CHARTERED
ACCOUNTANTS
ACADEMY

# Learning objectives

Provisions of Income Tax peculiar to farmers, namely:

- Capital allowances; and
- Special reliefs for farmers

# Farming

- Why do farmers have special provisions that apply only to them?

# Farming

## FARMER

- Any person who derives income from pastoral, agricultural or other farming activities including income from the letting of a farm used for such purposes . Sect 2

# Farming – Staff housing – $4^{TH}$ Schedule par 1

- Buildings used mainly for the purposes of a trade wholly or mainly for the housing of his employees
- It does not include any building comprising a residential unit which exceeds US$25,000;
- Staff housing does not include a beer hall forming part of a farm compound. (ITC 1511 (1992) 54 SATC 39)

# Farming – Farm Improvements – 4th schedule par 1

- Building, structure or work of a permanent nature (including a water  furrow) used in farming operations; includes sheds, canals, permanent roads , bridges, cattle dips (not beer halls)
- It includes any building used for the purposes of a school; hospital or clinic , in connection with the taxpayer's farming operations; Limitation of cost US$10,000. 50% rule.
- It excludes any dwelling used by the taxpayer as a homestead for himself and his family;
- Also excludes farm assets covered by other specific provisions e.g. staff housing, tobacco barns, 2nd Schedule assets.

# Tobacco Barn – 4th schedule par 1

- means any building used for the curing of tobacco;

# $7^{th}$ schedule definitions

- **drought-stricken area**
- **epidemic area**
- **expenditure**
- **Fencing**
- **water conservation work**

# Farming – 7th Schedule deductions

A farmer shall be entitled to deduct expenditure incurred on :

1) Water conservation works. Expenditure is deductible in the year incurred notwithstanding that work might be in progress.
2) The sinking of boreholes and wells;
3) Fencing: Expenditure must not only be incurred by the taxpayer but the fencing must be used in farming operations.
4) Stumping and clearing of land;
5) Works for the prevention of soil erosion
6) Aerial and geophysical surveys.

# Livestock valuation

- For ordinary livestock, the farmer may elect – in his first return – between fixed standard value (FSV), and cost maintenance value (CMV); and
- For stud livestock, the farmer may elect to use purchase price value (PPV) or FSV.

# Live stock Valuation

**Livestock acquired without payment.**

Valuation of livestock acquired by inheritance or donations:

i. If heir or donee merely sells the livestock without conducting farming operations , the proceeds are of a capital nature;
ii. If livestock farming is commenced or livestock introduced into existing farming operations a deduction is allowed.

# Live stock Valuation

**Livestock acquired without payment.**

Valuation of livestock acquired by inheritance or donations:

i. to an heir, the fair market value, for which the valuation in the estate concerned would be used;

ii. to a donee, an amount not exceeding what would have been deductible in the donor's hands had he sold the livestock: this is normally the FSV of livestock

## Question

Varimi Farmers (Pvt) Ltd acquired a farm in Manicaland in March 2013 under the Government sponsored A2 resettlememt scheme and immediately commenced crop farming operations. The company paid an amount of $90,000 allocated to the farm improvements on the farm as follows:

| | $ |
|---|---|
| Land | nil |
| Staff housing (5 units) | 20,000 |
| Tobacco barns | 15,000 |
| Dam | 18,000 |
| Irrigation equipment | 12,000 |
| Farm tractors | 25,000 |

The following expenditure was incurred during the course of the year:

| | |
|---|---|
| Stumping and clearing of land | 4,000 |
| Sinking of boreholes and wells | 6,000 |
| New fencing | 5,000 |
| Farming equipment | 14,000 |

The income statement for the year ended 31st December 2013 reflected a net profit of $30,000.

The income statement had been debited with the following expenses :

| | |
|---|---|
| Depreciation | 8,500 |
| Crop chemicals | 7,800 |
| Farm expenses | 14,000 |
| Penalty for late payment of PAYE | 2,000 |

**REQUIRED**
**Calculate the minimum taxable income or maximun tax loss for the year ended 31st December 2013.**

**SUGGESTED SOLUTION**

**VARIMI (Pvt) Ltd**

**Computation of taxable Income**

**Year ended 31st December 2013**

| | | |
|---|---|---|
| Profit per accounts | | 30,000 |
| Add: | | |
| Depreciation | 8,500 | |
| PAYE penalty | 2,000 | |
| | | 10,500 |
| | | 40,500 |
| Less: | | |
| Capital allowances : | | |
| Staff housing Wear and tear 5% of $20,000 | 1,000 | |
| Tobacco barn : Wear and tear 5% of $15,000 | 750 | |
| Dam | - | |
| Irrigation equipment : SIA 25% of $12,000 | 3,000 | |
| Farm tractors : SIA 25% of $25,000 | 6,250 | |
| Farm equpment : SIA 25% of $14,000 | 3,500 | |
| 7th Schedule | | |
| Stumping and clearing of land | 4,000 | |
| Sinking of boreholes and wells | 6,000 | |
| New fencing | 5,000 | |
| | | (29,500) |
| Taxable income for the year | | 11,000 |

# Taxable Income from Drought sales – 7$^{th}$ schedule par 5

| | | |
|---|---|---|
| Proceeds from drought sales | | XX |
| Less : | | |
| (a) number sold * fixed standard value | | XX |
| (b) <u>total no. sold * livestock expenses</u> | | |
| Average stock# | <u>XX</u> | |
| Taxable income from drought sales | XX | |
| Relief (carried forward) [2/3 x taxable income] | <u>XX</u> | |

#Average stock = (opening stock + closing stock) / 2

# Farming – Taxable Income from Drought sales - Example

## Example 1

A farmer sold in a drought proclaimed period 25 oxen which realised $9,000.His FSV for oxen is $300.The direct herd expenses were $1,500. Opening stock 160 head and closing stock 140 head.

**Solution**

| | |
|---|---|
| Drought sales | 9,000 |
| Less: 25 oxen at $300 | (7,500 ) |
| Expenses $\frac{1,500 \times 25}{0.5(160 + 140)}$ | (250) |
| Taxable income from drought sales | 1,250 |
| | |
| Taxable in current year 1/3 | 417 |

# Farming – Taxable Income from Drought sales – Example 2

## Example 2

A farmer sold in a drought proclaimed period all his 25 dairy cows which Realised $20 ,000.The FSV for dairy cows is $600.The direct dairy expenses were $1,500 while other livestock expenses were $4,000.

Opening stock 160 head and closing stock 140 head.

### Solution

| | |
|---|---|
| Drought sales | 20,000 |
| Less: FSV 25 cows at $600 | (15,000) |
| Dairy expenses | (1,500) |
| Expenses $\frac{4,000 \times 25}{0.5(160 + 140)}$ | (667) |
| Taxable income from drought sales | 2,833 |
| Not taxable in current year 2/3 | 1,889 |

# Farming – Restocking Allowance – 7th schedule par 6

- Provided on the cost of restocking a herd which has been depleted by forced sales;
- The cost of purchases is allowable
- A further deduction of 50% of the purchase price granted as a restocking allowance.
- Restocking allowance subject to a restriction based on the assessed carrying capacity of the land (ACCL).

# 2.6 Farming – Restocking Allowance (example)

## Example

In September 2010 a farmer purchased 70 heifers for $30,000 thereby restocking his herd which had been depleted by drought.

The ACCL has been determined as 300.

The farmer's livestock trading account for the year ended 31st December 2010:

| **Herd** | | | **Herd** | | |
|---|---|---|---|---|---|
| 350 | Opening Stock | 70 000 | 100 | Sales ( April ) | 65 000 |
| 70 | Purchase (September) | 30 000 | 320 | Closing stock | 64 000 |
| | Expenses | 4 000 | | | |
| | Profit | 25 000 | | | |
| | | 129 000 | | | 129 000 |

# 2.6 Farming – Restocking Allowance (example

## Example

**Restocking allowance**

| | |
|---|---|
| ACCL | 300 |
| On hand prior to purchase | 250 |
| Difference which should not have been exceeded | 50 |
| Potential restocking allowance (50%) | 15,000 |
| Actual allowance (50/70 x 15000) | **10,714** |

# Questions