PS LA 2008/4 (GA) - Calculating the value of trading stock - bees kept for use in a honey production business

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SUBJECT:	**Calculating the value of trading stock – bees kept for use in a honey production business**
PURPOSE:	**To explain principles beekeepers may apply to calculate the value of bees that are held as trading stock**

TABLE OF CONTENTS **Paragraph**

1. This practice statement applies to entities carrying on a business of beekeeping for the purpose of honey production.

2. Most beekeepers will not have to account for trading stock because the differences between opening and closing values will be less than $5,000. This will usually be the case where the beekeeper has 500 hives or less and is a small business entity.[1] This is because the Commissioner accepts the industry average cost as a reasonable approximation for the value of a live hive.

3. However, large producers will need to account for differences in trading stock and this practice statement provides guidance about principles beekeepers may use to calculate the value of the trading stock.

Background

4. The beekeeping industry, and this particular issue, is considered low risk.

5. The revenue associated with valuation of trading stock of honey bees has not been estimated in any formal way, however the Tax Office is aware that the vast majority of beekeepers are small business entities which will have less than $5,000 difference between opening and closing trading stock in any year. As small business entities, they do not need to account for differences in trading stock of less than $5,000.

6. The industry has shown an orientation to be compliant, working with the Tax Office to secure the Tax Office view and to have practical advice about how to comply. In addition the peak body, (the Australian Honey Bee Industry Council) and State and Territory Apiarist associations have offered assistance in meeting with their members to facilitate consultation. The feedback from these meetings is that they will comply with the requirements of the law if they can get assistance about practical methods to comply.

7. The beekeeping industry has advised that:

   - A live hive is a productive hive that comprises one queen bee and an unidentifiable number of worker and drone bees. The number of worker and drone bees fluctuates from 20,000 to 60,000 bees during the year and increases during the peak production seasons (usually between September and April). However, the number of bees on hand at end of June each year is relatively constant.

[1] Broadly, you are a small business entity if you carry on a business and your aggregated turnover for the previous income year or/and for the current income year is less than $2 million.

- Bees have a relatively short life span. Queen bees can live for 4 years; however the general practice of the industry is to replace queen bees in a live hive every 12-18 months. Queen bees are not usually created or replenished within a live hive by means of natural increase.
- Queen bees may be purchased as a queen bee cell, as an adult (emerged from the cell) or as a component of a nucleus or a live hive. Alternatively, a beekeeper may breed their own queen bees.
- A nucleus comprises a queen bee and enough worker and drone bees to create a live hive.
- Worker bees live on average 4-6 weeks while drone bees have an even shorter life span. Therefore, worker and drone bees in a fully operating live hive are mostly acquired by natural increase and, as such, any associated costs are minimal.
- Worker and drone bees are considered to have a nil value and the value of a live hive essentially equates with the value of the queen bee or nucleus in the live hive.

8. The trading stock provisions in Division 70 of the *Income Tax Assessment Act 1997* (ITAA 1997) provide that a taxpayer must elect to value each item of trading stock on hand at the end of an income year at:
   - its cost
   - its market selling value, or
   - its replacement value.

9. Taxpayers carrying on a business are required to compare the value of their trading stock on hand at the start of an income year (opening stock) with the value of their trading stock on hand at the end of that year (closing stock). Subject to the application of special rules,[2] any excess of the value of closing stock over the value of opening stock is included in their assessable income. Any excess of the value of opening stock over the value of closing stock is an allowable deduction.

10. The tax laws require beekeepers to account for bees on hand as trading stock. Bees kept for use in a honey production business (bees) are trading stock as defined in section 70-10 of the ITAA 1997 because they are livestock (being animals used in a business of maintaining animals for the purpose of selling their bodily produce (honey)).[3]

[2] Taxpayers who are small business entities can choose not to account for changes in the value of their trading stock for an income year in some circumstances.
[3] See Taxation Determination TD 2008/26 Income tax: are bees kept for use in a honey production business trading stock as defined in section 70-10 of the *Income Tax Assessment Act 1997*?

11. The Commissioner recognises that many beekeepers may face difficulty in determining the value of bees held as trading stock on hand at the end of an income year due to the particular characteristics of the beekeeping industry. In the interest of good administration, and with a view to reducing compliance costs, the Commissioner has consulted with the beekeeping industry in order to develop a practical method that may be used to value bees held as trading stock. As a result of these consultations, the Commissioner accepts that for the purposes of Division 70 and Subdivision 328-E of the ITAA 1997[4], the valuation of bees held as trading stock will be accepted as being in accordance with the law if the principles in this practice statement have been applied in undertaking the valuation.

STATEMENT

Unit of measurement

12. The Commissioner will accept the use of a live hive of bees as the unit of measurement for valuing bees on hand at the end of an income year at cost, market selling value or replacement value. In this context, a reference to a live hive means a productive hive to which a queen bee is attached. For the purposes of valuing bees as trading stock, the value of the hive structure box and frames are not included in the calculations.[5]

Nil for opening value

13. If an item of trading stock was not brought to account in the prior year its opening value is nil in the year that it is first taken into account. Therefore, for beekeepers who have not brought bees to account as their trading stock previously, the opening value of trading stock on hand is nil in the year when the bees are first taken into account as trading stock. This is regardless of the method chosen to value the stock.

Valuation methods

14. A beekeeper can choose whether to value a live hive for a particular year at its cost, market value, or replacement value. The beekeeper need not use the same method for different hives in any one year. Further, the method chosen to value a particular live hive may be changed from year to year.

Cost

15. If a beekeeper elects to value a live hive at its cost, the cost of the live hive is to be determined by using the absorption costing method. The Commissioner accepts that for the purpose of valuing bees on hand at cost at the end of an income year:

    - the cost of worker and drone bees acquired by natural increase are minimal and can be disregarded, and

[4] Subdivision 328-E modifies the rules in Division 70 about trading stock for taxpayers that are small business entities.

[5] Law Administration Practice Statement PS LA 2003/8 provides guidance on methods that taxpayers carrying on a business can use to determine if expenditure incurred by them to acquire certain low cost tangible assets is to be treated as on revenue or capital account.

- the cost of a queen bee in a live hive can be regarded as representing the cost of a live hive on hand at the end of an income year.

16. Accordingly:

- Where a live hive is purchased, the cost of the live hive includes the actual purchase price plus any incidental costs of getting the bees on hand such as transportation costs, shipping or postage. (The cost of the hive structure box and frame is excluded from the calculation.)
- Where a live hive is acquired by way of a process of splitting an existing live hive and replenishing with a queen bee or nucleus, the cost of the new live hive includes all costs associated with the process of bringing the live hive into existence. This will include the costs of acquiring the queen bee or nucleus plus any incidental costs of getting the queen bee or nucleus on hand. (The cost of the hive structure box and frame is excluded from the calculation.)
- Where the queen bee in a live hive is replaced with another queen bee or with a nucleus, the cost of the live hive includes all costs associated with acquiring the queen bee or nucleus plus any incidental costs of getting the queen bee or nucleus on hand. Where the queen bee was purchased as a queen bee cell, the cost of the queen bee cell is a cost associated with acquiring the queen bee.
- Where a queen bee is bred for the purpose of honey production and replaces the queen bee in a live hive, the cost of the live hive will include all costs associated with bringing the queen bee into existence plus any incidental costs of getting the queen bee to the live hive. The cost of queen bees acquired by natural increase may include an appropriate amount for:
  - queen grafting tools
  - cell cups
  - nucleus boxes
  - entomologist fees
  - queen rearing kit
  - queen catcher
  - queen marking/number kit
  - queen candy.

17. Rearing and maintenance costs of a queen bee or nucleus in a live hive do not form part of the cost of the live hive.

Average cost for multiple hives

18. It may be physically impossible to trace or identify each live hive and the average cost method[6] may be the most acceptable method to determine the cost of a live hive at the end of an income year. If the average cost method is chosen, beekeepers who do not have sufficient records of the number and value of live hives on hand because they have not previously accounted for bees as trading stock should adopt nil as the number and value of live hives on hand at the beginning of the income year in calculating the value of the stock on hand at the end of the income year.

19. Average cost will not always be the most appropriate method in working out the cost of trading stock where there is relatively high value trading stock. Where a live hive contains a queen bee acquired at a significantly higher cost, that hive may be more appropriately valued at its actual cost. The industry has advised that some queen bees may cost up to $16, for example.

20. The Commissioner will accept a method of calculating cost that is best suited to the situation. What is required is that the method adopted produces a reasonable approximation of what would have been the total valuation if each live hive had been individually valued at cost. In general an estimate of the value of trading stock on hand will be reasonable where it:

    - takes into account all relevant factors affecting the stock
    - has been undertaken in good faith
    - results from a rational and reasoned process of estimation, and
    - is capable of explanation to, and verification by, a third party.

Use of average industry cost

21. In the interests of good administration and the reduction of compliance costs, the Commissioner will accept the use of the average industry cost of a queen bee as an estimate of the cost of a queen bee for a hive. This cost may be used by the beekeeper regardless of whether the beekeeper purchases or breeds the queen bee, except where a queen bee has been acquired at a significantly higher cost. The industry has advised that currently the average cost of a queen bee purchased from queen bee breeders is $9 including shipping or postage charges.

Market selling value

22. If a beekeeper elects to value the live hive at market selling value, its value is the current value of the live hive sold in the normal course of business. (The value of the hive structure box and frame is excluded from the calculation.) The Commissioner does not accept as a general proposition that a live hive has a market value of $0.

[6] The 'average cost method' averages costs of the whole year. Refer to Taxation Ruling IT 2350.

Replacement value

23. If a beekeeper elects to value the live hive at replacement value, its value is the amount required to be paid for the live hive in its normal buying market on the last day of the year of income. (The replacement value of the hive structure box and frame is excluded from the calculation.) The Commissioner does not accept as a general proposition that a live hive has a replacement value of $0.

Obsolescence and special circumstances

24. In the case where an item of trading stock is obsolete or there are other special circumstances relating to that item, a taxpayer may value the item at a reasonable value that is below its cost, market selling value or replacement value.[7] However, the provision does not apply just because an item of trading stock was not brought to account in a prior year or because the livestock is of an unusual type.

Small business entities

25. From the 2007-08 income year onwards, if you are a small business entity, you can choose not to account for changes in the value of trading stock for an income year unless there is a difference of more than $5,000 between:

    - the value of stock on hand at the start of an income year, and
    - the reasonable estimate of the value of stock on hand at the end of that year.

26. In general, an estimate of the value of trading stock on hand will be reasonable where it:

    - takes into account all relevant factors and considerations likely to affect the number and value of the particular entity's items of trading stock on hand
    - has been undertaken in good faith
    - results from a rational and reasoned process of estimation, and
    - is capable of explanation to, and verification by, a third party.

27. The Tax Office publication *Simplified tax system: simplified trading stock rules* (NAT 4107) provides guidance to small business entities on how to make a reasonable estimate of the value of trading stock on hand at the end of the year.

28. Where a small business entity chooses not to account for changes in the value of trading stock for an income year, the value of the trading stock on hand at the end of that income year is taken to be the same as the value of trading stock on hand at the start of the year.

29. It is envisaged that the majority of beekeepers would be small business entities.

Date of effect

30. These arrangements will have effect from 1 July 2008.

[7] Section 70-50 of the *Income Tax Assessment Act 1997*.

Examples

31. The following examples illustrate the application of the principles in this practice statement.[8] A reference to a hive means a live hive which is a productive hive to which a queen bee is attached. For illustration purposes only, any goods and services tax (GST) impact is ignored and other types of trading stock that a beekeeper may have on hand at the end of an income year such as honey are also ignored.

Example 1 (part 1) – calculating the value of trading stock on hand at year end – Small Business Entity – first year trading stock taken into account

32. John is a beekeeper with bees kept for honey production. John does not breed his own queen bees. John is a small business entity for the 2008-09 income year. John has not accounted for his bees as trading stock previously. After reading the Tax Office fact sheet on bees as trading stock, John accounts for the bees as trading stock at cost for the first time. Since this is the first year John takes the bees into account as trading stock, the value of his trading stock on 1 July 2008 (opening stock) is nil. As John is a small business entity, he can choose not to account for changes in the value of his trading stock for the income year unless his reasonable estimate of the value of his trading stock on hand at the end of the 2008-09 income year (closing stock) is more than $5,000.

33. John considers that the average industry cost of a queen bee is a reasonable estimate of the cost of queen bees for the 2008-09 income year. Therefore, he decides to adopt the average industry cost of a queen bee in making a reasonable estimate of the value of his trading stock on hand at the end of the income year.

34. John reasonably estimates that he has 80 hives on hand at the end of the 2008-09 income year. Therefore, the cost of John's trading stock on hand at the end of the income year is calculated as follows:

	Cost/item using average industry cost	**Number**	**Value**
Stock on hand at 01/07/2008		**Nil**	**Nil**
Reasonable estimate of stock on hand at 30/06/2009	**$9**	**80**	**$720**
Value of trading stock on hand at 30/06/2009			**Nil**

35. As the difference between the value of the opening stock (nil) and the reasonable estimate of the closing stock for the 2008-09 income year ($720) is not more than $5,000, John chooses not to account for the change in the value of his trading stock when calculating his assessable income. The value of John's trading stock as at 30 June 2009 is deemed to be the same as the value of his opening stock and therefore is nil.

[8] The figures used in the examples are for illustration purposes only.

Example 1 (part 2) – calculating the value of trading stock on hand at year end – Small Business Entity – subsequent year

36. During the 2009-10 income year, John's record shows that he purchased 30 queen bees. He used ten queen bees to create new hives, and the rest to replace queen bees in the existing live hives. There are no other events that would significantly affect the number of live hives John has on hand. Therefore, John reasonably estimates that he has 90 live hives on hand the end of the income year.

37. The value of John's opening stock for the 2009-10 income year is nil (the same as the value of John's closing stock as at 30 June 2009). As John is still a small business entity, he does not have to account for changes in the value of his trading stock for the income year unless his reasonable estimate of the value of his trading stock on hand at the end of the 2009-10 income year (closing stock) is more than $5,000. The cost of John's trading stock on hand at the end of the income year is:

	Cost/item	**Number**	**Value**
Stock on hand at 01/07/2009		**Nil**	**Nil**
Reasonable estimate of stock on hand at 30/06/2010	**$9**	**90**	**$810**
Value of trading stock on hand at 30/06/2010			**Nil**

38. As the difference between the value of the opening stock (nil) and the reasonable estimate of the closing stock for the 2009-10 income year ($810) is not more than $5,000, John chooses not to account for the change in the value of his trading stock when calculating his assessable income. The value of John's trading stock as at 30 June 2010 is deemed to be the same value as his opening stock and therefore is nil.

39. There will be no change to John's assessable income for the 2009-10 income year.

Example 2 (part 1) – calculating the value of trading stock on hand at year end – absorption costing – average cost method – first year trading stock taken into account

40. Robert operates a large honey beekeeping business and has more than 1000 hives. Robert has not previously accounted for his bees as trading stock and does not have sufficient records of the number and value of the bees on hand at the beginning of the 2008-09 income year.

41. Since this is the first year Robert takes the bees into account as trading stock, the value of his trading stock on 1 July 2008 (opening stock) is nil. Robert is a small business entity for the 2008-09 income year. He reasonably estimates that the value of his trading stock on hand at the end of the 2008-09 income year (closing stock) is more than $5,000.

42. Robert conducts a stocktake on 30 June 2009. The stocktake shows that Robert has 1050 hives on hand at the end of the income year.

43. Robert uses the average industry cost of a queen bee to work out the cost of his trading stock on hand. The cost of Robert's trading stock on hand at the end of the income year is calculated as follows:

Cost of closing stock		
	Number	**Value**
Stock on hand at 01/07/2008	**Nil**	**Nil**
Stock on hand at 30/06/2009 – (industry average cost multiplied by number of hives)	**1050**	**$9450** ($9×1050)
Amount to include in assessable income		**$9,450**

44. Robert will have a one-off increase in assessable income ($9,450) for the 2008-09 income year.

Example 2 (part 2) – calculating the value of trading stock on hand at year end – absorption costing - average cost method – subsequent year

45. Robert loses over half of his hives due to a severe outbreak of disease.

46. During the 2009-10 income year, Robert acquired the following:

- 20 live hives at $10 per hive, and
- 150 queen bees at $8 per queen bee.

47. In addition, Robert incurred a total cost of $20 on shipping the live hives, and $50 on shipping the queen bees. No other incidental costs are incurred on the purchase of the live hives and queen bees.

48. Robert is a small business entity for the 2009-10 income year. He reasonably estimates that the difference between the value of his trading stock at the start of the income year ($9,450) and the value of his trading stock on hand at the end of the income year (closing stock) may be more than $5,000 because of the significant and unusual high loss of hives due to disease.

49. Robert conducts a stocktake on 30 June 2010. The stocktake shows that Robert has 450 live hives on hand at the end of the income year.

50. Robert chooses to use actual cost rather than the average industry cost of a queen bee to work out the cost of his trading stock on hand. The cost of Robert's trading stock on hand at the end of the income year is calculated as follows:

Cost of purchases – absorption costing		
Cost/item	**Number**	**Amount**
Purchases of live hives	**20**	**$200** ($10x20)
Shipping cost of live hives purchased		**$20**
Purchases of queen bees	**150**	**$1,200** ($8x150)
Shipping cost of queen bees purchased		**$50**
Total costs	**170**	**$1,470**

Cost of closing stock – average method		
	Number	**Value**
Stock on hand at 01/07/2009	**1050**	**$9,450**
Cost of purchases	**170**	**$1,470**
Total	**1220**	**$10,920**
Average cost per hive (Total of value/total of number)		**$8.95** ($10,920/1220)
Stock on hand at 30/06/2010 – average cost method (Average cost per hive multiplied by number of hives)	**450**	**$4,027** ($8.95×450)
Amount allowed as a deduction		**($5,423)** ($9,450 – $4,027)

51. As the value of opening stock as at 1 July 2009 is $9,450, Robert is allowed a deduction of $5,423 ($9,450 - $4,027) for the 2009-10 income year.

Subject references	Absorption costing Cost price method Livestock valuation Market selling price method Replacement price method Trading stock Trading stock valuation Trading stock valuation methods
Legislative references	ITAA 1997 Div 70 ITAA 1997 70-10 ITAA 1997 70-45 ITAA 1997 70-50 ITAA 1997 Subdiv 328-E
Related public rulings	TD 2008/26 TR 98/2 TR 2006/8 IT 2350
Related practice statements	PS LA 1998/1 PS LA 2003/8
Case references	
File references	05/16053
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