

Tax Consequences of Weather-Related Sales

by Lori Lemmer

Every few years we seem to be faced with weather issues in regards to agriculture. Generally we are applying these rules in times of drought, but in 2019 we can now look to apply these same rules to the flooding disasters.

Livestock Deferrals

Income Deferrals

A one-year income deferral is available for all types of livestock (draft, dairy, breeding and feeding) if you qualify for the following:

- You are a cash basis farmer or rancher
- Your normal business practice would be to sell the livestock in the following year
- The weather-related conditions caused your area to be designated as eligible for federal assistance. (A majority of our area has been designated as disaster – check with your tax preparer for your unique area)

For example, if you would normally sell your calf crop in January of 2020, but are forced to sell in 2019, you can elect to recognize the income on your 2020 tax return. You are able to use the funds immediately when received in 2019. Part of this election includes the calculation of your normal sale amount based on the last 3-year average. You will need to produce the number of head of each class of livestock from the last 3 years for your tax preparer.

Breeding, draft or dairy animals have another option. If you sell early based on the flooding, you can choose to replace the animals over a period of 4 years.

Other Considerations

Several things should be considered before going ahead with the deferral.

- If you don't intend on replacing the breeding animals, or fail to get them replaced, the gain must be recognized in the year of sale. This means amending your 2019 tax return to report the income. You could potentially be paying at a higher rate.
- Raised breeding livestock animals are subject to preferred capital gains rates of 0% or 15% at this time, depending on your regular tax bracket. If you defer the income and replace them within the 4-year period, your basis in the new animals becomes significantly lower. This basis is the amount that you would be able to depreciate, which offsets self-employment as well as income taxes.
- The flooding may have a negative effect on all of your income in 2019 and the gain on the sale of livestock may be needed this year to avoid showing a loss on the tax return.

Conclusion

As in any tax situation, everyone's case is unique and the circumstances surrounding each year are different. The important thing to remember is that options exist. These deferral elections don't have to be made until the return is filed. Please contact us at Kaup's Financial to discuss how this could affect your return.

If you have any questions or concerns, please give us a call!

Thanks,

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