

## Frequently Asked Questions about **DROUGHT RESOURCES FOR RANCHERS**

*Folks having to sell off cattle due to drought conditions may be eligible for an income tax exemption through Notice 1033(e) of the tax code.*

### **What requirements must I meet as a producer?**

Your principle business must be farming.

### **Is the 1033(e) election limited to cash-basis taxpayers?**

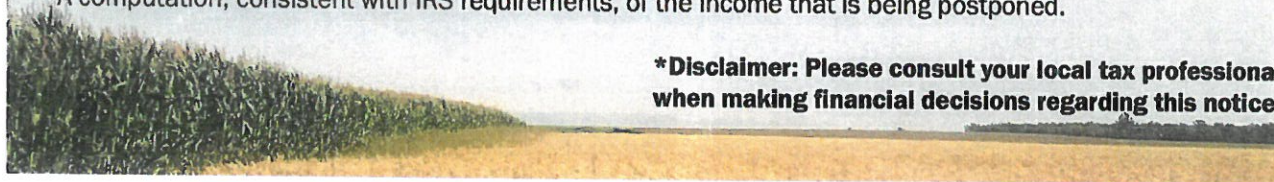
No, a Section 1033(e) exemption is available to all taxpayers whose principle business is farming.

### **How do I make the election?**

The election to defer the payment of capital gains on the forced sale of livestock is made by demonstrating the involuntary conversion of those animals. This can be done by attaching the following information to the tax return for the year in which the sale of the animals occurred:

- A statement that the producer is electing to postpone gain under Code Section 1033(e).
- Evidence of the existence of the drought conditions that forced the producer sell their livestock, and if applicable, the date of federal disaster designation for that area.
- The number and type of livestock that were sold.
- The number and type of livestock that would have been sold should the producer have followed their normal business practices.
- A computation, consistent with IRS requirements, of the income that is being postponed.

**\*Disclaimer: Please consult your local tax professional when making financial decisions regarding this notice.**



Bowman  
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**How long do I have to replace the animals before I will be forced to pay capital gains?**

Two different time frames can apply dependent upon the disaster declaration status of a producer's county.

- Two years if the area is not declared eligible for federal assistance.
- Four years if the area is declared eligible for federal assistance.

**Do I have to reside in a county that has been designated as eligible to receive federal assistance in order to qualify for a 1033(e) election?**

No. Although the reinvestment time frame is limited to two years, producers whose county did not receive a federal disaster designation can still qualify for a 1033(e) election.

**How is the 'first drought-free year' determined?**

Under IRS Notice 2006-82, the replacement period was altered to extend until the end of the first taxable year ending after the first drought-free year for the applicable region. A 'drought-free year' is defined as a year in which the producers area, meaning their county or any county contiguous, does not experience a severe, extreme, or exceptional drought for any weekly period between September 1 and the following August 31.

Furthermore, determinations regarding the severity of the drought will be based upon the U.S. Drought Monitor (i.e. D2: sever, D3: extreme, D4: exceptional).

For more resources on how to manage drought conditions and available assistance, visit [www.heitkamp.senate.gov](http://www.heitkamp.senate.gov)

