

IRS Notice 2018-79

Extension of Replacement
Period for Livestock Sold on
Account of Drought

Counties

City of Saint Louis

Adair
Andrew
Atchison
Audrain
Barry
Barton
Benton
Boone
Buchanan
Butler
Caldwell
Callaway
Camden
Carroll
Carter
Dade
Dallas
Daviess
DeKalb
Dent
Douglas
Dunklin
Franklin
Gasconade
Gentry
Greene
Grundy
Harrison
Hickory
Holt
Howard
Howell
Iron
Jackson

Jasper
Jefferson
Johnson
Knox
Laclede
Lafayette
Lawrence
Lewis
Lincoln
Linn
Livingston
McDonald
Macon
Madison
Maries
Mercer
Moniteau
Monroe
Morgan
New Madrid
Newton
Nodaway
Oregon
Osage
Ozark
Pemiscot
Pettis
Phelps
Platte
Polk
Pulaski
Putnam
Randolph
Ray
Reynolds
Ripley
Saint Charles
Saint Clair
Sainte Genevieve
Saint Francois
Saint Louis

Saline
Schuyler
Scotland
Shannon
Shelby
Stoddard
Stone
Sullivan
Taney
Texas
Vernon
Warren
Washington
Wayne
Webster
Worth
Wright

Breeding Animals - Drought Tax Example

Basis: The taxpayer's basis in the replacement livestock equals the basis in the livestock sold, plus any amount invested in the replacement livestock that exceeds the proceeds from the sale.

Raised Cows

Farmer Fred in a normal year sells 25 cull cows at a price of \$820 apiece. However, in 2018 he is forced to sell 55 cows that sold for \$725 due to the drought market in his area. His basis in those cows is zero. He is eligible to postpone \$21,750 of his gain.

In 2020 Fred buys back the 30 cows at a price of \$1,200 apiece. What will be his basis in these 30 cows?

$30 \times \$1,200$ (price purchased) = \$36,000 minus the sale price of \$21,750 is **\$14,250**. The 30 cows will have a basis of \$475 per head.

Purchased Cows

Farmer Ted in a normal year sells 25 cull cows at a price of \$820 apiece. However, in 2018 he is forced to sell 55 cows that sold for \$725 due to the drought market in his area. His cows were purchased in 2015 at a price of \$1,450 apiece. He is eligible to postpone \$21,750 of his gain.

In 2020 Ted buys back the 30 cows at a price of \$1,200 apiece. What will be his basis in these 30 cows?

$\$36,000$ (30 x \$1,200 or price purchased) **plus**
 $\$17,400$ (the undepreciated basis in the cows (Ted took the 7 year SL as a farmer)
so 40% left on the cows **minus** \$21,750 (the sale price of the cows) **equals**
\$31,650.

Thus, the 30 cows will have a basis of \$1,055 per head.

Non-breeding animal examples

Situation 1 – Farmer Frank normally sells his 75 calves after the 1st of the year at 650 pounds. However, in 2018 due to lack of grass and water he sells all 75 head in September.

Is Frank eligible to postpone the calf income to 2019? YES

Requirements: Frank can postpone all of the income based on his normal practice. Will have to show it is a normal practice, he sold them due to the drought and he farms in a federally declared drought area. Must also prove he qualifies as a farmer.

Situation 2 – Backgrounder Bill normally buys and sells calves to background in 4 150-day turns. The last turn is bought in September for sale in February of the following year. In 2018, he buys his normal 100 head in September but due to a lack of feed sells 50 of them in November of the same year.

Is Bill eligible to postpone the income to 2019? YES on the 50 head

Requirements: Bill can postpone the income of the 50 head if he can prove the 100 are sold the following year based on his normal practice. Will have to show it is a normal practice, he sold them due to the drought and he farms in a federally declared drought area. Must also prove he qualifies as a farmer. KEEP IN MIND if Bill is an antique dealer that income or loss is not included to qualify as a farmer.