$) of cows sold per year.

Barb's normal business practice would have been to sell 75 calves and 25 cows in 2024. Due to the drought Barb's total number of animals sold in 2024 was 130 head of calves and 35 cows. The total gain realized for the calves was \$117,000 or \$900 per head ($\$117,000 \div 130$ head) and the total gain for the raised cows was \$37,500 or \$1,500 per head ($\$37,500 \div 25$). The number sold in excess of normal because of the weather-related conditions in 2024 was 55 head of calves and 10 head of cows.

Computation of gain to be postponed and reported in 2025 is as follows:

Calves

Total of 130 head sold in 2024	Gain is $\$117,000 \div 130 = \900 per calf
Gain postponed from the 55 extra head sold	Postponed gain is $55 \text{ head} \times \$900 = \$49,500$

Cows

Total of 25 head sold in 2024	Gain is $\$37,500 \div 25 = \$1,500$ per cow
Gain postponed from the 10 extra head sold	Postponed gain is $10 \times \$1,500 = \$15,000$

Note, the cows were raised, therefore the adjusted tax basis is \$0.00 per head.

The postponed gain that will be reported on the 2025 tax return will be \$49,500 on Schedule F for the 55 head of calves and \$15,000 on Form 4797 for the 10 head of cows.

The primary purpose of these two provisions, IRC sections 451(g) and 1033(e), is to allow producers the opportunity to avoid the bunching of income in a year when extra animals are sold due to adverse weather conditions that cause the need to sell more animals than normal, or what would have been sold in a year with normal weather conditions.

Tax Planning Considerations

Producers should work closely with their tax preparers to determine whether it would be a greater benefit to pay the tax in the year the animals are sold, versus deferring the tax reporting. Preferential capital gain tax rates may result in lower total tax paid especially if tax rates are expected to change in the future.

IRS Publications

To access IRS Publications, go to www.irs.gov and click on “Forms and Publications.” Then click on “Publication number” under “Download forms and publications by.” Type the publication number in the find box to search for the publication. Publications may be viewed online or downloaded by double clicking on the publication.

- **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.

Related articles that might be helpful include:

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

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