

PS LA 2006/3 (GA) - Calculating the value of trading stock - oyster farmers who use the stick farming method

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Practice Statement Law Administration (General Administration)

PS LA 206/3 (GA)

This law administration practice statement is issued under the authority of the Commissioner and must be read in conjunction with Law Administration Practice Statement [PS LA 1998/1](#). ATO personnel, including non ongoing staff and relevant contractors, must comply with this law administration practice statement, unless doing so creates unintended consequences or is considered incorrect. Where this occurs, ATO personnel must follow their business line's escalation process.

Taxpayers can rely on this law administration practice statement to provide them with protection from interest and penalties in the way explained below. If a statement turns out to be incorrect and taxpayers underpay their tax as a result, they will not have to pay a penalty. Nor will they have to pay interest on the underpayment provided they reasonably relied on this law administration practice statement in good faith. However, even if they don't have to pay a penalty or interest, taxpayers will have to pay the correct amount of tax provided the time limits under the law allow it.

SUBJECT: Calculating the value of trading stock – oyster farmers who use the stick farming method

PURPOSE: To explain the method the Commissioner accepts for certain oyster farmers to calculate the value of oysters that are:

- held as trading stock, and
- acquired using the traditional stick farming method.

TABLE OF CONTENTS	Paragraph
STATEMENT	1
EXPLANATION	6
How to calculate the value of trading stock on hand at the end of an income year using the 'per stick' method	12
EXAMPLES	14
Example 1 – calculating the value of closing stock for the 2001/02 income year and later years	14
Step 1	18
Step 2	21
Step 3	22
Step 4	23
Example 2 – calculating closing stock for the 2001/02 income year and later income years – STS taxpayer	25

STATEMENT

1. This practice statement applies to oyster farmers who:
 - carry on a business of oyster farming
 - farm oysters solely for use as food for human consumption, and
 - acquire those oysters as spat (oyster larvae) by using the traditional stick farming method.
2. This practice statement does not apply to oyster hatcheries.
3. The Commissioner recognises that many oyster farmers face ongoing difficulty in determining the value of oysters held as trading stock for tax purposes. Therefore, as a matter of practical compliance and sensible administration, and with a view to reducing compliance costs, the Commissioner has decided that oyster farmers who use the 'per stick' method (as described below) to calculate the value of trading stock at the end of each income year will be accepted as having complied with the law. The 'per stick' method may also be used by oyster farmers who have previously accounted for their trading stock in some other way.
4. The 'per stick' method is based on the method set out in former section 70-41 of the *Income Tax (Transitional Provisions) Act 1997* (IT(TP)A 1997).¹ It may only be used in respect of oysters that were acquired as spat either during the income year or in previous years, and that have not been harvested at the end of the income year. That is, the method may be used for trading stock that was, and is:
 - attached to sticks or slats, or
 - held in trays or baskets (or other containers).
5. Oyster trading stock that has been harvested, or is acquired by any other means cannot be accounted for using the 'per stick' method.

EXPLANATION

6. Some oyster farmers use the traditional stick farming method (or 'stick culture') to cultivate oysters. The farmer places hardwood sticks or plastic slats (generally being either one or two metres long) into the water in areas of estuaries where natural oyster spatfall occurs. Immature oyster spat attach themselves to the sticks or slats where they remain until they grow to maturity or until the farmer knocks the spat from the sticks or slats and allows them to grow to maturity in trays or baskets (or other containers) in the water. The cultivation process generally takes from 3 to 4 years.
7. The tax laws require oyster farmers to account for oysters on hand as trading stock. Trading stock for oyster farmers includes those oysters that are held on sticks or slats, or in trays or baskets (or other containers), or harvested and held ready for sale.
8. Oyster farmers that use the traditional stick farming method are required to bring to account as trading stock the oysters that they acquire as spat and which are still on hand at the end of an income year.

¹ Note that section 3 and clause 20 of Schedule 3 to the *Tax Laws Amendment (Repeal of Inoperative Provisions) Act 2006* repealed section 70-41 of the IT(TP)A 1997 from 1 January 2008.

9. Former section 70-41 of the IT(TP)A 1997 provided a once-only basis for eligible oyster farmers who use the stick farming method to bring their oysters to account as trading stock for the first time at the start of the 2001/02 income year. Except for the transitional provision, the normal trading stock rules apply to work out the value of trading stock at the start and end of an income year (see Division 70 and Subdivision 328-E of the *Income Tax Assessment Act 1997* (ITAA 1997)). However, in terms of practical compliance, the 'per stick' method is consistent with the intent of the trading stock provisions and provides a simplified method for making a value calculation.
10. Accordingly, the Commissioner will accept that oyster farmers (as described above) who use the 'per stick' method outlined in this practice statement satisfy the requirements of the law for valuing trading stock.
11. Oyster farmers who have not previously accounted for trading stock should discuss the issue with their tax adviser, or contact the ATO for advice.

How to calculate the value of trading stock on hand at the end of an income year using the 'per stick' method

12. Farmers valuing their closing stock on a 'per stick' basis must calculate their stock on hand by reference to the number of sticks or slats on which they caught that stock as spat. The method of calculation is set out in the method statement below.

Method Statement

- a. Count the number of sticks and plastic slats in each of the following categories:
 - Count wooden sticks that are in use at the end of the income year to capture spat. Add to that the number of wooden sticks that are no longer in use but that were used to capture oysters that are still on hand at the end of the income year. If any sticks were used more than once to capture stock on hand, count each re-use as another stick for the purposes of this count.
 - Count one-metre long plastic slats that are in use at the end of the income year to capture spat. Add to that the number of one-metre long plastic slats that are no longer in use but were used to capture oysters that are still on hand at the end of the income year. If any one-metre long plastic slats were used more than once to capture stock on hand, count each re-use as another slat for the purposes of this count.
 - Count two-metre long plastic slats that are in use at the end of the income year to capture spat. Add to that the number of two-metre long plastic slats that are no longer in use but were used to capture oysters that are still on hand at the end of the income year. If any two-metre long plastic slats were used more than once to capture stock on hand, count each re-use as another slat for the purposes of this count.
- b. Multiply the number of wooden sticks and two-metre long plastic slats counted by the above method by \$1.00 to capture the trading stock on hand at the end of the income year.
- c. Multiply the number of one-metre long plastic slats counted by the above method by \$0.50 to capture the trading stock on hand at the end of the income year.

The 'per stick' values will be reviewed and adjusted periodically, in consultation with the oyster industry. The 'per stick' values provided here may be used until we advise otherwise.
- d. Add together the amounts calculated by Step 2 and Step 3. This will provide the value of oysters to be included as trading stock on hand at the end of the income year.

13. The 'per stick' method can also be used by small business entities (previously known as simplified tax system (STS) taxpayers) to work out opening and closing stock values. The value of trading stock calculated at the end of an income year using the 'per stick' method can be used for the purpose of making a reasonable estimate of stock on hand at the end of an income year. If the difference between the opening and closing stock values for the year is not more than \$5,000 there is no need to bring any change in value in trading stock to account (refer section 328-285 of the ITAA 1997).

EXAMPLES

Example 1 – calculating the value of closing stock for the 2001/02 income year and later years

14. Peter is an eligible oyster farmer who satisfies the conditions set out above. Peter was not eligible to use the transitional concession provided by section 70-41 of the IT(TP)A 1997, as he had accounted for his trading stock on hand at the end of the 2000/01 income year. In accordance with this practice statement, Peter is able to use the 'per stick' method to work out the value of trading stock that he has on hand at the end of the 2001/02 income year.
15. At 30 June 2002, Peter has:
- wooden sticks and one-metre long plastic slats in the water to capture oyster spat
 - oysters in trays in the water at various stages of maturity, including some oysters that Peter purchased from another farmer during the year for \$1,200 to replace stock that he lost to disease, and
 - oysters that he recently harvested and holds ready for sale.
16. Before applying the 'per stick' method, Peter must exclude the harvested oysters and the oysters that he purchased from the other farmer, along with any other stock that was not acquired by Peter using the stick farming method. Peter must account separately for these oysters at cost, market selling value or replacement value. Peter elects to account for the stock that he purchased at its cost of \$1,200, and to account for the harvested oysters at their market selling value of \$500.
17. Peter then applies the 'per stick' method to value the remaining stock on hand.

Step 1

18. On 30 June 2002, Peter calculates that he has 2,000 wooden sticks in the water to capture oyster spat. Peter determines that he has used those same 2,000 sticks on two previous occasions to capture oysters that he still holds in trays at the end of the income year. Therefore, Peter counts a total of 6,000 wooden sticks.
19. Peter is also using 4,000 one-metre long plastic slats in the water to capture oyster spat. Peter calculates that he has previously used 3,000 one-metre long plastic slats to capture oysters that he has growing in trays at the end of the income year. This gives Peter a total of 7,000 one-metre long plastic slats.
20. Peter has not used any two-metre long plastic slats.

Step 2

21. Peter multiplies the number of wooden sticks and two-metre long plastic slats that he counted at Step 1 by \$1.00, to give a value of \$6,000.

Step 3

22. Peter multiplies the number of one-metre long plastic slats that he counted at Step 1 by \$0.50, to give a value of \$3,500.

Step 4

23. Peter adds together the amounts calculated at Step 2 and Step 3, to get a value of \$9,500, which must be included as trading stock on hand at the end of the income year.
24. To calculate the total value of his trading stock on hand on 30 June 2002, Peter must add the \$9,500 calculated using the 'per stick' method to the value of his other trading stock (being \$1,200 plus \$500). The total value of Peter's trading stock on hand at the end of the income year is \$11,200.

Example 2 – calculating closing stock for the 2001/02 income year and later income years – STS taxpayer²

25. Stan is an STS taxpayer who satisfies the conditions set out above. Stan used the transitional concession, provided by s 70-41 of the IT(TP)A 1997, to calculate that the value of his trading stock on hand at the start of the 2001/02 income year was \$13,750. In accordance with this practice statement, Stan is able to work out the value of his closing stock for the 2001/02 income year using the 'per stick' method and the STS rules.
26. Stan uses the 'per stick' method to make a reasonable estimate that the value of his trading stock on hand on 30 June 2002 is \$10,700.
27. As Stan is an STS taxpayer he will not have to account for changes in the value of his trading stock for the income year if the difference between the value of his trading stock at the start of the 2001/02 income year and the value he reasonably estimates for his trading stock at the end of that income year is not more than \$5,000. Stan can, however, choose to account for the difference.
28. The difference between the value of Stan's opening stock at the start of the income year and his estimate of the value of his closing stock at the end of the income year is not more than \$5,000. Stan chooses not to account for changes in the value of his trading stock.
29. Under subsection 328-295(2) of the ITAA 1997 Stan's closing stock value for the 2001/02 income year will be the value of his trading stock on hand at the start of the income year. Accordingly, Stan's closing stock value for the 2001/02 income year will be \$13,750.

² Note that the *Tax Laws Amendment (Small Business) Act 2007* repealed the concept of a simplified tax system (STS) and replaced it with the concept of a 'small business entity', effective from the 2007/08 income year. Example 2 relates to the 2001/02 income year when the STS was in operation.

Amendment history

Date of amendment	Part	Comment
7 August 2014	Contact details	Updated.
6 December 2011	Contact details	Updated.
20 July 2011	Contact details	Updated.
7 May 2008	Throughout	Amendments made to reflect repeal of STS.
	Contact details	Updated.

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