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IRS relief provides drought-stricken farmers, ranchers more time to replace livestock

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WASHINGTON – Farmers and ranchers who were forced to sell livestock due to drought may have an additional year to replace the livestock and defer tax on any gains from the forced sales, according to the Internal Revenue Service.

The farmer or rancher must be in an applicable region. This is a county designated as eligible for federal assistance plus counties contiguous to that county. The relief generally applies to capital gains realized by eligible farmers and ranchers on sales of livestock held for draft, dairy or breeding purposes. Sales of other livestock, such as those raised for slaughter or held for sporting purposes, or poultry, are not eligible.

To qualify, the sales must be solely due to drought, flooding or other severe weather causing the region to be designated as eligible for federal assistance. Livestock generally must be replaced within a four-year period, instead of the usual two-year period. The IRS is also authorized to further extend this replacement period if the drought continues.

The one-year extension, announced today, gives eligible farmers and ranchers until the end of the tax year after the first drought-free year to replace the sold livestock. Details, including an example of how this provision works, can be found in [Notice 2006-82](#), available on IRS.gov.

The IRS provides this extension to farmers and ranchers located in the applicable region who qualified for the four-year replacement period if any county that is included in the applicable region is listed as suffering exceptional, extreme or severe drought conditions during any week between Sept. 1, 2018, and Aug. 31, 2019. This determination is made by the [National Drought Mitigation Center](#). All or part of 32 states, plus Guam, the U.S. Virgin Islands and the Commonwealths of Puerto Rico and the Northern Mariana Islands, are listed in [Notice 2019-54](#).

As a result, qualified farmers and ranchers whose drought-sale replacement period was scheduled to expire at the end of this tax year, Dec. 31, 2019, in most cases, now have until the end of their next tax year. Because the normal drought-sale replacement period is four years, this extension immediately impacts drought sales that occurred during 2015. The replacement periods for some drought sales before 2015 are also affected due to previous drought-related extensions affecting some of these localities.

More information on reporting drought sales and other farm-related tax issues can be found in [Publication 225](#), Farmer's Tax Guide, available on IRS.gov.