


IT 217 - Trading stock - value of poultry on hand

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TAXATION RULING NO. IT 217

TRADING STOCK - VALUE OF POULTRY ON HAND

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POULTRY

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FACTS

The following guidelines were issued in relation to the treatment of poultry on hand for trading stock purposes.

2. CITCM 584 directs that a strict application of section 28 should not be demanded in respect of poultry. In those cases, however, where the taxpayer has adopted the practice of taking into account the value of poultry on hand, that practice may be permitted to continue.

3. Consideration was given to a case involving a taxpayer/company which carried on poultry farming, breeding many of its own birds for the meat chicken or broiler trade. Birds on hand at the end of the year of income were valued, both in its accounts and for income tax purposes, at cost calculated on the basis of the purchase price of the eggs and day-old chickens plus the direct cost of hatching, feeding, etc., i.e., at the progressive cost of producing the birds.

4. Following on a take-over by another company, the taxpayer/company continued to maintain breeding flocks but sold all of its eggs to a subsidiary company for hatching and purchased all its livestock as day-old chickens. Birds on hand at the end of the year of income continued to be valued at their progressive cost in its books of account. However, the company contended that the change in its method of operation entitled it, in terms of section 32, to bring the birds on hand at the end of the year of income to account at the bare purchase price of the day-old chickens for income tax purposes. The difference in the two bases of valuation was substantial.

RULING

5. There is no objection in principle, in the case of a poultry farming business, to accepting the bare purchase price of day-old chickens as "cost price" for section 32 purposes. However, in the case under consideration, it was also considered that the progressive cost basis of valuation adopted by the company prior to the take-over was acceptable for income tax purposes and that a change to a value based on the bare purchase price of the day-old chicks was not acceptable unless the company agreed to adjust its opening stock of the year of change

to a value calculated on the same basis.

6. The view was taken that insistence upon such an adjustment could be supported on either of the following grounds -

- (a) if the progressive cost basis adopted by the company and accepted by the department complied with section 32, it would be inconsistent to bring opening stock to account on that basis and closing stock to account on the basis of the bare purchase price of the day-old chickens, even if leave in terms of section 33 was warranted; or
- (b) if, as contended by the company, the progressive cost basis did not comply with section 32, then the value of the livestock brought to account at the close of the previous year was not a value "ascertained under this or the preceding Act", and it would be necessary to value the opening stock on a correct basis.

7. It was accepted, however, that if an associated company commenced to carry on the activity of livestock raising conducted by the taxpayer/company, there would be no barrier to the associated company adopting, from the outset, the bare purchase price of the day-old chickens as their "cost price" for the purposes of section 32.

COMMISSIONER OF TAXATION