Inland Revenue
Te Tari Taake

QUESTIONS WE'VE BEEN ASKED | PĀTAI KUA UIA MAI

Do the purchase price allocation rules alter the tax book values of Farmland Improvements and listed horticultural plants under subpart DO?

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Under subpart DO, a purchaser of farmland with Farmland Improvements and listed horticultural plants who carries on a farming business on the land is allowed an annual amortisation deduction of the diminished values of the improvements and plants. The opening tax book values for the purchaser is the seller's tax book values for the improvements and plants at the beginning of the income year of the sale, less any deductions the seller is allowed in that income year for listed horticultural plants that cease to exist or cease to be used to derive assessable income. This Question We've Been Asked considers whether the purchase price allocation rules alter this treatment. It concludes that they do not.

Key provisions | Whakaratonga tāpua

Income Tax Act 2007 – ss DO 4, DO 5, GC 21, GC 22, sch 20, part A

All legislative references are to the Income Tax Act 2007 unless otherwise stated.

Question | Pātai

When the sale of farmland includes Farmland Improvements and listed horticultural plants, do the purchase price allocation rules in ss GC 20 and GC 21 alter the purchaser's opening tax book values for the improvements and plants as specified under subpart DO?

Answer | Whakautu

No. The purchase price allocation rules in ss GC 20 and GC 21 do not override the rules in subpart DO that specify the tax treatment of Farmland Improvements and listed horticultural plants. Under subpart DO, if the purchaser carries on a farming business on the farmland the purchaser assumes the seller's tax book values for the improvements and plants in the year of the sale and continues the annual amortisation deduction of the improvements and plants.

Key terms | Kīanga tau tāpua

Farmland Improvements refers to the 13 farming improvements to land listed in sch 20, part A (see the Appendix to this question we've been asked). Vines planted mainly for the purposes of producing grapes for wine production are a "non-listed horticultural plant".[1] A non-listed horticultural plant is a Farmland Improvement (sch 20, part A, clause 9). See further explanation under the term "listed horticultural plant" below.

Listed horticultural plant is defined in s YA 1 as horticultural plant, tree, vine, bush, cane or similar plant that is cultivated on land and is a type listed in a determination made by the Commissioner.[2] The definition of "listed horticultural plant" explicitly excludes vines planted mainly for the purposes of producing grapes for wine production. Wine grape vines, therefore, fall within the definition of "non-listed horticultural plants".

Farmer means a person who carries on a farming or agricultural business. The word farmer is used for convenience and does not indicate what activities are farming or agricultural activities. For example, a farmer may be an orchardist.

[1] "Non-listed horticultural plant" is relevantly defined in s YA 1 as a horticultural plant, tree, vine, bush, cane, or similar plant that is cultivated on land and is not a listed horticultural plant.

[2] See DET 24/01: Amortisation rates for listed horticultural plants *Tax Information Bulletin* Vol 36, No 4 (May 2024): 153.

Amortisation deduction is a deduction for expenditure on an asset which spreads the expenditure over a period of time (usually over the estimated useful life of the asset).

Explanation | Whakamāramatanga

Introduction

1. The purchase price allocation rules in ss GC 20 and GC 21 apply when a transaction includes the disposal of two or more of six specified classes of property. The purpose of the purchase price allocation rules is to ensure the seller and purchaser of a class of purchased property treat each class of property as bought and sold for the same amount. A comprehensive commentary on those rules is in the July 2021 *Tax Information Bulletin*.[3]

2. Under subpart DO, if the purchaser of farmland carries on a farming business on the land, the purchaser can assume the seller's tax book values for Farmland Improvements and listed horticultural plants in the year of the sale and continues the annual amortisation deduction of the improvements and plants.

3. This Questions We've Been Asked (QWBA) considers whether the purchase price allocation rules alter the purchaser's opening tax book values of Farmland Improvements and listed horticultural plants under subpart DO.

Subpart DO

4. The rules in subpart DO specify the tax treatment of Farmland Improvements and listed horticultural plants when the land (on which a farming business has been carried on) is sold.

5. Under ss DO 4 and DO 5, an amortisation deduction is allowed for the expenditure incurred on Farmland Improvements and on planting listed horticultural plants, respectively, if the requirements of those provisions are met.

6. Relevantly, a farmer, who owns the land on which a farming or agricultural business is carried on, is allowed the deduction for expenditure incurred by them "or by another person", such as a previous owner or a lessee (s DO 4(2)(b) and s DO 5(2)), in each income year except in the income year in which the farmer sells the land (ss DO 4(2)(d) and s DO 5(3)(a)). Where listed horticultural plants cease to exist or cease to be used

[3] New legislation: Taxation (Annual Rates for 2020–21, Feasibility Expenditure, and Remedial Matters) Act 2021 *Tax Information Bulletin* Vol 33, No 6 (July 2021): 3 at 28–38.

to derive assessable income in the year the farmer sells the land, the farmer is allowed a deduction for the net diminished value of the plants that cease to exist or be used to derive assessable income in that income year, provided the farmer has no deduction under s DO 6 for replacement planting (s DO 5(6)).

7. The words "or by another person" mean a purchaser of farmland that includes Farmland Improvements or listed horticultural plants can assume the amortisation deduction from the point the seller ceases being allowed the deduction under s DO 4 or s DO 5 (ie, in the year of the sale and purchase). The purchaser (the new landowner) is allowed the annual amortisation deductions if they carry on a farming or agricultural business on the land (that is, the purchaser is a farmer) and the Farmland Improvements or listed horticultural plants benefit their business in the income year for which the deduction is allowed.

8. The purchaser's opening tax book values for the Farmland Improvements and the listed horticultural plants are the unexpired portion of the seller's tax book values for the improvements and plants (that is, the seller's tax book value at the start of the year of sale), less any deductions the seller is allowed in that income year for listed horticultural plants that cease to exist or cease to be used to derive assessable income under s DO 5(6).

The purchase price allocation rules do not alter the treatment under subpart DO

9. The purchase price allocation rules in ss GC 20 and GC 21 apply where a person disposes of two or more of the following six classes of property (classes of purchased property) to a purchaser:[4]

- trading stock, other than timber or a right to take timber;
- timber or a right to take timber;
- depreciable property, other than buildings;
- buildings that are depreciable property;
- financial arrangements; and
- purchased property for which the disposal does not give rise to assessable income for the seller or deductions for the purchaser.

[4] Sections GC 20(1) and GC 21(1).

10. Where the sale of farmland includes the disposal of two or more of the six specified classes of purchased property, the purchase price allocation rules apply only to the specified classes of purchased property disposed of as part of the sale.

11. However, the purchase price allocation rules do not affect the tax treatment of the expenditure incurred on Farmland Improvements and listed horticultural plants when sold with land.

12. The purchase price allocation rules require the seller and purchaser of two or more specified classes of purchased property to use the same market values when taking their tax positions in relation to the purchased property in their first tax returns following the transaction. Market values agreed or determined under ss GC 20 and GC 21 are not relevant for Farmland Improvements or listed horticultural plants. This is because ss DO 4 and DO 5 stipulate the purchaser assumes the seller's tax book values in the year of sale for Farmland Improvements and listed horticultural plants and, given the seller does not have depreciation-recovery income or loss for Farmland Improvements and listed horticultural plants, the value for the seller is irrelevant.

13. Irrespective of whether the purchase price allocation rules apply, any purchase price allocation recorded in a document by the seller and purchaser in respect of the Farmland Improvements or listed horticultural plants that differs to the seller's tax book values (in the year of sale) do not alter the purchaser's opening tax book value for the amortisation deductions under subpart DO. The purchase price for those improvements and plants is irrelevant to their tax treatment.

14. As a practical matter, the purchaser must obtain from the seller the tax book values of the Farmland Improvements or the listed horticultural plants for the income year in which the land is sold. Without this information, the purchaser is unable to establish the current year opening tax book values of the improvements and plants.

Examples | Tauira

Example | Tauira 1 – The purchase price allocation rules do not prevent deductions

Charlie and Cooper own a piece of farmland on which they carry on an olive growing business. The farmland consists of olive trees and Farmland Improvements (drained swamp, aeroplane landing strip and non-listed horticultural plants). The tax book value of the olive trees is $50,000 and the tax book value of the Farmland Improvements is $200,000. Items of depreciable property are also on the land with an aggregate adjusted tax value of $500,000.

Charlie and Cooper enter into an agreement for the sale and purchase of the farmland with Brooke and Bailey for the purchase price of $5 million. The agreement allocates $4.7 million to the land and $300,000 to the depreciable property. The agreement also states that Charlie and Cooper will provide Brooke and Bailey with the net diminished values of the olive trees and Farmland Improvements. Brooke and Bailey will take over the olive growing business.

Despite the purchase price allocation rules applying to some items in the sale, Brooke and Bailey, as the new owners of the farmland, having received the necessary tax book value information from Charlie and Cooper, can continue the annual amortisation deductions of the expenditure on the olive trees and Farmland Improvements, starting in the income year of purchase. The opening tax book values of the olive trees and the Farmland Improvements are $50,000 and $200,000, respectively. In practical terms, the value of the olive trees and Farmland Improvements is included in the $4.7 million value allocated to the land and does not need to be separated in the purchase price allocation. Even if the parties had agreed an amount in the purchase price allocation for the olive trees and the Farmland Improvements, the opening tax book values of the items for Brooke and Bailey would remain as $50,000 and $200,000, respectively.

Appendix: Legislation

15. Schedule 20, Part A, is as follows:

Schedule 20

Expenditure on farming, horticultural, aquacultural, and forestry improvements

	Improvement	**Percentage of diminished value of improvement allowed as deduction**
	Part A Farming	
1	unless clause 2 applies, preparation of the land for farming or agriculture, including cultivation and grassing	5
2	regrassing and fertilising all types of pasture in the course of a significant capital activity that relates to a type of pasture with an estimated useful life of more than 1 year	45
3	draining of swamp or low-lying lands	5
4	construction of access roads or tracks to or on the land	5
5	construction of dams, stopbanks, irrigation or stream diversion channels, or other improvements for the purpose of conserving or conveying water for use on the land or for preventing or combating soil erosion, other than planting or maintaining trees, whether or not on the land, for the purpose of providing shelter to the land	5
6	construction of earthworks, ponds, settling tanks, or other similar improvements mainly for the purpose of the treatment of waste products in order to prevent or combat pollution of the environment	5
7	sinking of bores or wells for the purpose of supplying water for use on the land	5
8	construction of aeroplane landing strips to facilitate aerial topdressing of the land	5
9	planting of non-listed horticultural plants on the land (see section 44C of the Tax Administration Act 1994)	10
10	erection on the land of electric power lines or telephone lines	10
11	construction on the land of feeding platforms, feeding yards, plunge sheep dips, or self-feeding ensilage pits	10
12	construction on the land of supporting frames for growing crops	10
13	construction on the land of structures for shelter purposes	10

References | Tohutoro

Legislative references | Tohutoro whakatureture

Income Tax Act 2007, ss DO 4, DO 5, GC 21, GC 22, YA 1 (“listed horticultural plant”, “non listed horticultural plants”) sch 20, part A

Other references | Tohutoro anō

New legislation: Taxation (Annual Rates for 2020–21, Feasibility Expenditure, and Remedial Matters) Act 2021 *Tax Information Bulletin* Vol 33, No 6 (July 2021): 3
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About this document | Mō tēnei tuhinga

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