

**Taxation Tidbits**  
**Weather-Related Sales of Livestock**

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Weather variability is one of the greatest sources of risk in farming. Weather conditions frequently cause livestock producers to sell more livestock, in a given year, than would be their normal practice. Congress has recognized the impact weather can have on producers' taxable income and has created two special tax provisions [Code Section 451(e) and 1033(e)] to reduce the income tax liability resulting from weather-related sales.

**Code Section 451(e)**

Code Section 451(e) allows a producer who sells more livestock than they normally would have because of drought, flood, or other weather-related condition to postpone recognizing gain from that sale until the following year.

This is only applicable to the number of head in excess of normal, and you must be able to document that the sales were more than they would have been under normal business operations. In addition, to qualify for Section 451(e) **the area must have been declared eligible for federal assistance**. So under this provision producers are able to postpone paying the taxes owed for one year.

**Code Section 1033(e)**

This provision is similar, however, only applies to sale of livestock that were held for *draft, breeding, or dairy* purposes - in excess of normal, sold due to drought, flood, or other weather-related conditions. However, with this provision the producer does not recognize the gain on the sale, but instead elects to replace the livestock at a later date.

**Both of the deferral provisions hinge on: weather-related sales of livestock in excess of normal number of head.**

The second provision, Section 1033(e), is used when a producer plans to replace the breeding, draft, or dairy animals at a later date. As with Section 451(e), only the number of head in excess of normal sales will qualify. To postpone gain under this provision, replacement property must be acquired within a specified period of time. The replacement period begins on the date the livestock were sold or exchanged. The replacement period generally ends 2 years after the close of the tax year in which the livestock were sold. The livestock purchased to replace the previous ones must be used for the same purpose, i.e. breeding stock must be replaced with breeding stock and dairy cows with dairy cows.

However, for areas designated as eligible for federal assistance, the replacement period is extended from two years to four years. So for counties that were declared eligible for federal assistance producers have up to four years to replace the livestock.

Producers that are forced to sell more than normal numbers of livestock due to weather conditions will likely find it well worth their time to visit with their tax consultant about postponing the gain from those sales.