

AT. 6

Livestock

Breeding and working animals are depreciable assets

Breeding and working animals must be treated as depreciable assets for tax purposes. This means the cost to purchase them is not allowed to be treated as a regular business expense, instead, it must be deducted by following the IRS rules for how depreciation is calculated and deducted.

Dairy cows, breeding bulls, animals kept primarily for fiber, roping horses, herd dogs, and guardian animals are all examples of animals that must be treated as depreciable assets.

When animals held as assets are sold, the income is not recorded as regular farm or ranch income. Instead, it is reported as capital gains income, which has a more favorable tax treatment.

Animals held for sale may be NIMS inventory if they were purchased

Animals held for sale are called market animals and are not treated as depreciable assets even though you may own them for more than one year. Feeder cattle, purchased lambs, goats and poultry intended for live sales or meat are all examples of market animals.

If you have market animals on hand at the end of the year, you might need to make a NIMS inventory adjustment if any of those animals were purchased.

Market animals you have raised in your operation have already been fully expensed. You do not need to make an inventory adjustment to reflect the value of market animals raised.

For operations that are growing a breeding herd and also growing annual sales it can be difficult to keep track of which animals are assets and which are held for market because you might change your mind.

Livestock accounting is a specialized area. Fortunately there are many great resources available through various Extension programs around the country.

For more information on livestock accounting see Pub 225 and look for guidance from Extension agents specializing in livestock operations like yours.

This resource is derived from materials developed by the University of Arkansas School of Law Agricultural Tax Training as part of the Agricultural Financial, Tax and Asset Protection (AgFTAP) partnership with the University of Arkansas Southern Risk Management Education Center and others.