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# Weather-Related Sales of Livestock*

***JC Hobbs**, Associate Extension Specialist*
*Department of Agriculture Economics, Oklahoma State University*

## Introduction

There are two income tax provisions that attempt to cushion producers from the tax consequences of adverse weather-related livestock sales. Both of these tax provisions apply to sales of more livestock than would have normally been sold if an adverse weather condition, such as a drought, had not occurred. Under the first provision, the sale of additional livestock held for draft, breeding, or dairy purposes (other than poultry), which are sold due to adverse weather, are provided a two-year reinvestment or replacement period. This replacement period can be extended if the adverse weather condition persists for more than three years. The second provision, which applies to all livestock, allows cash basis taxpayers whose primary trade or business is farming, to defer tax recognition of livestock sales in excess of normal business practices due to weather-related conditions that result in a disaster declaration for an area. Both provisions apply only to those animals sold that are in excess of "normal sales" for the producer. The two tax provisions for weather-related sales of livestock have slightly different requirements, so producers should evaluate their circumstances to see which would be of greater tax benefit.

## IRC Section 1033(e) Livestock Sold on Account of Drought, Flood, or Other Weather-Related Conditions

A livestock producer who sells more draft, breeding, or dairy livestock than normal due to adverse weather-related conditions may defer recognition of the gain if the producer elects to replace the livestock. The livestock must be replaced within two years with livestock used for identical purposes. This applies only to the number of head sold in excess of normal business practices. A disaster area declaration is not necessary, but the producer must be able to show that adverse weather-related conditions forced the sale of more livestock than would normally be sold. Tax

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basis of the replacement livestock is equal to the basis in the excess livestock sold plus any additional amount invested in the replacement livestock that exceeds the proceeds from the sale. If the livestock are not replaced, or if replacement cost is less than the gain from their sale, the difference must be reported as a taxable gain in the sale year by amending the tax return. The amended return will be subject to additional tax and interest.

## Making the Election

The producer makes this election by attaching a statement to his or her tax return. The election must include the following information:

- Name, address, and tax identification number.
- Evidence of the weather-related conditions that forced the sale or exchange of livestock.
- Explanation of how the sale is related to weather conditions.
- Number and kind of livestock sold or exchanged.
- Number of livestock of each kind that would have been sold or exchanged under normal business circumstances (generally, the average number of animals sold over the three preceding years).
- The amount of gain realized on the sale or exchange.
- The amount of income to be postponed.

The following example presents the reporting required in the year that the livestock are sold and the reporting needed when the livestock are replaced in a later year.

**Example 1: IRC Section 1033(e) Election**

Bo Vine normally sells about 25 cull cows per year. This year (2025), Bo sells 40 cows (15 head more than his prior 3-year average cull number of 25 head) because of weather induced limitations on his forage and feed supplies. Gain from the sale of the 15 cows sold in excess of his normal business practice will not be reported as income if Bo purchases replacement cows that cost as much or more within the next two years. The sale proceeds for the 40 cows totals $60,000. He will make an IRC Section 1033(e) election on his current return. He attaches the following statement to his tax return.

**Statement: Election under I.R.C. § 1033(e) to Postpone Recognition of Gain from Livestock Sold Because of Weather-Related Conditions**

Bo Vine (include Taxpayer Identification Number)
145 County Road 541
Somares, US 12345

The weather-related conditions, evidenced by the attached rainfall reports and news clippings, affected availability of forage and feed, and caused the sale of 40 head of beef cows, instead of the normal 25 head, in 2025.

**Example 1: continued**

The number of cows sold in each of the three preceding years and the 3-year average:

| | | |
|---|---|---|
| 2022 | 28 head | |
| 2023 | 23 head | |
| 2024 | 24 head | |
| Total | 75 head | The preceding 3-year average is 25 head (75 ÷ 3) per year. |

Computation of the gain to be postponed:

Total sale proceeds for the 40 head in 2025 $60,000 or $1,500 per head ($60,000 ÷ 40)

| | |
|---|---|
| Sale proceeds from the extra 15 head sold | $22,500 ($1,500 x 15) |
| Less: Total remaining adjusted tax basis of the 15 head | $1,875 |
| Gain on the sale to be postponed with the election | $20,625 ($22,500 - $1,875) |

The sale proceeds from the extra 15 cows sold is $22,500. I am electing to postpone reporting the $20,625 of gain resulting from the sale.

**Replacement of the cows and basis calculations:**

**Example 1a: Replacements Cost $22,500 (Purchase value equals the sale proceeds from the extra 15 head of cows culled in 2025)**

Bo purchases the replacement cows during 2027 for $22,500 (which is exactly what he sold the extra 15 head for in 2025); the tax basis in the replacement cows will be $1,875, which is the amount of basis remaining in the 15 extra cows sold in 2025. Bo will attach a statement to his 2027 tax return showing that he bought $22,500 worth of replacement cows and the remaining $1,875 of tax basis will be recovered through a depreciation deduction(s) that will be reported beginning with his 2027 tax return.

**Example 1b: Replacements Cost $27,000 (Purchase value is greater than the sale proceeds from the extra 15 head of cows culled in 2025)**

Bo purchases the replacement cows during 2027 for $27,000 (which is $4,500 more than what he sold the extra 15 head for in 2025), the tax basis in the replacement cows will be $6,375 ($1,875 + $4,500). Bo will attach a statement to his 2027 tax return showing that he bought $27,000 worth of replacement cows and the $6,375 of tax basis will recovered through a depreciation deduction(s) that will be reported beginning with his 2027 tax return.

**Example 1c: Replacements Cost $19,000 (Purchase value is less than the sale proceeds from the extra 15 head of cows culled in 2025)**

Bo purchases the replacement cows during 2027 for $19,000 (which is $3,500 less than what he sold the extra 15 head for in 2025), he will need to amend his 2025 tax return to report gain of $3,500, which is the amount not reinvested in replacement cows, as depreciation recapture.

## IRC Section 451(g) Special Rule for Proceeds from Livestock Sold on Account of Drought, Flood, or Other Weather-Related Conditions

Livestock producers using the cash method of accounting can elect to defer to the following tax year, the proceeds from the sale of certain livestock sold in excess of normal due to a weather-related condition. The area must be federally recognized and declared as eligible to receive federal disaster assistance. It is not necessary for the animals to be raised or sold in the declared disaster area, just that a weather-related event caused the area to receive federal disaster designation and caused the sale of the animals. However, only livestock sold in excess of normal business practice qualify for the deferral.

### Making the Election

The producer makes this election by attaching a statement to their income tax return filed for the year of sale. The election statement must include the following information:

- Name, address, and tax identification number.
- A declaration that the election is made under I.R.C. § 451(g).
- Evidence of the weather-related condition that forced the sale or exchange of animals and the federal disaster designation (disaster name and number).
- Explanation of how the sale of excess livestock is related to a weather-related condition.
- Number of head of livestock and each kind that would have been sold or exchanged under normal business circumstances (normal sales is generally the average number of animals sold over the three preceding years).
- Total number of animals sold in the current year and the number sold due to the weather-related circumstance.
- The amount of income to be deferred.

**Example 2:**

Due to weather-related conditions that caused the area to receive a federal disaster area designation, Barb Wyre sold 130 head of beef calves in 2025 instead of the usual 75 head. She also sold 25 cows instead of her normal culling of 15 head. She received $117,000 for the 130 head of calves and $37,500 for the 25 cows. Barb makes an election to defer reporting the sale proceeds from the excess animals sold in 2025 until 2026 under IRC Section 451(g) by the due date of the 2025 tax return (including extensions).

**Statement: Election under I.R.C. § 451(g) to Postpone Recognition of Gain from Livestock Sold Because of Weather-Related Conditions**

Barb Wyre (include Taxpayer Identification Number)
541 County Road 123
Somareselse, US 54321

I am making an election under § 451(g) of the Internal Revenue Code to postpone the recognition if the proceeds from the sale of cows and calves sold in excess of my normal annual sales for 2025 until 2026 due to adverse weather conditions.

Decatur County, U.S., was designated eligible for assistance by the federal government on July 3, 2025, because of drought and high temperatures beginning January 1, 2025. Taxpayer's farm is located in Decatur County, and the drought forced the early sale of an additional 55 head of beef calves and 10 head of beef cows.

The number of animals sold in each of the three preceding years was:

| Calves | | Cows | |
|---|---|---|---|
| 2022 | 79 head | 2022 | 23 head |
| 2023 | 80 head | 2023 | 25 head |
| 2024 | 66 head | 2024 | 27 head |
| Total | 225 head | Total | 75 head |

The preceding 3-year average sale of calves is 75 (225 ÷ 3) head and cows is 25 (75 ÷ 3) head.

Barb's normal business practice would have been to sell 75 calves and 25 cows in 2025. Due to the drought Barb's total number of animals sold in 2025 was 130 head of calves and 35 cows. The total gain realized for the calves was $117,000 or $900 per head ($117,000 ÷ 130 head) and the total gain for the raised cows was $37,500 or $1,500 per head ($37,500 ÷ 25). The number sold in excess of normal because of the weather-related conditions in 2025 was 55 head of calves and 10 head of cows.

**Example 2: continued**

Computation of gain to be postponed and reported in 2025 is as follows:

Calves

| | |
|---|---|
| Total of 130 head sold in 2025 | Gain is $117,000 ÷ 130 = $900 per calf |
| Gain postponed from the 55 extra head sold | Postponed gain is 55 head x $900 = $49,500 |

Cows

| | |
|---|---|
| Total of 25 head sold in 2025 | Gain is $37,500 ÷ 25 = $1,500 per cow |
| Gain postponed from the 10 extra head sold | Postponed gain is 10 x $1,500 = $15,000 |

Note: the cows were raised, therefore the adjusted tax basis is $0.00 per head.

(End of election statement)

The postponed gain of $49,500, from the 55 head of calves will be reported on the 2026 tax return and will be entered on Line 2 of *Schedule F (Form 1040), Profit or Loss From Farming*. The postponed gain of $15,000, from the 10 head of cows will be reported on the 2026 tax return and will be entered on *Form 4797, Sales of Business Property*, Part 1, Line 2.

The primary purpose of these two provisions, IRC sections 451(g) and 1033(e), is to allow producers the opportunity to avoid the bunching of income in a year when extra animals are sold due to adverse weather conditions that cause the need to sell more animals than normal, or what would have been sold in a year with normal weather conditions.

## Tax Planning Considerations

Producers should work closely with their tax preparers to determine whether it would be a greater benefit to pay the tax in the year the additional animals are sold, versus deferring the tax reporting until a later year. Preferential capital gain tax rates may result in lower total tax paid, especially if tax rates are expected to change in the future.

## IRS Publications

To access IRS information on this as well as other topics, visit the IRS website at www.irs.gov. Type the form, schedule, or publication number or name in the search box to search for the desired item. These may be viewed online or downloaded.

- **IRS Publication 225, Farmer's Tax Guide.** Chapters 3, 8, and 11 contain information discussing casualties, thefts, and losses including weather-related sales of livestock.

## Additional Topics

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets, and additional information related to agricultural income tax, please refer to the RuralTax.org website.

Related articles that might be helpful include:

- Involuntary Conversion of Business Assets
- Like-kind Exchange (Trade) of Business Assets
- Sale of Business Property

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