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Tax treatment of forced livestock sales due to pasture and fodder loss

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The 5 years following a forced livestock sale

If you are obliged to sell livestock because of the destruction of pastures or fodder through fire, drought or flood, you can elect to spread over 5 years the profit on the livestock sale. This means that one-fifth of the profit would be included in your gross income for the year of the sale of the livestock, and one-fifth would be included in the gross income for each of the following 4 years.

To take advantage of this concession, you are required to:

- declare that the sale was genuinely occasioned by the loss or destruction of pastures or fodder because of fire, drought or flood;
- demonstrate that the main part of the proceeds of the sale will be used to purchase replacement livestock or will be used in the maintenance of breeding stock for the purpose of restocking.

Alternatively, you may elect to have the profit on a forced livestock sale excluded from your assessable income for the year in which it was derived, and applied to reduce the cost of stock acquired during that year (or any of the 5 succeeding years) to replace the stock disposed of.

Where replacement stock are bred instead of purchased, you may elect to include in your assessable income, over the same period, appropriate instalments of the profit on the forced sale (as described above).

If, at the end of the 5th year from the year in which the forced sale occurred, any part of the profit on the disposal has not been applied in reducing the cost of new stock purchased, or has not otherwise been included in assessable income, the amount that has not been applied will be included in your assessable income for that 5th year.

Cash flow consequences

If the taxation rates are constant throughout the 5 years, tax liability will be the same over the entire period. However, financial advisers would generally regard this as an advantage because using the 5-year provision defers tax liabilities.

In situations where the tax rate varies, your accountant has some room to minimise tax liabilities.

Tax liabilities

Most farmers tend to record the value of natural increase at $20 for cattle and $4 for sheep, which reduces tax in the year of declaration, but when the progeny are actually sold at much higher values, they incur additional tax in that year.

For farmers who have valued their natural increase at higher rates, more tax is paid initially but less tax is paid in the future. The value of the animals as submitted to the tax office is commonly termed the **book value**.

As trading profit is calculated in this way, an apparent loss in market value due to **bovine Johne's disease (BJD)** does **not** automatically incur a loss for tax purposes. For example, if the market value of animals prior to drought was $600 but they have to be sold for $400 during the drought, this is **not a $200 loss for tax purposes**. If the book value is less than the $400 sale price, the transaction will in fact show as a profit, and if the book value is $20, a substantial tax liability can be incurred.

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