



Cattle Producer's Handbook

Drought and Other Natural Disasters Section

980

Weather Related Sale of Livestock and the Tax Implications

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Occasionally, due to weather related events (drought, flooding, other), stockmen may be forced to sell more offspring or breeding stock than planned. The Internal Revenue Service (IRS) allows this to be treated as an involuntary conversion if four rules are met. The rules only apply to animals sold in addition to the normal course of business. The income from these animals may be deferred to the next year if:

1. Your principal business is farming/ranching.
2. You use the cash method of accounting.
3. You can show that under normal circumstances the sale would not have occurred this year except for the weather-related conditions.
4. The weather-related condition has resulted in your area being designated as eligible for assistance by the federal government.

Sales made before the area became eligible for federal assistance still qualify as long as the weather event that caused the sale also caused the area to be designated as eligible for federal assistance. The designation can be made by the President, the USDA or any of its agencies, or other federal agencies.

Usual Business Practice

You will need to determine the number of animals you would have sold under normal conditions following usual business practices. Only the income or gain from selling animals **over and above** what would have occurred in a normal year is allowed.

If you are faced with weather-related sales in more than one year, a separate election must be made for each year. If you make this choice in successive years, there are special rules that prevent your choice in the first year from adversely affecting your choice in the second year.

- Do not include the amount deferred from one year to the next with the sale or exchange of livestock in the later year when figuring the amount to be postponed.
- In determining your normal business practice for the later year, exclude any earlier year for which you make this choice.

In order to make the election to postpone reporting income from weather-related sales of livestock, you must attach a statement to your tax return for the year of the sale. The statement must include your name, address, and Social Security number and the following information about each class of animals sold:

1. A statement that you are making an election under section 451e.
2. Evidence of conditions that forced the early sale and the date, if known, that the area was designated eligible for federal disaster relief.
3. An explanation of the area affected by weather-related conditions leading to your early livestock sale.
4. The number of livestock sold in the three preceding years.
5. The number you would have sold in this tax year had you followed normal business practices.
6. The total number sold and the number sold because of weather-related conditions.
7. A computation of the income to be postponed for each class of livestock.

The statement and return must be filed by the due date of the return, including extensions. If you filed your return on time for the year without making the choice, you can file an amended return within 6 months of the due date (excluding extensions). Attach the statement to the return and write "Filed pursuant to section 301.9100-2" at the top of the statement.