

# **COW/CALF CORNER**

## **The Newsletter**

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## **Income Tax Relief for Drought Sale of Livestock**

J C. Hobbs, Oklahoma State University Assistant Extension Specialist

If you have sold more livestock than normal due to the drought or other weather related conditions, there are a couple of income tax provisions that may provide some relief. Each provision may allow a producer to reduce the tax consequences of bunching of income if certain conditions are met. The following information is general in nature. For a more detailed discussion of the rules, reporting requirements, and examples, get a copy of the OSU Extension publication (AGEC-788: Tax Consequences of Weather-Related Sale of Livestock) available at your local County Extension office or online at <http://www.beefextension.com> in the drought information area.

The first, applies to a producer who has sold more livestock than normal due to the adverse weather. The income from the animals which were sold that were in excess of normal sales may be postponed until the following tax year when the income would have normally been recognized. However certain conditions must be met. The weather related condition must have caused the area to receive a “presidential disaster declaration”. In addition the producer's principal business must be farming and use the cash method of accounting. The producer must show that the livestock would normally have been sold in the following year. The weather-related conditions that caused an area to be declared a disaster area must have caused the sale of livestock. This provision applies to any livestock sold in excess of normal due to weather related conditions. [Refer to IRS Code Section 451(e)]

The second provision only applies to breeding, dairy, or draft animals that were sold in excess of normal. For the animals sold in excess of normal, a producer may elect to replace the animals sold, within a two year period, with like animals and thus defer the recognition of income until the new animals are sold. Unlike the first rule, there is no need for a disaster

declaration, all that is needed is proof that drought conditions existed which caused the sale of additional animals. However if an area has received a presidential disaster declaration, the replacement period is four years not two.

The replacement animals must be for the same use as the animals sold. For example, a producer must replace dairy cows with dairy cows or breeding cows with breeding cows. In addition if, for example, the excess animals were sold for \$10,000, the producer will need to buy \$10,000 or more of replacements to completely defer the gain from the sale. If only \$8,000 is spent on the new animals then \$2,000 must be recaptured on amended tax return and the tax paid. There is no requirement as to how long the animals were held by the taxpayer in order to receive this treatment, but the producer must provide evidence of the weather condition and a calculation of the gain for each number and kind of animal sold. [Refer to IRS Code Section 1033(e)]

This is only a brief discussion of the rules that apply to weather related sales of livestock. Please consult your tax preparer or advisor for additional information concerning the income tax implications that would apply to your specific business situation.

## **Early Weaning Spring-born Calves**

Glenn Selk, Oklahoma State University Emeritus Extension Animal Scientist

The summer of 2011 has caused many Southern Plains cow calf herds to be culled extensively or sold out completely. Those producers that still own spring calving cows that are nursing calves should consider the option of early weaning the calves to give the cows the best opportunity to maintain some body condition going into winter.

South Dakota State examined this scenario (using mature cows) by comparing the effect of weaning date on performance of the beef cows. They weaned half of the cows at the time of the first real cool spell (September 14). The other half of the cows had their calves weaned at a traditional time (October 23). The scientists then monitored body condition and rebreeding performance of the cows. Note that this study included two different nutritional levels: A low group to mimic an early winter or a dry summer; A moderate group to mimic more ideal summer and early winter seasons. Only the data for those cows exposed to the low nutritional group are presented here. They more nearly reflect what may happen for young cows in a drought than will the moderately fed cows.

**Table 1. South Dakota study of earlier weaning on mature cows**

Weaning time	September 14	October 23
December body condition	+.5	-----
% cycling 1st 21 days of breeding	83	74
% pregnant to 21 day AI	70	35
Average conception date	June 26	July 3

(source: Pruitt and Momont; 1994 South Dakota Beef Report)

This data indicates that the 40 days earlier weaning allow the cows to maintain more body condition score (0.5 BCS) going into winter. More of the early weaned cows were cycling at the start of the breeding season, conceived early in the breeding season and should wean heavier older calves the following year. In addition a small amount of high protein supplement (i.e. cottonseed meal or soybean meal) will enhance the cow's ability to utilize the declining quality of the late summer forage and/or low quality grass hay. Therefore allowing more body condition to remain on the young cows before frost arrives. This combination of management techniques should be a cost effective way to slow the decline in re-breeding rates of drought-stressed, spring calving cows.

The early-weaned calves (if properly vaccinated) will be ready for any of the special value-added calf sales that require 45 day weaned-calves.

## **Cattle Markets in the Dog Days of Summer**

Derrell S. Peel. Oklahoma State University Extension Livestock Marketing Specialist

One definition of the dog days of summer is a hot summer day when a dog is chasing a cat down the street... and both are walking. As Oklahoma approaches a record number of 100 plus degree days, the dogs and cats are, for the most part, nowhere to be found. With several more days of 100 degree temperatures forecast, there seems to be no indication that summer is close to being over.

However, it is possible that fed cattle markets are past the worst of the summer doldrums. Fed prices have increased some \$4/cwt from lows in late July. This retest of the seasonal lows was anticipated and it appears that the late May lows will hold as the lowest prices of the season. The market is not completely out of danger yet. Choice boxed beef prices have dropped to roughly \$172/cwt, close to the June lows. This means that most of the recent increase in fed prices has come at the expense of packer margins and further increases in fed prices will depend on boxed beef price recovery. On the other hand, additional weakness in boxed beef prices could pressure fed prices lower again.

The recent decrease in boxed beef prices has been more severe for Choice meat compared to Select resulting in an unusually narrow Choice-Select spread for this time of year, about \$3/cwt. This is indicative of the continued weakness of Choice meat demand and the struggles to rebuild middle meat demand.

Feeder cattle markets continue quite strong, especially given the harsh environment this summer. Calf prices have been pressured somewhat by unusual runs of early weaned calves due to drought, but are still above the May lows. Many of this fall's calves have already been marketed this summer. Heavy feeder price increased to new seasonal highs in early July and are still holding at remarkably strong levels. The rollback between calf and feeder prices is very narrow, in fact, almost zero in some cases resulting in very high stocker value of gain. For example, the Oklahoma combined auction price this last week put 515 lb. steers (Med/Lrg, No 1) at \$138.56 and 727 lb. steers at \$138.05. This implies a value of gain of \$1.37/lb. for 212

pounds of gain. For 825 lb. steers, the price is \$132.50/cwt, resulting in a value of gain of \$1.22/lb. for 310 pounds of gain. Wheat pasture prospects in the Southern Plains appear very poor at this point but the market is clearly encouraging somebody, somewhere that has forage to put stocker gains on feeder cattle.

Cull cow prices in Oklahoma have decreased roughly \$8-10/cwt in the past month. The runs of cows and bulls in Oklahoma Auctions continue very large. This last week the auction total for cows and bulls was 3.5 times the volume last year at this time. There continue to be bottlenecks with many auctions unable to handle the volumes of cattle in weekly runs. Cattle trucks are booked well in advance and the cow slaughter plants have coolers and freezers bulging with recent production. The drop in cow prices appears to be mostly a logistical issue. The underlying cow beef market is still quite strong. The pressures are very regional and temporary. I expect to see some of the recent price drop bounce back as soon as the logistical bottlenecks abate somewhat.

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