



Lesson 6.6.a: Special Tax Rules for Agriculture - Livestock Losses and Weather-Related Sales



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Legal Disclaimer

This presentation is intended to provide general information on agricultural income tax issues and should not be construed as providing legal advice. It should not be cited or relied upon as legal authority. State laws vary and no attempt is made to discuss state specific laws. For advice about how these issues might apply to your individual situation, consult an attorney.



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Program Overview

1. Filing: Federal Income Tax Filing Requirements
2. Records: Recordkeeping Requirements
3. Taxes: Individual Federal Income Tax Return
4. Entities: Business Entities and Federal Tax
5. Agricultural Income: Special Rules
- 6. Special Tax Rules for Agriculture** <- We are here.



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Lesson 6 Overview - Special Tax Rules for Agriculture

- 6.1 USDA Payments
- 6.2 Debt Relief
- 6.3 Mixed Use Real Property
- 6.4 Value-Added Inventory
- 6.5 Conservation
- 6.6 Catastrophe and Disasters
- 6.6.a Livestock Losses and Weather-Related Sales** <- We are here.



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Special USDA Programs for Livestock-Related Losses

There are special USDA programs to make payments to livestock producers for losses due to disease, bad weather and fire:

- Livestock Forage Disaster Program (LFP)
- The Livestock Indemnity Program (LIP)
- Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish (ELAP)
- Congress or the USDA may create additional programs for livestock producers.
- Payments from these programs are generally taxable unless Congress specifically excludes the payments from taxation.

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Weather-Related Sales of Livestock

Weather-related events lead to:

- Loss of pasture or forage,
- Loss of feed supply,
- Loss of water supply

Causing taxpayer to sell animals they would have otherwise kept.

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Weather-Related Sales of Livestock

Typical sales year: Sell two breeding cows

Drought year: Sell six breeding cows

Election is available for the income from the four additional sales.

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Weather-Related Sales of Livestock

There are three different options for taxpayers to delay paying tax on the net proceeds from weather-related sales of livestock:

- A one-year delay available for all types of livestock if the sale is due to events declared as a federally designated disaster
- A 2-year delay available only for draft, and dairy animals or breeding animals other than poultry
- A 4-year delay available only for draft, and dairy animals or breeding animals other than poultry if the sale is due to events declared as a federally designated disaster

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One-year delay for all types of livestock if related to a federally designated disaster area

To make the election attach a statement

1. IRC section 451(g) Election
2. Federal disaster declaration
3. Relationship between disaster and sale
4. Number of animals sold in each of the three prior years
5. Number of animals you would have sold
6. Total number of animals actually sold
7. Number of animals sold due to disaster
8. Deferral calculation

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Two or Four Year Delay for Weather-Related Sales of Certain Livestock

Special rules apply for:

1. Livestock other than poultry
2. Treated as assets for tax purposes
3. Sold in response to a weather-related event

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Usual Tax Treatment of Sales of Livestock Not Held for Sale

- Livestock not held for sale must be treated as depreciable assets for tax purposes.
- When a depreciable asset is sold, the taxpayer recognizes a gain or loss equal to the sales price less the tax basis.
- The gain or loss is recognized in the tax year covering the sale.

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Special Rule: Defer Gain by Reinvesting in Qualified Replacement Property

- A taxpayer may elect not to be taxed on this type of gain in the year of the sale.
- Taxpayer must replace with similar property within 2 years, or within 4 years for a federal disaster.
- Taxpayer must reduce their basis in the replacement property by the amount of gain that would have been recognized in the year of sale.
- Reduced basis results in:
 - reduced depreciation expense
 - increased gain upon sale


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For more information

- See Pub 225 and RuralTax.org for information on the tax rules for weather-related sales of livestock and on how to make the election.

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Questions?
Thank you!




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How do I learn more about federal income taxes and my farm or ranch?

- There are previous lessons in this series.
- For each lesson there is a short set of questions you can answer to help you decide if the training will be useful to you.
- You can access the questions and the trainings here:
- <https://law.uark.edu/academics/llm-food-ag/llm-projects-agftap.php>
- Additional project resources are available here: <https://agftap.org>




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How do I learn more about federal income taxes and my farm or ranch?

IRS Publication 225, The Farmers Tax Guide
RuralTax.org
IRS website and publications



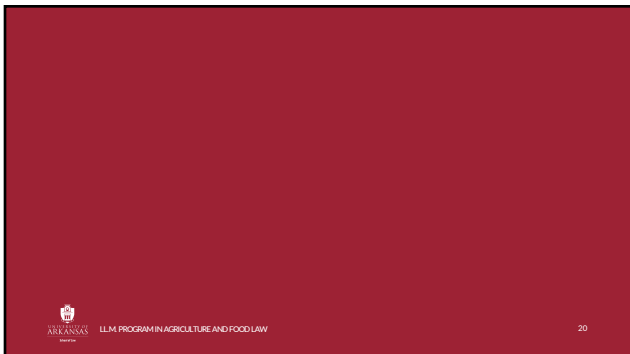
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