When there is a drought and ranchers are forced to sell more of their breeding stock than normal, there are income tax implications that need to be considered. Normally the sale of any breeding stock would qualify for capital gains, resulting in a 5% to 15% tax on the gain.

In a drought, ranchers must choose between two provisions to defer the gain on their additional cull sales. First, they can elect to postpone the income from the gain for a period of one year. The second provision allows them to postpone the gain if “like animals” are replaced within two years of the end of the tax year of the drought sale. This is a true “like-kind” exchange, so beef cows must replace beef cows. Beef cows are not allowed to replace dairy cows.

Also, this is only for those animals that were sold over normal culling rates. So, if a rancher normally culls 20 animals each year, and this year they cull 30 head, then these rules would only apply to the 10 additional head. The other 20 would be subject to capital gains in the year the sale occurs. Each producer’s tax situation is different. Anyone who finds themselves facing this situation should contact their income tax preparer to examine their alternatives.

Ranchers can possibly use the drought and this tax rule to their advantage. If the price of cull cows is high when they sell, they can postpone the gain for up to two years and purchase new cows when they might be priced much lower. This is not a sure thing, but it is possible to use this drought to make a good business decision. Cull your herd now when prices are relatively high, and buy back when they are lower.