



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

July 26, 2017

The Honorable Heidi Heitkamp  
United States Senate  
Washington, DC 20510

Dear Senator Heitkamp:

Thank you for your letter dated June 28, 2017, about ranchers located in North Dakota who are forced to sell livestock because of extended drought conditions. Specifically, you asked that we provide relief under Internal Revenue Code Section 1033(e) by extending the period of time for these ranchers to replace the livestock and thereby not recognize gain on the forced sale. I understand that staff from the IRS Office of Chief Counsel spoke with Mr. Jared Henderson of your staff on June 26 and 27 about this relief.

Generally, ranchers who sell their livestock on account of drought or other weather-related conditions may defer being taxed on gain from the sale if they purchase replacement livestock within 2 years after the year of sale. This replacement period is extended to 4 years if the President, the Department of Agriculture (or any of its agencies), or other federal department or agency designates the area as eligible for federal government assistance because of the drought. We annually update Publication 225, the "Farmer's Tax Guide," which provides more information about this relief and is available at [www.irs.gov/pub/irs-pdf/p225.pdf](http://www.irs.gov/pub/irs-pdf/p225.pdf).

On June 28, 2017, the Secretary of Agriculture designated several counties in North Dakota as primary natural disaster areas or contiguous disaster areas due to drought conditions. In making this designation, the Secretary declared that farm operators in the named counties are eligible for certain assistance from the Farm Service Agency. (See enclosed letter.) Because of the designation of these areas as eligible for federal government assistance due to drought, taxpayers in the named counties who sold their livestock on account of these drought conditions automatically have a 4-year period to replace the livestock without recognizing gain on the sale.

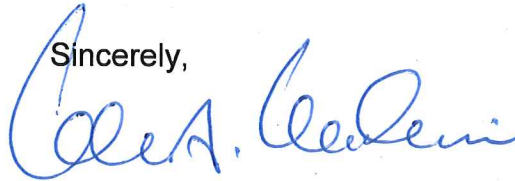
In addition, the Secretary of the Treasury may extend this 4-year replacement period on a regional basis if the weather-related conditions that resulted in the area as being eligible for federal assistance continue for more than 3 years. IRS Notice 2006-82 provides guidance on the extension of this 4-year replacement period.

Annually each September, we publish a notice specifying those areas subject to exceptional, extreme, or severe drought over the prior 12 months (the period ending August 31), based on information we get from the U.S. Drought Monitor. If the notice describes a taxpayer's area, and the drought conditions that resulted in eligibility for federal assistance have continued for more than 3 years, we extend the 4-year period to replace livestock previously sold due to drought in that area for another year.

At our request, the U.S. Drought Monitor has provided us with a list of counties in North Dakota that have been subject to exceptional, extreme, or severe drought for any period beginning September 1, 2016, through July 18, 2017 (enclosed). We'll include these counties in our annual notice.

I hope this information is helpful. If you have more questions, please contact me, or a member of your staff may call Leonard Oursler, Director, Legislative Affairs, at 202-317-6985.

Sincerely,



John A. Koskinen

Enclosures (2)



United States Department of Agriculture

Office of the Secretary  
Washington, D.C. 20250

JUN 28 2017

The Honorable Doug Burgum  
Governor  
State of North Dakota  
Bismarck, North Dakota 58505

Dear Governor Burgum:

In accordance with 7 CFR 759.5(a), I am designating 15 North Dakota counties as primary natural disaster areas due to a recent drought. The primary counties included under this designation are:

Adams	Golden Valley	Oliver
Billings	Hettinger	Slope
Bowman	McLean	Stark
Burleigh	Mercer	Ward
Divide	Morton	Williams

According to the U.S. Drought Monitor (see <http://droughtmonitor.unl.edu/>), these counties suffered from a drought intensity value during the growing season of: 1) D2 Drought-Severe for 8 or more consecutive weeks or 2) D3 Drought-Extreme or D4 Drought-Exceptional.

In accordance with section 321(a) of the Consolidated Farm and Rural Development Act, 11 counties are named as contiguous disaster counties. The contiguous counties included under this designation are:

Burke	Grant	McKenzie	Sheridan
Dunn	Kidder	Mountrail	Sioux
Emmons	McHenry	Renville	

Also, in accordance with section 321(a) of the Consolidated Farm and Rural Development Act, counties in adjacent States are named as contiguous disaster areas. Those States, counties, and numbers are:

**Contiguous Counties in Adjacent States:**

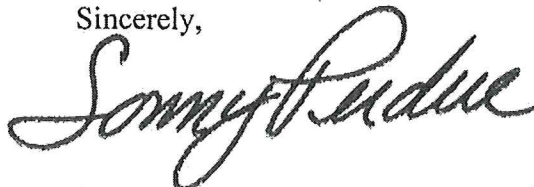
<b>Montana</b>	<b>(5)</b>	
Fallon	Roosevelt	Wibaux
Richland	Sheridan	

<b>South Dakota</b>	<b>(3)</b>	
Corson	Harding	Perkins

A Secretarial disaster designation makes farm operators in primary counties and those counties contiguous to such primary counties eligible to be considered for certain assistance from the Farm Service Agency (FSA), provided eligibility requirements are met. This assistance includes FSA emergency loans. Farmers in eligible counties have 8 months from the date of a Secretarial disaster declaration to apply for emergency loans. FSA considers each emergency loan application on its own merits, taking into account the extent of production losses on the farm, and the security and repayment ability of the operator.

Local FSA offices can provide affected farmers with further information.

Sincerely,

A handwritten signature in cursive script that reads "Sonny Perdue". The signature is written in dark ink and is positioned above the printed name and title.

Sonny Perdue  
Secretary

**Enclosure 2: U.S. Drought Monitor list of counties in North Dakota that have been subject to exceptional, extreme, or severe drought for any period beginning September 1, 2016, through July 18, 2017**

<b>State</b>	<b>USDMLevel</b>	<b>Name</b>
ND	D2	Adams County
ND	D2	Barnes County
ND	D2	Benson County
ND	D2	Billings County
ND	D2	Bowman County
ND	D2	Burke County
ND	D2	Burleigh County
ND	D2	Dickey County
ND	D2	Divide County
ND	D2	Dunn County
ND	D2	Emmons County
ND	D2	Golden Valley County
ND	D2	Grant County
ND	D2	Hettinger County
ND	D2	Kidder County
ND	D2	LaMoure County
ND	D2	Logan County
ND	D2	McHenry County
ND	D2	McIntosh County
ND	D2	McKenzie County
ND	D2	McLean County
ND	D2	Mercer County
ND	D2	Morton County
ND	D2	Mountrail County
ND	D2	Oliver County
ND	D2	Pierce County
ND	D2	Renville County
ND	D2	Sheridan County
ND	D2	Sioux County
ND	D2	Slope County
ND	D2	Stark County
ND	D2	Stutsman County
ND	D2	Ward County
ND	D2	Wells County
ND	D2	Williams County