Understanding Tax Implications of Livestock Sales

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The manner in which livestock sales are kept and how those receipts are reported for income tax purposes can greatly impact the amount of tax owed. Reporting livestock sales which qualify for capital gains assessment can decrease self-employment taxes and total income received. Typically, livestock producer's market animals in two forms: livestock sold which were specifically retained for marketing, and livestock primarily retained for breeding or other production purposes, including milk production.

Raised or procured livestock intended for sale and not intended to be retained are reported on Schedule F for tax purposes. On the Schedule F, typical income taxes are applicable thus making that income subject to self-employment tax. However, profit from livestock marketed for breeding or other production purposes is neither reported on the Schedule F nor is it subjected to self-employment taxes. Profit received from this type of marketing is instead reported on Sales of Business Property (Form 4797). In calculating this, the outstanding cost basis is then subtracted to calculate the profit or loss. Determined by depreciation and the length of time the animal was held, the realized profit or loss can be either short-term or long-term. Important record keeping will enable the livestock producer's tax preparer to reduce the tax liability.

Profits from animals which are purchased for resale are determined through subtracting the cost of the individual animal or animals versus the price brought when sold. (If you keep pre-production records then the cost of replacement females would include all expenses to raise them.) This form of marketing is noted as ordinary income. Sales from breeding and production animals are treated differently when reporting taxes. Income reporting from sales of these animals are determined by three primary factors. Was the animal raised or purchased? What was the time length the animal was held? Was the sale a profit or loss?

When raising breeding animals, the producer sees no cost or basis when expensing the animal. This is due to the expense already being deducted while the animal was being grown. Sales of breeding and production livestock can be subject to capital gains tax. These sales are reported on form 4797 and include males and females utilized for breeding (i.e. bulls, cows, heifers) as well as other culled animals designated for breeding purposes. Sales of animals purchased for breeding or production and held for the designated length of time can result in either a taxable gain or loss. This is determined by depreciation and sale price of animal purchased. As with any asset, animals purchased for breeding and production can be depreciated. To attain the profit or loss, a producer subtracts the sold price from the purchase price and then adjusts for all allowable depreciation. Gains received from this is measured as ordinary gains and thus is taxed as ordinary income.

Those involved in animal agriculture need to understand the value of accurate record keeping and the importance of separating the sales from breeding stock and market animals. Additionally, it should be noted that animals purchased for breeding or production can be additionally separated according to whether they were grown for that purpose or procured. Accurate record keeping provides tax preparers with a better means of minimizing tax liabilities.