

# TIMELY INFORMATION

## Agriculture & Natural Resources

---

DAERS-07-07

July 2007

### **Drought Sales of Livestock**

Hal Pepper & Jerry Pierce  
Extension Economists

Many farmers in Alabama are considering reducing herd size or selling out altogether because of drought conditions. Several farmers have called about the tax consequences of selling. In general, if you sell more livestock than usual because of the drought, you may be able to postpone some of the income into a later tax year. If this is the case, take this article to your tax preparer so he (she) may be aware of the options that are available.

#### **Federal Designation as a Disaster Area (July 2, 2007)**

On July 2, 2007, the U.S. Department of Agriculture designated the entire state of Alabama a primary natural disaster area due to losses caused by severe drought that occurred during the period of January 1, 2007, and continuing. Also eligible under the disaster declaration as contiguous counties in other states are:

- Florida – Escambia, Holmes, Jackson, Okaloosa, Santa Rosa, Walton
- Georgia – Carroll, Chattahoochee, Chattooga, Clay, Early, Floyd, Haralson, Harris, Heard, Muscogee, Polk, Quitman, Seminole, Stewart, Troup, Walker,
- Mississippi – Clarke, George, Greene, Itawamba, Jackson, Kemper, Lauderdale, Lowndes, Monroe, Noxubee, Tishomingo, Wayne
- Tennessee – Franklin, Giles, Hardin, Lawrence, Lincoln, Marion, Wayne

#### **Options Under a Federal Disaster Declaration**

There are some options for the reporting of livestock sales in excess of normal sales. You may report the income of all the sales on your 2007 tax return. A special one year deferral of excess sales into the following tax year is available because of the federal disaster declaration. If your principal business is farming, you use the cash method of accounting, your sales would normally have been in 2008, and the drought caused the excess sales, you may make this deferral election. This applies to market, breeding, dairy, and draft sales. Determine the average number of head sold in the three past years. The number of head sold above this average number may be deferred until the following tax year.

For example, if you are a calendar year taxpayer who normally sells 100 head of beef cattle each year, and in 2007 you sell 135 head for \$81,000 because of drought, you can postpone \$21,000 until 2008. [ $(\$81,000 \div 135 \text{ head} = \$600 \text{ per head}) (\$600 \times 35 \text{ head} = \$21,000)$ ]

If you choose to defer these sales until 2008, attach a statement to your 2007 tax return that includes your name and address and gives the following information for each class of livestock for which you are postponing gain:

- A statement that you are postponing gain under Internal Revenue Code Section 451 (e)
- Evidence of the drought which forced the early sale of livestock and the date the area was designated as eligible for federal assistance as a result of the drought (see attached USDA declaration)
- A statement explaining the relationship of the area to the taxpayer's early sale of livestock
- The number of animals sold in 2004, 2005, and 2006
- The number of animals that would have been sold in 2007 had you followed your normal business practice
- The total number of animals sold and the number sold as a result of a drought in 2007
- A computation of the amount of deferred income

Remember to report the postponed gain on the 2008 tax return.

All farmers also have the option of treating the excess sales of breeding, dairy, and draft animals (not market animals) as an involuntary conversion, and these sales may be deferred by purchasing appropriate replacement property within the required time period (normally two years). Since the entire state was designated a federal disaster, the replacement period is extended to four years for excess breeding, dairy, and draft sales, if you replace the livestock with similar property. If your tax year ends December 31, your deadline for replacing these 2007 sales with similar property is December 31, 2011. If the 100 head in the previous example are brood cows, you have the option of deferring the gain on 35 head and purchasing 35 replacement cows by December 31, 2011. Note that to defer all of the gain in the previous example, you must purchase at least 35 brood cows and spend an average of \$600 per head. If you do not purchase the replacement property within the required time period, you must amend the tax return of the sale year and report the gain from the sale of the animals not replaced.

If you choose to postpone reporting the gain on involuntary conversions, you must provide the appropriate information in a statement attached to your tax return for the tax year in which you have a gain. The information must include evidence of the drought that forced the sale, the gain realized on the sale, the number and kind of livestock sold, and the number of livestock of each kind you would have sold or exchanged under your usual business practice. In the years you purchase replacement property, show the preceding information along with the dates you buy the replacement property and the cost, number, and kind of the replacement property.

You may call one of the following Extension Economists if you have questions on drought sales of livestock:

Steve Brown	(251) 867-7760
Holt Hardin	(256) 574-2143
Bob Lisec	(334) 693-2010
Hal Pepper	(334) 361-7273
Jerry Pierce	(256) 574-2143
Jamie Yeager	(334) 624-4016

Farm Service Agency  
Public Affairs Staff  
1400 Independence Ave SW  
Stop 0506, Room 3624-South  
Washington, D.C. 20250-0506

Release No. 1476.07

Latawnya Dia (202) 720-7962

**USDA DESIGNATES ENTIRE STATE OF ALABAMA A PRIMARY NATURAL DISASTER AREA**

*Decision Allows Farmers and Ranchers to Apply for USDA Assistance*

WASHINGTON, July 3, 2007 - The U.S. Department of Agriculture designated the entire state of Alabama a primary natural disaster area because of losses caused by severe drought that occurred during the period of Jan. 1, 2007, and continuing.

In addition, contiguous counties listed below in the adjacent states of Florida, Georgia, Mississippi and Tennessee are also eligible.

*Florida*

Escambia	Jackson	Santa Rosa
Holmes	Okaloosa	Walton

*Georgia*

Carroll	Early	Polk
Chattahoochee	Floyd	Quitman
Chattooga	Haralson	Seminole
Clay	Harris	Stewart
Heard	Troup	
Muscogee	Walker	

*Mississippi*

Clarke	Itawamba	Lowndes
George	Jackson	Monroe
Greene	Kemper	Noxubee
Lauderdale	Tishomingo	
Wayne		

*Tennessee*

Franklin	Lawrence
Giles	Lincoln
Hardin	Marion
Wayne	

All counties listed above were designated natural disaster areas on July 2, 2007, making all qualified farm operators in the designated areas eligible for low interest emergency (EM) loans from USDA's Farm Service Agency (FSA), provided eligibility requirements are met. Farmers in eligible counties have eight months from the date of the declaration to apply for loans to help cover part of their actual losses. FSA will consider each loan application on its own merits, taking into account the extent of losses, security available and repayment ability. FSA has a variety of programs, in addition to the EM loan program, to help eligible farmers recover from adversity.

USDA has also made other programs available to assist farmers and ranchers, including the Emergency Conservation Program, Federal Crop Insurance and the Noninsured Crop Disaster Assistance Program.

Interested farmers may contact their local USDA Service Centers for further information on eligibility requirements and application procedures for these and other programs. Additional information is also available online at: <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=diap&topic=landing>.

FSA news releases are available on FSA's Web site at: <http://www.fsa.usda.gov>.