TIB Appendix

Volume Five, No. 2 **August 1993**

National Standard Costs for Livestock

This TIB Appendix contains the National Standard Costs Determination as consolidated to 24 August 1993, and some examples of how to use it. Following these are updates on a number of other livestock related matters.

At the back we've reprinted the livestock information from TIB Volume Five, No.1, so all the livestock information appears in one place.

Contents

Amendment of National Standard Cost Determination

After Inland Revenue published the national standard cost determination on 23 June 1993, we received several requests for clarifications and coverage of issues which weren't addressed in the determination. On 24 August the Commissioner issued a number of amendments and variations to the determination, which are outlined below. This Tax Information Bulletin includes a consolidated determination incorporating the amendments and variations. These changes take effect from the 1992-93 income year.

Accounting For Large Number of Purchases and Deaths

Paragraph 3 of the determination has been amended to provide that where calculating livestock on hand results in a negative number, an alternative formula is applied to derive a value for livestock of that type. A negative number is likely to occur only in limited circumstances. The alternative formula is:

$$\frac{e + (f \times g)}{c}$$

where -

c is the number of livestock of the type purchased by the taxpayer during that income year which are, or would have been if still on hand, rising one year livestock of the taxpayer at the end of the income year;

e is the aggregate purchase cost of livestock of the type purchased during that income year by the taxpayer which are, or would have been if still on hand, rising one year livestock of the taxpayer at the end of the income year;

f is, in the case of either beef or dairy cattle, the number of bobby calves purchased by the taxpayer during the income year; and

g is the national standard cost for the income year of acquired bobby calves.

Valuing Mature and Maturing Livestock Intake for Beef and Dairy Cattle (other than Male Non-Breeding Cattle)

Paragraph 4 of the determination values cattle other than non-breeding cattle. This paragraph required an opening number and value based on rising one year cattle (whether breeding or non-breeding) on hand at the end of the immediately preceding income year. Paragraph 5 of the determination, which values non-breeding cattle, specified that the opening number and value to be used in that calculation are those which applied to rising one year male non-breeding cattle on hand at the end of the immediately preceding income year. Thus there was an inconsistency between the two paragraphs. This was important for the 1992-93 income year as the trading stock values for male and female rising one year cattle are substantially different. This has been corrected.

Establishing NSC where Calculation of NSC using any of Paragraphs 3 to 7 produce Nil Values

In rare circumstances calculating national standard cost will produce nil values. These circumstances are:

- where no livestock is on hand in the rising one year class for an income year but some livestock in an older class which was already on hand and valued under a different option is now to be valued on NSC at the end of the same income year; or
- where no livestock is on hand in a class category for which national standard cost is being calculated but a bailment deficiency exists and the taxpayer (bailee) wishes to value that deficiency under the NSC option.

The determination has been amended to provide that under these circumstances:

- the rising one year class have a national standard cost set as the breeding, rearing and growing costs (BRG) announced for that income year; and
- the rising two year class have a national standard cost set as the BRG for the rising one year class plus the rearing and growing cost (RG) announced for that income year; and
- the rising three year non-breeding male cattle class have a national standard cost set as BRG plus two sets of rearing and growing costs announced for that income year. Two sets of rearing and growing costs are used to reflect the cost of these cattle being raised to rising two years of age then rising three years of age.

This amendment is included as paragraph 9A of the determination.

Interpretation Of Opening Value

Paragraph 27 of the determination gives effect to the Livestock Valuation Consultative Committee's recommendation that the closing value of livestock for the 1992-93 income year can be based on last year's trading stock values or this year's national standard cost values. However, the current wording could have been interpreted as allowing the opening value of livestock to be revised rather than the alternative value being applied in determining closing value.

Paragraph 27 has been amended to make it clear that the recalculation of opening values is only undertaken to determine the closing value of livestock on hand at the end of the 1992-93 income year.

Transitional Provision Amendment

Paragraphs 30 and 31 include reference to paragraph 27 in setting the opening average inventory value in the 1992-93 income year. This reference was incorrectly included and if it remained it would allow taxpayers to alter their opening inventory valuations without any tax consequence. This would allow in some cases substantial tax free increases in the opening value of livestock on hand. Alternatively, in other situations this problem would result in a reduced opening inventory value without an accompanying tax deduction. The determination has been amended to remove the reference to paragraph 27 from paragraphs 30 and 31

Consolidated Version - Income Tax (National Standard Costs for Livestock) Determination 1993

Title and Application

1. This determination may be cited as the Income Tax (National Standard Costs for Livestock) Determination 1993.

This determination applies in respect of the valuation of specified livestock under the national standard cost scheme for the 1992-93 income year and subsequent years. Any taxpayer valuing any specified livestock in accordance with the provisions of section 86C of the Income Tax Act 1976 shall calculate the cost of such livestock on hand at the end of the income year in accordance with this determination.

For the purposes of this determination where a taxpayer separately accounts for more than one livestock business under national standard cost then national standard cost in relation to the livestock used in each of those businesses shall be calculated separately.

Interpretation

2. In this determination, unless the context otherwise requires, -

Expressions used have the same meanings as in sections 2, 2A and sections 85 to 86L of the Income Tax Act 1976.

References to an income year shall include reference to any corresponding non-standard accounting year.

"**Act**" means the Income Tax Act 1976:

"**Bobby calves**" mean, in respect of a taxpayer, calves -

(a) Bred from a dam which is a female of the dairy cattle livestock type; and

(b) Acquired by the taxpayer for rearing; and

(c) Which have not been weaned before acquisition from a diet of milk (and/or milk substitute) when acquired by the taxpayer; and

(d) Which were not purchased as progeny at foot along with the calf's dam.

"**Breeding sires**" means, in respect of a taxpayer, male livestock used or intended to be used by the taxpayer for breeding purposes:

"**Cost flow identification**" means inventory accounting treatments which account for costs relating to livestock intakes in calculating the closing value of livestock on hand in an income year:

"**Immature inventory grouping**" means all livestock of a type which are rising one year of age at closing balance date and the immature inventory grouping of any livestock type may be separated into sub-groups on the basis of those livestock used for or intended to be used by the taxpayer for breeding purposes, and those livestock not used for or not intended to be used for breeding purposes:

"**Inventory grouping**" means the classes of livestock included in an inventory group, for each type of livestock on hand at the closing balance date for an income year:

"**Livestock**" means specified livestock:

"**Livestock intake**" means, for purposes of inventory accounting, the maturing livestock or mature livestock first entering the taxpayer's inventory system in an income year:

"**Mature inventory grouping**" means, in respect of a taxpayer's livestock of any type and any income year:

(a) In the case of sheep, cattle, deer or goats, all classes of such livestock which are older than one year of age at the end of the income year, other than male non-breeding cattle; and

(b) In the case of cattle, rising three year or older male non-breeding cattle; and

(c) In the case of pigs, all classes of pigs or, at the taxpayer's option, only those classes of pigs which are older than one year of age at the end of the income year;

but shall exclude:

(d) Breeding sires, where the herd scheme is being used in conjunction with national standard cost for any of that livestock type; and

(e) Livestock required to be valued under the high-priced livestock scheme,-

and the mature inventory grouping of any livestock type may be separated into sub-groups on the basis of those livestock used for or intended to be used by the taxpayer for breeding purposes, and those livestock not used for or not intended to be used by the taxpayer for breeding purposes:

"**Mature livestock**" means, in respect of an income year, livestock which is on hand at the start of the income year:

(a) In the case of male non-breeding cattle, rising three years of age or older; or

(b) In the case of sheep, cattle (other than male non-breeding cattle), goats and deer, rising two years of age or older; or

(c) In the case of pigs, rising one year of age or older:

"**Maturing livestock**" means, in respect of an income year, livestock which if owned at the end of the income year, would be:

(a) In the case of male non-breeding cattle, rising three years of age (or older in the case of non-breeding male cattle purchased in the income year):

(b) In the case of pigs, rising one year of age (or older in the case of pigs purchased in the income year):

(c) In the case of other livestock, rising two years of age (or older in the case of such livestock purchased in the income year):

"**National average market value**" means, in respect of any class of specified livestock and any income year, the value declared by the Governor-General by Order in Council in accordance with section 86G of the Act:

"**National standard cost**" means, in respect of livestock being -

(a) Rising one year sheep, dairy cattle, beef cattle, deer or goats born in the income year and owned by the taxpayer at birth:

(b) Opening rising one year livestock on hand at the beginning of the income year through to rising two years of age for sheep, beef cattle, dairy cattle, deer and goats:

(c) Opening rising two year male non-breeding beef cattle which are rising three years of age at closing balance date:

(d) Bobby calves acquired during the income year:

(e) Weaner pigs to 10 weeks of age (excluding sucklings):

(f) Growing pigs from 10 to 17 weeks of age, -

the respective production costs, based on national average costs of production, declared by the Governor-General by Order in Council under section 86C of the Act:

"**Non-breeding**" means, in respect of a taxpayer, livestock not intended to be used for breeding purposes by the taxpayer:

"**On hand**" means, in respect of a taxpayer, livestock of any type physically under the control of that taxpayer whether owned, bailed, or leased but excluding any deficiencies of livestock associated with bailed or leased livestock and any livestock not owned by the taxpayer but being under the control of the taxpayer for a fee.

"**Purchase cost**" means:

(a) In the case of livestock purchased in an income year, without progeny at foot, the purchase price of that livestock and other costs associated with the purchase of that livestock; and

(b) In the case of livestock purchased in an income year, with progeny at foot, for an undivided cost, the purchase price of that livestock and other costs associated with the purchase of that livestock as determined by a fair and reasonable apportionment of costs between the parents and progeny; and

(c) In the case of high-priced livestock required to be valued under the national standard cost scheme, the national average market value relating to that class of livestock as if that livestock was purchased at that cost; and

(d) In the case of livestock commencing to be bailed in an income year, the market value of the livestock bailed to the bailee in that income year.

"**Rising one year**" means, in respect of any closing balance date for an income year, livestock aged between birth and one year of age at that date:

"**Rising three year**" means, in respect of any closing balance date for an income year, livestock aged between two years and three years of age at that date:

"**Rising two year**" means, in respect of any closing balance date for an income year, livestock aged between one year and two years of age at that date:

"**Rising two year male non-breeding cattle inventory grouping**" means, in respect of any closing balance date in any income year, all male non-breeding cattle which are rising two years of age at that date:

"**Self assessed cost**" means the cost set under the method for establishing the cost of livestock production as detailed in a guideline issued by the Commissioner.

"Trading stock scheme" means the livestock valuation scheme provided by the former section 86 of the Act:

Value under National Standard Cost Scheme for Sheep, Dairy Cattle, Beef Cattle, Deer, Goats and Pigs

3. Valuation of livestock less than one year of age of each livestock type (other than pigs)

Rising one year livestock of a taxpayer of each type of livestock (other than pigs) shall have an average value, at the end of an income year, for the purposes of the national standard cost scheme, calculated in accordance with the following formula:

$$\frac{((a + b - c) \times d) + e + (f \times g)}{a + b}$$

where -

a is the number of rising one year livestock of the type on hand at the end of the income year;

b is the number of livestock of the type sold by the taxpayer during the income year which would have been, if still on hand, rising one year livestock of the taxpayer at the end of that income year;

c is the number of livestock of the type purchased by the taxpayer during that income year which are, or would have been if still on hand, rising one year livestock of the taxpayer at the end of the income year;

d is the national standard cost for that income year of rising one year livestock of the type;

e is the aggregate purchase cost of livestock of the type purchased during that income year by the taxpayer which are, or would have been if still on hand, rising one year livestock of the taxpayer at the end of the income year;

f is, in the case of either beef or dairy cattle, the number of bobby calves purchased by the taxpayer during the income year; and

g is the national standard cost for the income year of acquired bobby calves.

Where (a + b - c) in the above formula results in a negative figure the average value, at the end of an income year, for the purposes of the national standard cost scheme, shall be calculated in accordance with the following formula:

$$\frac{e + (f \times g)}{c}$$

where the items in the formula are those referred to in the first formula in this paragraph.

4. Valuation of livestock intake (excluding pigs and rising two year and three year or older male non-breeding cattle)

Livestock intake of a taxpayer of each type of livestock (excluding pigs and rising two year and rising three year or older male non-breeding cattle) shall have an average value, at the end of an income year, for the purposes of the national standard cost scheme, calculated in accordance with the following formula:

$$\frac{(a \times b) + c + d}{a + e}$$

where -

a is the number of rising one year livestock which are not rising one year male non-breeding cattle of the taxpayer of the type on hand at the end of the immediately preceding income year;

b is the national standard cost for that income year of rising two year livestock of the type;

c is the aggregate purchase cost of livestock of the type purchased during the income year by the taxpayer (excluding rising two year or older male non-breeding cattle) which are, or would have been if still on hand, rising two year or older livestock of the taxpayer at the end of that income year;

d is the aggregate value for income tax purposes of rising one year livestock which are not rising one year male non-breeding cattle of the taxpayer of the type on hand at the end of the immediately preceding income year; and

e is:

(i) in the case of dairy cattle or beef cattle, the number of livestock of the type purchased during the income year by the taxpayer (excluding rising two year and older male non breeding cattle) which are, or would have been if still on hand, rising two year or older livestock of the taxpayer at the end of that income year; and

(ii) in the case of sheep, deer and goats, is the number of livestock of the type purchased during the income year by the taxpayer which are, or would have been if still on hand, rising two year or older livestock of the taxpayer at the end of that income year.

5. Valuation of rising two year male non-breeding cattle

Rising two year male non-breeding dairy cattle

In respect of the dairy cattle livestock type, the rising two year male non-breeding cattle of this type shall have an average value, at the end of an income year, for the purposes of the national standard cost scheme, calculated in accordance with the following formula:

$$\frac{(a \times b) + c + d}{a + e}$$

where -

a is the number of rising one year male non-breeding dairy cattle of the taxpayer on hand at the end of the immediately preceding income year;

b is the national standard cost for the income year of rising two year male non-breeding dairy cattle;

c is the aggregate purchase cost of male non-breeding dairy cattle purchased during the income year by the taxpayer which are, or would have been if still on hand, rising two year male non-breeding dairy cattle of the taxpayer at the end of that income year;

d is the aggregate value, for income tax purposes at the end of the immediately preceding income year, of rising one year male non-breeding dairy cattle of the taxpayer on hand at the end of the immediately preceding income year; and

e is the number of male non-breeding dairy cattle purchased during the income year by the taxpayer which are, or would have been if still on hand, rising two year male non-breeding dairy cattle of the taxpayer at the end of that income year.

Rising two year male non-breeding beef cattle

In respect of the beef cattle livestock type, the rising two year male non-breeding cattle of this type shall have an average value, at the end of an income year, for the purposes of the national standard cost scheme, calculated in accordance with the following formula:

$$\frac{(a \times b) + c + d}{a + e}$$

where -

a is the number of rising one year male non-breeding beef cattle of the taxpayer on hand at the end of the immediately preceding income year;

b is the national standard cost for the income year of rising two year male non-breeding beef cattle;

c is the aggregate purchase cost of male non-breeding beef cattle purchased during the income year by the taxpayer which are, or would have been if still on hand, rising two year male non-breeding beef cattle of the taxpayer at the end of that income year;

d is the aggregate value, for income tax purposes at the end of the immediately preceding income year, of rising one year male non-breeding beef cattle of the taxpayer on hand at the end of the immediately preceding income year; and

e is the number of male non-breeding beef cattle purchased during the income year by the taxpayer which are, or would have been if still on hand, rising two year male non-breeding beef cattle of the taxpayer at the end of that income year.

6. Valuation of livestock intake which is rising three year or older male non-breeding cattle

Rising three year or older male non-breeding dairy cattle

In respect of the dairy cattle livestock type, the livestock intake of a taxpayer, being rising three year or older male non-breeding dairy cattle, shall have an average value, at the end of an income year, for the purposes of the national standard cost scheme, calculated in accordance with the following formula:

$$\frac{(a \times b) + c + d}{a + e}$$

where -

a is the number of rising two year male non-breeding dairy cattle of the taxpayer on hand at the end of the immediately preceding income year;

b is the national standard cost for the income year of rising three year male non-breeding beef cattle;

c is the aggregate purchase cost of male non-breeding dairy cattle purchased during the income year by the taxpayer which are, or would have been if still on hand, rising three year or older male non-breeding dairy cattle of the taxpayer at the end of that income year;

d is the aggregate value, for income tax purposes at the end of the immediately preceding income year, of rising two year male non-breeding dairy cattle of the taxpayer on hand at the end of the immediately preceding income year; and

e is the number of male non-breeding dairy cattle purchased during the income year by the taxpayer which are, or would have been if still on hand, rising three or older male non-breeding dairy cattle of the taxpayer at the end of that income year.

Rising three year or older male non-breeding beef cattle

In respect of the beef cattle livestock type, the livestock intake of a taxpayer, being rising three year or older male non-breeding beef cattle, shall have an average value, at the end of an income year, for the purposes of the national standard cost scheme, calculated in accordance with the following formula:

$$\frac{(a \times b) + c + d}{a + e}$$

where -

a is the number of rising two year male non-breeding beef cattle of the taxpayer on hand at the end of the immediately preceding income year;

b is the national standard cost for the income year of rising three year male non-breeding beef cattle;

c is the aggregate purchase cost of male non-breeding beef cattle purchased during the income year by the taxpayer which are, or would have been if still on hand, rising three year or older male non-breeding beef cattle of the taxpayer at the end of that income year;

d is the aggregate value, for income tax purposes at the end of the immediately preceding income year, of rising two year male non-breeding beef cattle of the taxpayer on hand at the end of the immediately preceding income year; and

e is the number of male non-breeding beef cattle purchased during the income year by the taxpayer which are, or would have been if still on hand, rising three or older male non-breeding beef cattle of the taxpayer at the end of that income year.

7. Valuation of pigs

Pigs valued in the weaners to 10 weeks of age category of livestock (excluding suckling pigs)

Pigs, on hand at the end of an income year, which are weaners to ten weeks of age (excluding suckling pigs) shall be valued at the national standard cost for the income year for this category of livestock.

Pigs valued in the growing pigs 10 weeks to seventeen weeks of age category of livestock

Pigs on hand at the end of an income year which are growing pigs ten weeks to seventeen weeks of age or pigs which are grown on to an older age (including the purchase of pigs intended for breeding purposes) shall have an average value, at the end of an income year, for the purposes of the national standard cost scheme, calculated in accordance with the following formula:

$$\frac{((a - b - c) \times d) + ((a - c) \times e) + f}{a - b - c + g}$$

where -

a is the number of growing pigs which at any time during the income year were aged between 10 and 17 weeks of age and which were sold during the income year or are on hand at the end of that income year;

b is the number of weaned pigs purchased by the taxpayer during the income year for the purposes of rearing to about 17 weeks of age or older;

c is the number of pigs on hand at the beginning of the income year which were valued as growing pigs 10 to 17 weeks of age;

d is national standard cost for the income year for pigs in the weaners to 10 weeks of age category of livestock;

e is the national standard cost for the income year for pigs in the growing pigs 10 to 17 weeks of age category of livestock;

f is the aggregate purchase cost of pigs purchased at the age of weaning or older during the income year by the taxpayer;

g is the total number of pigs purchased by the taxpayer at the age of weaning or older during the income year.

Provisions which apply to Paragraphs 3 to 7 of this Determination

8. Treatment of high-priced livestock transferred from high-priced livestock scheme to national standard cost scheme

Where any high-priced livestock is required under section 86I of the Act to be valued under the national standard cost scheme, that livestock shall be treated under this determination as livestock purchased at the national average market value for the income year in which the livestock is no longer taken into account under section 86I of this Act.

9. Exclusion of certain livestock from livestock cost calculations

Exclusion of breeding sires where the herd scheme is being used in conjunction with national standard cost

Where the herd scheme has been adopted for a particular livestock type and the taxpayer is using that scheme to value any livestock of that type, the purchase cost of breeding sires of that livestock type and the number purchased during the income year must be excluded from the calculation of average cost of the taxpayer's livestock of the type under the national standard cost scheme. In any case where a taxpayer commences to use the herd scheme in conjunction with the national standard cost scheme, no adjustment to the calculation of average costs under the national standard cost scheme shall be made in respect of breeding sires purchased in earlier income years.

Exclusion of high-priced livestock

Any livestock purchased which must be valued under the provisions of section 86I of the Act as high-priced livestock at the end of the income year must be excluded from the calculation of average cost under the national standard cost scheme with regard to both the number and cost of livestock purchased.

9A. Establishment Of NSC Where Calculation Of NSC Using Any Of Paragraphs 3 To 7 Produces Nil Values.

In the event of any of the formulas in paragraphs (3) to (7) of this determination producing an average value at the end of an income year of nil, the average value shall be deemed to be, in the case of:

- a rising one year class of livestock, the national standard cost of rising one year livestock of that type for that income year; and
- a rising two year and older intake of livestock other than rising three year male non-breeding cattle, the national standard cost for rising one year livestock of that type plus the national standard cost for rising two year livestock of that type for that income year; and
- rising three year male non-breeding cattle, the national standard cost for rising one year male non-breeding cattle plus an amount equal to twice the national standard cost for rising two year male non-breeding cattle for that income year.

Inventory System Requirements under the National Standard Cost Scheme

10. General

In respect of sheep, cattle, deer and goats, as this livestock ages until it becomes mature livestock, the costs of production of the livestock accumulate and are incorporated into average values over balance dates. Once the livestock has first become mature livestock of the taxpayer at the end of an income year, the value of the livestock to the taxpayer under the national standard cost scheme becomes fixed (not accumulating any further production costs) and remains in the taxpayer's inventory valuation for the mature inventory grouping until such time as the livestock is sold, transferred to another livestock valuation option or dies (each as determined having regard to any sub-inventory grouping adopted by the taxpayer and to the cost flow identification system applied by the taxpayer, as each is detailed further below).

In respect of pigs, the average cost identified with respect to the pigs entering inventory in any particular income year and remaining on hand at the end of the income year remains fixed (not accumulating any further production costs) and remains in the taxpayer's inventory valuation for the mature inventory grouping until such time as the pigs are sold, transferred to another livestock valuation option or die (as each is determined having regard to any sub-inventory grouping adopted by the taxpayer and to the cost flow identification system applied by the taxpayer, as each is detailed further below).

For the purposes of identifying the end of year valuation of mature livestock under the national standard cost scheme, a taxpayer must have a cost flow identification system involving specific identification, average costing or first-in first-out (FIFO) costing, as detailed further in paragraphs 12 to 14 of this determination.

The average cost inventory system or the first in first out inventory system represent the minimum standard of inventory accounting for all types of livestock. The taxpayer may choose to use more accurate inventory accounting systems.

Different systems may be adopted by the same taxpayer for different types of livestock.

Where a mature inventory grouping of a type of livestock is broken down by a taxpayer into sub-inventory groups (as detailed further below), each sub-inventory group of that type of livestock must be valued by the taxpayer under the national standard cost scheme using the same cost flow identification system.

Where a taxpayer is using the national standard cost scheme to value any livestock of a type within an inventory grouping, or as the case may be, sub-inventory group, the taxpayer shall value all livestock of that inventory grouping or sub-inventory group under the national standard cost scheme, except for:

- livestock of that type valued under the herd scheme at the end of the relevant income year; or
- Bailees who elect to account for deficiencies of bailed livestock at market value or replacement price.

11. Separate sub-inventory groups for non-breeding and breeding livestock

Notwithstanding any other provisions of this determination (including in particular the formulae in paragraphs 3 to 7), a taxpayer may elect to establish separate sub-inventory groups, with respect to each livestock type, for the livestock:

(a) Intended to be used by the taxpayer for breeding purposes; and

(b) Intended to be used by the taxpayer for purposes other than breeding.

Where separate sub-inventory groups are established by a taxpayer:

(c) All livestock of the relevant inventory group which are valued under the national standard cost scheme and are intended for breeding purposes or, as the case may be, purposes other than breeding purposes, must be included in the relevant sub-inventory group of the taxpayer until disposed of or death; and

(d) Separate calculations of average cost for each sub-inventory group may be made under the formulae in paragraph 3 to 7 of this determination and the taxpayer may separately apply the cost flow identification system adopted by the taxpayer for mature livestock of that type to each sub-inventory group.

Once livestock is included in a sub-inventory group it must continue to be accounted for under that sub-inventory group until treated as sold, disposed of, or valued under one of the other livestock valuation options. It may not be moved to another sub-inventory group.

Cost Flow Identification Systems for the Valuation of Mature Livestock

12. First-in first-out system (FIFO)

Where the taxpayer elects to use the FIFO system for cost flow identification, the cost and number of the livestock intake entering the taxpayer's inventory system in an income year must be recorded. In accordance with the normal rules applying under FIFO systems, dispositions and deaths of mature livestock of the type in question, and where the taxpayer so elects maturing livestock of that type, will be treated as reducing first the oldest intake of livestock of that type on hand.

A taxpayer may however, at the taxpayer's option and to such extent as the taxpayer chooses, with regard to any specific livestock, adopt a specific identification system for accounting for acquisitions, dispositions and deaths.

Refinements to the minimum standard of the FIFO inventory system as described above to more accurately account for purchases, sales and deaths affecting different intake years within the FIFO inventory system may be made.

Where the average closing cost calculated in accordance with paragraphs 4 and 6 (and 7 at the taxpayer's option) of this determination is to be used in association with the minimum standard FIFO inventory system that average closing cost shall be applied to all of the livestock intake of that livestock in that income year valued under the provisions of section 86C of the Act at the end of the income year.

13. Average cost system where the herd scheme was not used in the current income year or in the immediately preceding income year

This inventory system is the minimum standard of inventory accounting where the herd scheme was not used in the preceding income year or the current income year.

Where a taxpayer uses the average cost system of cost flow identification, the value of the taxpayer's mature and maturing inventory grouping of any type under the national standard cost scheme at the end of an income year shall be calculated by multiplying the number of mature and maturing livestock of that type on hand by the average cost calculated in accordance with the following formula in relation to that type of mature and maturing livestock and the income year:

$$\frac{((a - b) \times c) + ((e - (a - b)) \times d)}{e}$$

where -

a is the number of livestock of the taxpayer on hand at the end of the immediately preceding income year, being at that time mature livestock;

b is the lesser of a and -

(i) The number of livestock of the taxpayer on hand at the end of the immediately preceding year, being at that time mature livestock; or

(ii) At the election of the taxpayer except where the livestock are pigs, the number of livestock of the taxpayer, being livestock of the taxpayer on hand at the end of the immediately preceding income year which were at the time mature livestock or during the income year maturing livestock of the taxpayer,-

which are disposed of by the taxpayer or die (while owned by the taxpayer) during the income year;

c is the average cost or value of mature livestock of the taxpayer on hand at the end of the immediately preceding income year;

d is the average cost of livestock intake of the taxpayer as calculated under paragraph 4, 6 or 7 of this determination;

e is the number of mature livestock of the taxpayer on hand at the end of the income year.

The average closing cost calculated according to the formula shall be applied to all livestock of the mature inventory group which are to be valued under using the average cost system the provisions of section 86C of the Act at the end of the income year.

14. Average cost system where the herd scheme was used in the preceding income year or is to be used in the current income year

This inventory system is the minimum standard of inventory accounting where the herd scheme was used in the preceding income year or is to be used in the current income year.

Where a taxpayer uses the average cost system of cost flow identification, the value of the taxpayer's mature and maturing inventory grouping of any type under the national standard cost scheme at the end of the income year shall be calculated by multiplying the number of mature and maturing livestock of that type by the average cost calculated in accordance with the following formula in relation to that type of mature and maturing livestock and the income year:

$$\frac{((a - b) \times c) + ((e - (a - b)) \times d)}{e}$$

where -

a is the number of livestock of the taxpayer on hand at the end of the immediately preceding income year, being at that time mature livestock valued under a valuation method other than the herd scheme;

b is the lesser of a and -

(i) The number of livestock, other than male breeding sires, of the taxpayer on hand at the end of the immediately preceding year, being at that time mature livestock; or

(ii) At the election of the taxpayer except where the livestock are pigs, the number of livestock, other than male breeding sires, of the type of the taxpayer, being livestock of the taxpayer on hand at the end of the immediately preceding income year which were at the time mature livestock or during the income year maturing livestock of the taxpayer,-

which are disposed of by the taxpayer or die (while owned by the taxpayer) during the income year;

c is the average cost or value of mature livestock of the taxpayer on hand at the end of the immediately preceding income year valued under a valuation method other than the herd scheme;

d is the average cost of livestock intake of the taxpayer as calculated under paragraph 4, 6 or 7 of this determination;

e is the number of mature livestock of the taxpayer on hand at the end of the income year valued under the national standard cost scheme.

The average closing cost calculated according to the formula is applied to all of livestock of the mature inventory group which are to be valued using the average cost system under the provisions of section 86C of the Act at the end of the income year.

Where the herd scheme is to be used in relation to a type of livestock and no livestock of that type were valued using the herd scheme in the immediately preceding income year then the rules associated with paragraphs 18, 19 (and paragraph 30 in the case of the 1992-93 income year) of this determination must be applied before calculating the average closing cost in accordance with this paragraph.

15. Change in cost flow identification system when using the national standard cost scheme

Subject to the rules contained in this paragraph and in the following paragraphs of this determination, a taxpayer may change the cost flow identification system used when valuing the taxpayer's mature inventory grouping under the national standard cost scheme from FIFO to average cost or vice versa.

Where a taxpayer changes to the average cost system, for the purposes of determining the average cost in the year of change, the average cost of mature livestock of the type in question on hand at the end of the immediately preceding income year will be calculated as follows:

$$\frac{a}{b}$$

where:

a is the total closing cost of that inventory grouping valued under national standard cost in the preceding income year; and

b is the total closing number of livestock in that inventory grouping valued under national standard cost in the preceding income year.

If the FIFO inventory system is being adopted, the opening inventory cost in the year of the change will be the total closing cost of that inventory grouping in the immediately preceding income year.

16. Reduction in livestock numbers where stock valued under national standard cost scheme and the herd scheme

Where a taxpayer in any income year values any livestock under the herd scheme and also values other livestock of the same type under the national standard cost scheme, any reduction in the number of livestock of that type below the number on hand at the end of the immediately preceding income year must first be accounted for from the relevant class (in any case where the taxpayer adopts a class by class separation of livestock numbers) or inventory grouping valued at the end of the immediately preceding income year under the national standard cost scheme. Accordingly, any reduction in the number of livestock of that type shall only commence to reduce the number of livestock valued under the herd scheme:

(a) In any case where the taxpayer uses an inventory system which separates out livestock of that class, where no livestock of that class is on hand at the end of the income year to be valued under the national standard cost scheme; or

(b) In any case where the taxpayer uses an inventory system which does not separately identify livestock of that class, where no livestock of the relevant inventory grouping is on hand at the end of the income year to be valued under the national standard cost scheme.

17. Treatment of livestock bailed by a taxpayer which may be valued under the national standard cost scheme

Under section 86C(3) of the Act, taxpayers who bail livestock are only eligible to use the national standard cost scheme in relation to bailed livestock where the taxpayer expects to have the livestock originally bailed to be re-delivered. In such a case, the provisions of this determination shall apply as if the bailed livestock were livestock on hand.

Movement between National Standard Cost and Other Livestock Valuation Schemes

18. Changing from herd scheme, market value option or replacement price option to national standard cost scheme

In respect of each livestock type, in the income year in which the national standard cost scheme is first adopted by the taxpayer, the opening inventory structure and cost must be calculated, in accordance with the appropriate paragraph 19 or 20 of this determination, in order to allow calculation of the closing inventory number and cost in respect of that type of livestock in that income year under the provisions of paragraphs 12 to 14 of this determination.

19. Where the taxpayer adopts the average cost system of cost flow identification

If a taxpayer is to use the average cost system in respect of livestock valued under the national standard cost scheme, in respect of each relevant inventory grouping of livestock, the average cost at the beginning of the income year will be deemed to be equal to the amount calculated in accordance with the following formula:

$$\frac{a}{b}$$

where -

a is the aggregate value adopted for income tax purposes in the preceding income year by the taxpayer in respect of all classes of livestock of the taxpayer of the type which would have been included in the inventory grouping on hand at the end of the immediately preceding income year;

b is the number of livestock of the taxpayer of the type which would have been included in the inventory grouping on hand at the end of the immediately preceding income year.

20. Where the taxpayer adopts the FIFO system of cost flow identification

If a taxpayer is to use the FIFO system to account for livestock under the national standard cost scheme, the value of the opening inventory of mature livestock of the taxpayer in the relevant income year will be equal to the values for income tax purposes of each class of livestock of the taxpayer in an inventory grouping of the type in question on hand at the end of the immediately preceding income year. For the purposes of application of the FIFO system in the income year of the change and subsequent income years, the opening inventory of mature livestock (in all cases other than pigs) shall be subdivided and be deemed to be aged as follows (from newest to oldest):

(a) Rising two year female breeding stock;

(b) Older classes of female breeding stock (subdivided and ranked from newest to oldest to the extent possible having regard to the taxpayer's preceding tax accounting system);

(c) Non-breeding livestock (excluding male non-breeding dairy cattle and male non-breeding beef cattle);

(d) Male breeding stock.

In the case of pigs, the mature livestock included in opening inventory in the income year shall be subdivided and be deemed to be aged as follows (from newest to oldest):

(a) Weaner pigs less than 10 weeks of age;

(b) Growing pigs between 10 and 17 weeks of age;

(c) Pigs over 17 weeks of age;

(d) Breeding sows less than one year old;

(e) Breeding sows over one year of age;

(f) Breeding boars.

The FIFO system will be applied accordingly, in the income year in which the national standard cost scheme is first adopted and in subsequent income years in which it is used, so that dispositions and deaths are deemed to reduce first the oldest still existing class of mature livestock.

21. Change from national standard cost scheme to the herd scheme, market value option or replacement price option for any complete inventory grouping

Irrespective of which cost flow identification system was used in the income year preceding the year of the change, the opening value of the livestock of the inventory grouping in the year of change shall be treated as being equal to the value for tax purposes at the end of the immediately preceding income year. A value of the livestock at the end of the year of change will be calculated accordingly under the chosen valuation option on an class-by-class basis.

22. Change from national standard cost scheme to the herd scheme for some livestock only

If the number of livestock of an inventory grouping moved from valuation under the national standard cost scheme to valuation under the herd scheme in any income year still leaves some livestock of the particular inventory grouping to be valued under the national standard cost scheme at the end of the income year, then paragraphs 23 to 25 (as appropriate) of this determination shall apply.

23. Average cost system used in year preceding the year of change

If the average cost system of cost flow identification was used in the income year preceding the income year of change to the herd scheme, the number of livestock moved to the herd scheme shall be accounted for as if they were livestock disposed of or dying in the income year (see paragraphs 13 and 14 of this determination). No other adjustment is required to opening inventory numbers and costs.

24. FIFO system used in year preceding the year of change

If the closing inventory system used in the income year preceding the income year of the change to the herd scheme was the FIFO system, then the number moved to the Herd scheme will be deemed to have been derived from the oldest inventory on hand at the opening balance date in the income year of the change to the Herd scheme in the same manner as sales and deaths are accounted for when using the FIFO type of inventory system unless the inventory account has been accurately prepared on an age class by age class basis with the appropriate costs per head recorded for each group of livestock in each age class, under which conditions, the adjustment to closing inventory numbers and costs can be made on a class by class basis.

25. Change in cost flow identification system in the same income year as some livestock are moved from the national standard cost scheme to the herd scheme system of valuation

If a change in the cost flow identification system is made in the same income year as some livestock are moved to the herd scheme, this adjustment shall be effected only after the appropriate adjustment has been made for moving those livestock to the herd scheme on the basis of the cost flow identification system used in the immediately preceding income year.

26. Complete change from national standard cost scheme to self-assessed cost or from self-assessed cost to national standard cost scheme

The value of livestock of each type on hand in each inventory grouping at the end of the immediately preceding income year under the preceding method will be deemed to be the opening value of livestock of that type in that inventory grouping in the year of change. Any change in the cost flow identification system accompanying the change will be subject to paragraphs 15 and 25 of this determination.

Transition to National Standard Cost (and National Standard Cost in Combination with Other Valuation Options) in 1992-93 Income Year

Opening values in the 1992-93 income year where the Trading Stock Scheme was used to value livestock in the 1991-92 income year

27. Where livestock has been valued under the trading stock scheme in the 1991-92 income year, and the taxpayer is to adopt national standard cost, the taxpayer may elect whether the opening value of the rising one year classes of livestock and rising two year male non-breeding cattle on hand at the start of the 1992-93 income year shall be, for the purposes of calculating the value of livestock of the taxpayer on hand at the end of the 1992-93 income year, either:

(a) The trading stock scheme value of that livestock at the end of the 1991-92 income year; or

(b) The average closing cost calculated for that inventory grouping of livestock under the provisions of section 86C of the Act and under this determination in relation to that stock for the 1992-93 income year and using stock numbers and purchase costs as contained in the 1992-93 financial accounts.

Opening values in the 1992-93 income year where other than the Trading Stock Scheme was used to value livestock in the 1991-92 income year

In relation to livestock valued in the 1991-92 year under any valuation option other than the trading stock scheme, the opening value of the livestock in the 1992-93 income year shall be the value of the livestock at the end of the 1991-92 income year.

28. Treatment of livestock in the 1992-93 income year for NSC purposes when changing from the trading stock scheme to any other valuation option in the 1992-93 income year

The treatment of livestock value or cost at the beginning of the 1992-93 income year will be determined in accordance with either of paragraphs 29, 30 and 31 of this determination as appropriate.

29. Trading stock scheme to national standard cost scheme

The closing value in the 1992-93 income year will be calculated in accordance with paragraphs 3 to 7 of this determination and the other provisions of this determination which relate to those paragraphs. The opening cost shall be calculated in accordance with paragraph 27 of this determination.

30. ***Trading stock scheme to national standard cost scheme where national standard cost is to be used in conjunction with the herd scheme, or the market value option or the replacement price option***

The movement from the trading stock scheme to a combination of the herd scheme, national standard cost scheme, market value option or replacement price option will be accounted for by applying the provisions of paragraph 31 to the opening value of livestock on hand at the start of the 1992-93 income year.

30. ***Trading stock scheme to national standard cost scheme where national standard cost is to be used in conjunction with the herd scheme, or the market value option or the replacement price option***

The movement from the trading stock scheme to a combination of the herd scheme, national standard cost scheme, market value option or replacement price option will be accounted for by applying the provisions of paragraph 31 to the opening value of livestock on hand at the start of the 1992-93 income year.

31. ***Transitional inventory treatments for livestock valued under national standard cost at the end of the 1992-93 income year***

In the case of an inventory grouping:

(a) In which there is only one class of livestock, the standard rules for accounting for changes in valuation over the income year will apply without adjustment;

(b) In which there is more than one class of livestock and some of the inventory grouping is to be valued under the national standard cost scheme in the 1992-93 income year, alternative treatments are to be adopted (with separate calculations for the mature inventory groupings in respect of each type of livestock) dependent upon the cost flow identification system adopted by the taxpayer in respect of the 1992-93 income year:

(i) If the FIFO system is to be used, for the purposes of calculating the value of livestock on hand at the end of the 1992-93 income year under the national standard cost scheme, the following calculation shall be undertaken with respect to each livestock class:

a - b

where -

a is the number of livestock of the taxpayer of that class on hand at the start of the 1992-93 income year; and

b is the lesser of (a) and the number of livestock of the taxpayer of the class on hand at the end of the 1992-93 income year valued under the herd scheme.

Only in the case of a class of livestock which has a positive total (a-b) is there to be an opening inventory figure equal to that positive total, to be accounted for under the national standard cost scheme and the FIFO rules, as detailed in this determination (including in particular paragraph 20).

(ii) If the average cost system is to be used, the average cost of inventory on hand at the start of the 1992-93 income year in that inventory grouping for the purposes of the national standard cost scheme shall be calculated in accordance with the following formula:

$$\frac{c}{d}$$

where -

c is the amount calculated by aggregating the amounts calculated, in respect of each class of livestock of the taxpayer in the inventory grouping, under the formula set out below; and

d is the number calculated by aggregating the number calculated, in respect of each class of livestock of the taxpayer in the inventory grouping, under subparagraph (b)(i) of this paragraph.

For the purposes of item (c) in the above formula, the amount to be included for each class of livestock of the taxpayer will be calculated as follows:

$$e \times f$$

where -

e is the number calculated, in respect of the class of livestock of the taxpayer in the inventory grouping, under subparagraph (b)(i) of this paragraph; and

f is the opening value per head of livestock of the taxpayer of that class.

This average cost of opening inventory will be used in calculating the closing average cost of those livestock valued under national standard cost at the end of the 1993 income year.

This is a consolidated Determination, incorporating variations and extensions made and signed on 24 August 1993.

Cattle breeds for NSC purposes

Friesian or Jersey cattle breeds which are not bred as part of a dairy farming business (for example, if they are bred on a sheep or beef cattle farm) may be valued under the NSC for beef cattle breeds. In all other cases, the NSC applies directly to the breed concerned.

Determination Examples

On pages 15-21 there are examples to show how to apply the 1993 National Standard Costs for livestock. Each of these examples uses the hypothetical flock of sheep as shown on page 14.

Hypothetical Sheep Flock

The examples on pages 15-21 show how to use the various formulae to calculate NSC and inventory structures as contained in the Determination. In all of these examples we have used the sheep flock shown below. For simplicity, the flock structure has been kept constant between opening and closing balance dates (i.e., between the two income years)

Class	**Number (Open & Close)**	**Opening Std Cost/Hd**	**Total Std Cost**
Ewe Hoggets	500	$15.00	$7,500
Wether Hoggets	100	$15.00	$1,500
	600		$9,000
2 Tooth Ewes	600		See Inventory System examples for different methods (average cost system or FIFO)
MA Ewes	1,000		
5-6 Yr Ewes	400		
Br Rams	50		
MA Wethers	100		
Natural Increase (survival to sale)	2,000	N / A	

Sheep Purchases		**Cost/hd**		**Total Cost**
Ewe Hoggets	100	$40.00		$4,000
Wether Hoggets	400	$30.00		$12,000
	500		Total:	$16,000
Breeding Ewes	200	$40.00		$8,000
Breeding Rams	20	$150.00		$3,000
	220		Total:	$11,000

Sheep Sales			
Mature Sheep (incl deaths)	600	N / A	
Lamb Sales	1,900	N / A	(600 ewe, 1300 wether)
Rising 2 Yr (Ewes)	100	N / A	
Rising 2 Yr (Wethers)	100	N / A	

National Standard Cost Rising One year Sheep (announced)	$13.00
National Standard Cost Rising Two year Sheep (announced)	$7.50

Note: All purchases and sales of livestock are categorised into their relevant age classes on the basis of the age class or grouping in which they would be valued if still on hand at the end of the income year.

Example One - Calculation of Standard Cost for Rising One Year Sheep (Hoggets)

This example uses the following formula, which is contained in paragraph (3) of the Determination:

$$\frac{((a + b - c) \times d) + e + (f \times g)}{a + b}$$

Where:

a is the number of rising one year livestock of the type on hand at the end of the income year;

b is the number of livestock of the type that the taxpayer sold during the income year, which would have been rising one year livestock if the taxpayer still had them on hand at the end of that income year;

c is the number of livestock of the type that the taxpayer purchased during that income year, which are (or would have been if still on hand) rising one year livestock at the end of the income year;

d is the national standard cost for rising one year livestock of the type for that income year;

e is the aggregate purchase cost of livestock of the type that the taxpayer purchased during that income year, which are (or would have been if still on hand) rising one year livestock of the taxpayer at the end of the income year;

f for either beef or dairy cattle, is the number of bobby calves purchased by the taxpayer during the income year;

(continued at top of opposite column)

g is the national standard cost for the income year of acquired bobby calves.

Using the sample data for the sheep flock, the standard cost calculation is made as follows:

$$\text{Std Cost} = \frac{((600 + 1{,}900 - 500) \times \$13) + \$16{,}000 + (\text{N/A})}{600 + 1{,}900}$$

$$= \frac{(2{,}000 \times \$13) + \$16{,}000}{2{,}500}$$

$$= \frac{\$42{,}000}{2{,}500}$$

$$= \$16.80\text{/head}$$

This standard cost will be applied to all hoggets on hand valued on the NSC option at the end of income year.

Separating stock into sub-inventory groups intended for breeding or non-breeding uses is allowed as an alternative to valuing the entire group as a single inventory (paragraph 11 of the Determination). An example of sub-inventory cost calculations is shown in Example Three.

Note: In the case of rising one year dairy cattle, any bobby calves sold are excluded from item b of the formula, so they are not included in the calculation of average cost of rising one year dairy cattle at the end of the income year.

Example Two - Calculation of Standard Cost for the Rising Two Year and Older Livestock Intake (Mature and Maturing Sheep)

This example uses the following formula, which is contained in paragraph (4) of the Determination:

$$\frac{(a \times b) + c + d}{a + e}$$

Where:

a is the number of rising one year livestock of the type that the taxpayer has on hand at the end of the immediately preceding income year;

b is the national standard cost of rising two year livestock of the type for that income year;

c is the aggregate purchase cost of livestock of the type that the taxpayer purchased during the income year, which are (or would have been if still on hand) rising two year or older livestock at the end of that income year;

d is the aggregate income tax value of the taxpayer's rising one year livestock of the type on hand, as at the end of the immediately preceding income year;

e is the number of livestock of the type that the taxpayer purchased during the income year, which are (or would have been if still on hand) rising two year or older livestock at the end of that income year.

Using the example data for the sheep flock, the standard cost calculation is made as follows:

$$\text{Std Cost} = \frac{(600 \times \$7.50) + \$11{,}000 + \$9{,}000}{600 + 220}$$

$$= \frac{\$24{,}500}{820}$$

$$= \$29.88\text{/head}$$

This standard cost will be applied to this year’s intake of livestock (adult sheep) on hand valued on the NSC option at the end of the income year.

Note: Where the National Standard Cost option is used in combination with the Herd Scheme, the calculation of standard cost is made as if the herd scheme were not being used. The only adjustment to this is in the exclusion of both the

(continued on page 16)

(from page 15)

number and cost of breeding sires purchased in the income year from the standard cost calculation. All other relevant stock numbers and costs must be included.

If the herd scheme were being used to value some sheep in this example, then the exclusion of the rams from the standard cost calculation would reduce the average standard cost to $26.88/head for this year's intake.

Example Three - Calculation of Standard Cost where Sub-Inventory Treatment of Rising One Year Sheep is Adopted

Livestock intended for breeding use and livestock intended for trading can be separated into sub-inventory groups (see paragraph (11) of the Determination). The standard costs for each sub-inventory group are calculated using the same formula as for the single inventory group, by simply making a separate calculation for each group. In this example, the female hoggets are intended for breeding use, and the male (wether) hoggets for trading purposes. The following calculations would be made:

$$\frac{((a + b - c) \times d) + e + (f \times d)}{a + b}$$

Where:

a is the number of rising one year livestock of the type on hand at the end of the income year;

b is the number of livestock of the type that the taxpayer sold during the income year, which would have been rising one year livestock if they were still on hand at the end of that income year;

c is the number of livestock of the type that the taxpayer purchased during that income year, which are (or would have been if still on hand) rising one year livestock at the end of the income year.

d Is the national standard cost of rising one year livestock of the type for that income year;

e is the aggregate purchase cost of livestock of the type that the taxpayer purchased during that income year, which are (or would have been if still on hand) rising one year livestock at the end of the income year;

f for either beef or dairy cattle, is the number of bobby calves purchased by the taxpayer during the income year; and

g is the national standard cost of acquired bobby calves for the income year .

This example assumes that 2,000 lambs (half female and half male) were homebred.

Example A - Standard Cost for Ewe Hoggets

$$\text{Std Cost} = \frac{((500 + 600 - 100) \times \$13) + \$4{,}000 + (\text{N/A})}{500 + 600}$$

$$= \frac{(1{,}000 \times \$13) + \$4{,}000}{1{,}100}$$

$$= \frac{\$17{,}000}{1{,}100}$$

$$= \$15.45\text{/head}$$

This standard cost will be applied to all ewe hoggets on hand valued on the NSC option at the end of the income year.

Example B - Standard Cost for Wether (and Ram) Hoggets

$$\text{Std Cost} = \frac{((100 + 1{,}300 - 400) \times \$13) + \$12{,}000 + (\text{NA})}{100 + 1{,}300}$$

$$= \frac{(1{,}000 \times \$13) + \$12{,}000}{1{,}400}$$

$$= \frac{\$25{,}000}{1{,}400}$$

$$= \$17.86\text{/head}$$

This standard cost will be applied to all wether hoggets on hand valued on the NSC option at the end of the income year.

A comparison of the total value of hoggets on hand at the end of the income year (valued on the NSC option) is summarised below:

Single Inventory Group

No	Class	Std Cost	Total Value
600	Hoggets	$16.80	$10,080
	Total Value (closing)		$10,080

Sub Inventory Groups

No	Class	Std Cost	Total Value
500	Ewe Hggts	$15.45	$7,725
100	Wether Hggts	$17.86	$1,786
	Total Value (closing)		$9,511

These sub inventory groupings must be continued into the following year's standard cost calculations separately.

Example Four - Average Cost Inventory System where the Herd Scheme was not used in the Previous Income Year and is not to be used in the Current Income Year

The average cost inventory system for mature livestock valued on the NSC option at the end of any income year is detailed in paragraph (13) of the Determination. For purposes of this example, the closing value of mature sheep in the previous income year is assumed to have been $51,600, or an average of $24 per head (for the 2,150 mature sheep on hand). The formula for calculating the average closing value (cost) of mature livestock on hand at the end of an income year for use with the average cost inventory system (paragraph (13) of the Determination) is shown below:

$$\frac{((a - b) \times c) + ((e - (a - b)) \times d)}{e}$$

Where:

a is the number of livestock of the taxpayer on hand at the end of the immediately preceding income year, being at that time mature livestock;

b is the lesser of ***a*** and:

- (i) the number of livestock of the taxpayer on hand at the end of the immediately preceding year, being at that time mature livestock; or
- (ii) at the election of the taxpayer except where the livestock are pigs, the number of livestock of the taxpayer, being livestock of the taxpayer on hand at the end of the immediately preceding income year which were at the time mature livestock or during the income year maturing livestock of the taxpayer;-

which are disposed of by the taxpayer or die (while owned by the taxpayer) during the income year;

c is the average cost or value of mature livestock of the taxpayer on hand at the end of the immediately preceding income year;

d is the average cost of the livestock intake of the taxpayer as calculated under paragraph 4, 6 or 7 of this determination;

e is the number of mature livestock of the taxpayer on hand at the end of the income year.

Using the sample sheep flock structure, the following average cost of closing mature sheep is calculated:

$$\text{Avge Cost} = \frac{((2,150 - 600) \times \$24) + (2,150 - (2,150 - 600) \times \$29.88)}{2,150}$$

$$= \frac{(1,550 \times \$24) + (600 \times \$29.88)}{2,150}$$

$$= \frac{\$55,128}{2,150}$$

$$= \$25.64 \text{ per head}$$

This average cost per head will be applied to all mature sheep on hand at the end of the income year (all classes and sex). In this example, the increase in valuation at the end of the income year is an average of $1.64/head (or $3526 for the flock of mature sheep). The new closing value will provide the base for calculating the average cost in the following income year.

This average cost per head could be presented in the livestock reconciliation for income tax purposes as follows:

Opening (1/4/97)

Class	No.	Avge Cost per Head ($)	Total ($)
2 Tooth Ewes	600	24.00	14,400
MA Ewes	1,000	24.00	24,000
5-6 Yr Ewes	400	24.00	9,600
Breeding Rams	50	24.00	1,200
MA Wethers	100	24.00	2,400
	2,150		$51,600

Closing (31/3/98)

Class	No.	Avge Cost per Head ($)	Total ($)
2 Tooth Ewes	600	25.64	15,384
MA Ewes	1,000	25.64	25,640
5-6 Yr Ewes	400	25.64	10,256
Breeding Rams	50	25.64	1,282
MA Wethers	100	25.64	2,564
	2,150		$55,126
		Total Increase in Value	$3,526

Note: Item b in the formula relating to this example has two options. It allows sales and deaths to be accounted for from mature stock only (over the age of two years) *or* to be accounted for from all stock of that type over the age of one year. The second option will result in a faster turnover of inventory, but reduces the need to separately identify sales and deaths in the rising two year class of livestock.

Example Five - Average Cost Inventory System where the Herd Scheme was used in the Previous Income Year or is to be used in the Current Income Year to value some Sheep

Paragraph (14) of the Determination sets out the average cost inventory system for valuing mature livestock on the NSC option where some livestock of the same type are being valued on the herd scheme in the same income year. The formula for calculating the average cost per head for the average cost inventory system of the mature livestock under these circumstances is shown below:

$$\frac{((a - b) \times c) + ((e - (a - b) \times d)}{e}$$

Where:

a is the number of livestock of the taxpayer on hand at the end of the immediately preceding income year, being at that time mature livestock valued under a valuation method other than the herd scheme;

b is the lesser of ***a*** and -

(i) the number of livestock of the taxpayer on hand at the end of the immediately preceding year, being at that time mature livestock; or

(ii) at the election of the taxpayer except where the livestock are pigs, the number of livestock of the type of the taxpayer, being livestock of the taxpayer on hand at the end of the immediately preceding income year which were at the time mature livestock or during the income year maturing livestock of the taxpayer -

which are disposed of by the taxpayer or die (while owned by the taxpayer) during the income year;

c is the average cost or value of mature livestock of the taxpayer on hand at the end of the immediately preceding income year valued under a valuation method other than the herd scheme;

d is the average cost of livestock intake of the taxpayer as calculated under paragraph 4, 6 or 7 of this Determination;

e is the number of mature livestock of the taxpayer on hand at the end of the income year valued under the national standard cost scheme.

For the purposes of this example, it is assumed that the following sheep numbers were valued on the herd scheme at the end of the previous year: -

Class	**No. on Herd Scheme**	
2 Tooth Ewes	300	(50%)
MA Ewes	100	(10%)
5-6 year Ewes	400	(100%)
Breeding Rams	50	(100%)
MA Wethers	100	(100%)
TOTAL:	950	
No. Valued on NSC:	1,200	
Total Mature Sheep Prev. Year:	2,150	

It is also assumed that the closing value of mature sheep valued under the NSC option at the end of the previous income year was $28,800, or an average of $24 per head (for the 1,200 sheep concerned).

The standard cost calculated in Example Two for mature sheep at the end of the income year will exclude the number and cost of breeding rams purchased (as these must be automatically included on the herd scheme) and is calculated to be $26.88 per head.

Using the sample flock structure, the average cost of mature sheep valued on the NSC option for the purposes of the average cost inventory system is calculated as follows:

$$\text{Avge Cost} = \frac{((1{,}200 - 600) \times \$24) + (1{,}200 - (1{,}200 - 600) \times \$26.88)}{1{,}200}$$

$$= \frac{(600 \times \$24) + (600 \times \$26.88)}{1{,}200}$$

$$= \frac{\$30{,}528}{1{,}200}$$

$$= \$25.44 \text{ per head}$$

This average cost per head would be applied to the 1,200 mature sheep being valued under the NSC option at the end of the income year. Accounting presentation for these sheep could be made on the same basis as outlined in Example Four. A separate herd scheme account for those mature sheep valued on the herd scheme would also be included in the sheep reconciliation account for income tax purposes.

This formula automatically adjusts the average cost per head for purposes of the average cost inventory system where stock are moved from NSC to the herd scheme at the end of any income year. If an extra 300 mature sheep were to be moved to the herd scheme at the end of the income year, the calculation would change to the following:

$$\text{Avge Cost} = \frac{((1{,}200 - 600) \times \$24) + (900 - (1{,}200 - 600) \times \$26.88)}{900}$$

$$= \frac{(600 \times \$24) + (300 \times \$26.88)}{900}$$

$$= \frac{\$22{,}464}{900}$$

$$= \$24.96 \text{ per head}$$

This average cost per head would then be applied to the 900 mature sheep still being valued under the NSC option.

Example Six - Use of the Minimum Standard FIFO Inventory System in Accounting for Mature Livestock Valued under the NSC Option

The minimum standard FIFO inventory system is discussed in paragraph (12) of the Determination. There is no set formula approach to this system. Using the sample flock structure, and following assumed mature livestock (sheep) number intakes and standard costs in earlier years, an example of the FIFO system in practice is shown below.

Year of Intake (31 March)	Number of Mature Sheep	Standard Cost (in each year)
1998 (current yr)	600	$29.88
1997	600	$28
1996	500	$27
1995	700	$26
1994	350	$24
	2,150	

The first part of the FIFO calculation makes the adjustment to numbers on hand at the end of the income year. The oldest inventory on hand (1994) is the first to be offset by the new intake for the year. The next oldest inventory group is then accounted for (and so on) until the number removed from the oldest groupings (1994, 1995 and 1996) exactly equals the total of sales and deaths for the current income year:

Year of Intake	Opening Stock (on NSC)	Less Sales and Deaths	Plus Current Year Intake (on NSC)	Closing (on NSC)
1998	N/A		+ 600	600
1997	600			600
1996	500			500
1995	700	- 250		450
1994	350	- 350		0
TOTAL:	2,150	- 600	+ 600	2,150

Note: It is not necessary to actually count the new intake of mature sheep entering the FIFO system at the end of an income year. This will automatically be calculated along the total line in the above table as:

Closing No.	MINUS	Opening No.	PLUS	Sales/deaths
2,150	-	2,150	+	600 = 600

(continued at top of opposite column)

The following table calculates the change in value of mature livestock (sheep) on hand at the end of the income year. This table automatically takes into account any change in numbers, the new standard cost for the current year, and the offset of the oldest inventory against sales and deaths.

Value of Stock on Hand

Year of Intake	Opening Number (on NSC)	Closing Number (on NSC)	Historical Cost $	Opening Value $	Closing Value $
1998	N/A	600	29.88	0	17,928
1997	600	600	28	16,800	16,800
1996	500	500	27	13,500	13,500
1995	700	450	26	18,200	11,700
1994	350	0	24	8,400	0
TOTAL:	2,150	2,150		56,900	59,928
		Increase in value			$3,028

This FIFO system can be used to account for mature livestock valued on NSC where some of the same type are also valued on the herd scheme. Opening and closing numbers will only relate to the livestock valued under the NSC option. Sales and deaths, however, will be the total for both NSC and the herd scheme stock, and the intake for the year will be a maximum of the closing number valued under NSC.

Refinements to the minimum standard FIFO system are allowed, including adjustments that allow a class by class breakdown and incorporate the average standard cost relating to the livestock's actual year of intake.

Note: For the purposes of illustrating the FIFO system, the historical costs used in the above example are purely hypothetical, and have been set on a relatively steep curve in order to clearly differentiate between intake years.

Example Seven - Transition from the Trading Stock Scheme to NSC in the 1992-93 Income Year

This example outlines the inventory treatment under the average cost and FIFO inventory systems in the 1992-93 transition year (for mature livestock). For purposes of this example, it is assumed that all mature sheep were valued on the Trading Stock Scheme at the end of the 1991-92 income year, and that all are transferring to NSC at the end of the 1992-93 income year. The same procedures will apply if a partial move to the herd scheme also occurs. The average cost calculated for the 1992-93 livestock intake (using Example Two) has been recalculated to include opening hoggets at the Trading Stock Value of $14.28 per head ($8,568 in total). This average cost for the 1992-93 livestock intake of sheep is calculated to be $29.35 per head. (This would reduce to $26.33 per head if the herd scheme were to be adopted for some sheep because of the requirement to include breeding sires under that scheme.)

The closing value of mature sheep in the 1991-92 income year using Trading Stock values is summarised in the following table:

(continued on page 20)

(from page 19)

Class	No.	Trading Stock Values ($)	Total Value ($)
2 Tooth Ewes	600	19.51	11,706
MA Ewes	1,000	11.88	11,880
5-6 year Ewes	400	9.73	3,892
Breeding Rams	50	103.90	5,195
MA Wethers	100	11.50	1,150
TOTAL:	2,150		$33,823

Example A - Average Cost Inventory System

The average closing cost of mature sheep on hand at the end of the income year shall be calculated using the formulae contained in paragraphs (31) and (13) (or (14) if the herd scheme is to be used in combination with the NSC option).

$$\text{Average Cost per Head} = \frac{\$33{,}823}{2{,}150}$$

$$= \$15.73 \text{ per head}$$

Using the formula contained in Example Four (paragraph (13) of the Determination), the average closing value of stock is calculated as:

$$\text{Avge} = \frac{((2{,}150 - 600) \times \$15.73) + (2{,}150 - (2{,}150 - 600) \times \$29.35)}{2{,}150}$$

$$= \$19.53 \text{ per head}$$

In this example, because stock numbers at the start and the end of the 1992-93 income year are the same, the increase in value of stock on hand ($3.80 per head amounting to $8,170 in the example) is eligible for the 5 year transitional spread.

Example B - FIFO Inventory System

The final table of the FIFO inventory system (as detailed in Example Six) would appear as follows, and refers to paragraph (20) of the Determination.

(continued at top of opposite column)

Value of Stock on Hand

Year of Intake	Opening Number (on NSC)	Closing Number (on NSC)	Historical Cost $	Opening Value $	Closing Value $
1993	N/A	600	29.35	0	17,610
2T Ewes	600	600	19.51	11,706	11,706
MA Ewes	1,000	950	11.88	11,880	11,286
5-6 yr Ewes	400	0	9.73	3,892	0
MA Wethers	100	0	11.50	1,150	0
Br. Rams	50	0	103.90	5,195	0
TOTAL:	2,150	2,150		33,823	40,602
Change in value					$6,779

Note: The 1992-93 sales and deaths of 600 sheep offset all the breeding rams, MA wethers, 5-6 year ewes and 50 of the MA ewes.

The increase in value of $6,779 would be eligible for the 5 year transitional spread in this example as opening and closing sheep numbers are the same.

Further Comments on the Transition

Paragraph 27 allows item d of the formula in paragraph 4 (or paras 5 or 6 for cattle) of the determination to be either the 1992 trading stock scheme standard value, or the NSC calculated for the 1992-93 income year, as follows:

Opening Stock		Value for "d"	
600	@ $14.28 =	$8,568	(para 27(a) value)
600	@ $16.80 =	$10,080	(para 27(b) value)

The $16.80 is the result of the calculation in Example One.

Where the herd scheme is to be used in association with NSC to value a livestock type, particular attention must be given to calculating the opening inventory stock numbers and value. The series of calculations involved is contained in paragraph (31) of the Determination.

In effect, the formulae associated with setting the opening inventory values for 1993 (in paragraph 31) remove any livestock which is to be valued on the herd scheme on a class by class basis. The formulae effectively perform the following operations, laid out in tabular form.

Class	No. on Hand (closing 1993)		No. Valued Herd Scheme (closing 1993)		No. Valued NSC (closing 1993)		Opening Value (1993)		Total Opening Value
2T Ewes	600	-	400	=	200	x	19.51	=	3,902
MA Ewes	1,000	-	500	=	500	x	11.88	=	5,940
5-6 yr Ewes	400	-	200	=	200	x	9.73	=	1,946
MA Ewes	100	-	100	=	0	x	11.50	=	0
Br. Rams	50	-	50	=	0	x	103.90	=	0
	2,150		1,250		900				$11,788

$$\text{Averaging Opening 1993 Inventory Value} = \frac{\$11{,}788}{900}$$

$$= \$13.10 \text{ /head}$$

Under this system, the average cost per head of $13.10 will be used to calculate the average closing inventory value in 1993 using the formula contained in paragraph (14) of the Determination.

If the FIFO inventory system is to be used the opening inventory structure and value will be as follows, with sales and deaths replacing the oldest sheep on hand first:

	No.	Value	Total Value
2T Ewes	200	19.51	$3,902
MA Ewes	500	11.88	$5,940
5-6 yr Ewes	200	9.73	$1,946
			$11,788

Note: The number of livestock in any class valued on the herd scheme at the end of the 1993 income year cannot be less than the lesser of the number valued on the Herd Scheme at the end of the 1992 income year, or the number actually on hand in that class at the end of the 1993 income year.

Example Eight - National Standard Cost Calculation for Pigs

This example demonstrates the use of the formula for calculating standard costs for growing pigs (10 to 17 weeks and older) as contained in paragraph (7) of the Determination. For purposes of this example, the following hypothetical pig farming operation is assumed.

Pigs Farmed During Year	No.	Purchase Cost
No. of pigs 10 to 17 weeks sold or on hand	2,000	N/A
No. of weaned pigs purchased to be grown on	400	$28,000 ($70/head)
No. of pigs 10-17 weeks at opening	300	N/A
Purchases of older pigs (sows)	30	$6,000 ($200/head)

NSC for pigs to 10 weeks of age $74.10

NSC for growing pigs 10 to 17 weeks $56.10

The formula for standard cost calculation for the growing pigs 10 to 17 weeks of age (as contained in paragraph (7) of the Determination) is shown below:

$$\frac{((a - b - c) \times d) + ((a - c) \times e) + f}{a - b - c + g}$$

Where:

a is the number of growing pigs which at any time during the income year were aged between 10 and 17 weeks of age and which were sold during the income year or are on hand at the end of that income year;

b is the number of weaned pigs purchased by the taxpayer during the income year for the purposes of rearing to about 17 weeks of age or older;

c is the number of pigs on hand at the beginning of the income year which were valued as growing pigs 10 to 17 weeks of age;

d is national standard cost for the income year for pigs in the weaners to 10 weeks of age category of livestock;

(continued at top of opposite column)

e is the national standard cost for the income year for pigs in the growing pigs 10 to 17 weeks of age category of livestock;

f is the aggregate purchase cost of pigs purchased at the age of weaning or older during the income year by the taxpayer;

g is the total number of pigs purchased by the taxpayer at the age of weaning or older during the income year.

On the basis of this formula, the calculation is made as follows:

$$\text{Std Cost} = \frac{((2{,}000 - 400 - 300) \times \$74.10) + ((2{,}000 - 300) \times \$56.10) + \$34{,}000}{2{,}000 - 400 - 300 + 430}$$

$$= \frac{(1{,}300 \times \$74.10) + (1{,}700 \times \$56.10) + \$34{,}000}{1{,}730}$$

$$= \frac{\$225{,}700}{1{,}730}$$

$$= \$130.46/\text{head}$$

This standard cost will be applied to all pigs over the age of 10 weeks on hand at the end of the income year.

Note: (i) The breeding stock may be kept separate and accounted for through an inventory system (or different valuation option such as the herd scheme) in preference to applying the current year's standard cost to these stock on hand.

(ii) Weaned pigs up to the age of 10 weeks (excluding suckling pigs) on hand at the end of an income year and valued under the NSC option do not require a standard cost calculation. They will be valued directly at the announced NSC for that age class of pigs on hand at the end of an income year.

Self-Assessed Cost Guidelines for Pigs

The self-assessed cost guidelines for pigs are now available. These run to approximately 20 pages, but since so few people have a need for this information we have not printed it in this Appendix.

If you need a copy, please write to:

Geoff Duncan
Tax Policy Analyst
Inland Revenue Department
P O Box 2198
WELLINGTON Fax 472 2781

Livestock Values - Chatham Islands

Summary

The Commissioner of Inland Revenue has set the herd value ratio for sheep and beef cattle farmed on the Chatham Islands at 0.3 of the National Average Market values for the 1992-93 income year.

Background

The livestock valuation regime which took effect from the 1992-93 income year provides a specific valuation method for any specified livestock farmed on the Chatham Islands. In past years livestock on the Islands had been valued at market values because the national values announced for mainland livestock far exceeded the true value of the Islands' animals.

The new valuation regime authorises the Commissioner to fix a herd value ratio for animals farmed on the Chathams. This is covered under section 86E (7) of the Income Tax Act 1976.

Ruling

A comparison of the on-farm values of sheep and beef cattle with the National Average Market Values for the past two years shows that the Islands' values average out at 30% of mainland values.

Setting the herd value ratio at 0.3 means that Chatham Islands farmers may, if they so elect, value their sheep and beef cattle at 30% of the National Average Market Values (herd values) announced for the 1992-93 income year.

By making this election farmers in business on the Chathams will be benefit from the "value proofing" of the herd scheme. Farmers will also have the option of using any of the new valuation methods of National Standard Costs, Self Assessed Costs and the market value/replacement price options.

The fixing of the Chatham Islands herd value ratio has been limited to sheep and beef cattle, as these are the only type of livestock farmed on the Islands.

Future Ratio Reviews

We will review the Chatham Islands ratio yearly, and amend it if it becomes significantly out of line.

Corrections to Calculation Forms - Livestock Revaluation Income

IR 3F form

The present set-out and wording of the IR 3F form gives an incorrect net farming income figure for farmers who elect to spread livestock revaluation income.

Livestock revaluation income results from changes to the livestock valuation system which first applied to the 1992-93 income year. The additional income that may arise from the change in valuation methods can be calculated on form IR 3FV. Farmers can spread the revaluation income over a five year period instead of returning it all in the 1992-93 income year.

When using the form IR 3F, the livestock on hand at the end of the year figure (page 1) will include the livestock revaluation income, as that livestock has been valued under the new rules.

If a farmer elects to spread the revaluation income, to arrive at the correct Net farming income, the revaluation income should be deducted as an expense on page 2 (use the Other expenses box.)

Remember that at least 20% of the revaluation income must be included as income for the 1993 income year. There is a box provided for this on the IR 3F.

IR 3FV form

Since we issued the IR 3FV form, it has been brought to our attention that the form gives incorrect instructions for calculating revaluation income for taxpayers who used the herd scheme for a class of animal for the 1991-92 income year.

In the "Notes for Guidance" the amount to go in **Column 3**, "If you used the Herd Scheme in 1991-92," should be the National Average Market Value for the **1992-93** income year, (not the 1991-92 year as stated in the guidance notes.)

This aligns the calculation of the revaluation income with the legislation. Where a class of livestock has been valued under the herd scheme in the 1991-92 income year there will only be a plus or minus amount of revaluation income where a farmer has elected to use a Herd Value Ratio other than 1.0.

Self-Assessed Cost - Dual Product Multiplier for Dairy Goats

In the guidelines for developing self assessed costs for sheep, dairy cattle, beef cattle, deer and goats published in the Appendix to TIB Vol 4 No.7 March 1993, the dual product multiplier for dairy goats was incorrectly published as 0.67. The correct dual product multiplier is 0.33.

Assigned Percentages of High-Priced Livestock

For the 1992-93 income year the existing 1991-92 straight line rates of depreciation will be continued. However, livestock owners will have the choice of applying diminishing value rates for livestock purchased in the 1992-93 income year instead of the straight line rates. Economic rates will be introduced for the 1993-94 income year.

As part of the review of the old livestock valuation regime, the Livestock Valuation Consultative Committee concluded that the depreciation of high-priced livestock should be brought in line with the treatment of other depreciable assets. It also recommended that the depreciation rates applying to high-priced livestock be set at their economic rates. The Government agreed with the Committee's recommendation.

The existing straight line depreciation rates as detailed below will be continued for the 1992-93 income year, and economic straight line depreciation rates will be set for the 1993-94 income year. In line with the treatment accorded to other depreciable assets, taxpayers will have a choice of the existing rates or economic rates for 1993-94

Livestock Category	Straight Line Rate	Equivalent Diminishing Value Rate
Sheep	25%	33%
Cattle	20%	26%
Stags	20%	26%
Other Deer	15%	22%
Goats	20%	26%
Pigs	33%	40%

The diminishing values rates are calculated as per Schedule 23 of the Income Tax Act.

A taxpayer who wishes to apply the diminishing value rate to an animal must clearly use the diminishing value rate in the financial statements that support the tax return. Once a taxpayer makes this election it is irrevocable. If there is no such clear use of the diminishing value rate, the straight line rate applies.

Interest Rate for Adverse Event Income Equalisation Scheme

The adverse event income equalisation scheme interest rate for deposits on or after 1 April 1993 is 4.7%.

The adverse event income equalisation scheme helps farmers smooth their income flows. The Livestock Valuation Consultative Committee considered that the Government should not gain financially from this smoothing and therefore should pay a market interest rate to farmers who deposit money into the scheme. The Government agreed to the recommendation that a market interest rate should be paid.

The adverse event income equalisation interest rate has been set by reference to the six month Government stock rate after taking into account that deposits to the adverse event income equalisation scheme are out of pre-tax rather than after tax income.

The Governor-General set a rate of 4.7% by Order in Council.

Taxation Reform Bill (No.7) 1993: Livestock Valuation for Tax Purposes

The Taxation Reform Bill introduced in Parliament on 5 August 1993. Clauses 20-27 and 39-41 of this Bill contain proposed amendments to the treatment of bailed livestock. The general effect is to ease the transition for bailors to the new livestock valuation regime.

Unless stated to the contrary all the following proposed amendments apply from the 1992-93 income year.

Tax Treatment of Bailed Livestock

A bailment is usually a long-term lease of livestock where the person leasing the livestock (the bailor) does not expect the actual livestock leased to be returned, but expects animals of the same quality and quantity to be returned at the end of the bailment by the bailee (the person who uses the livestock during the term of the bailment). The Livestock Consultative Committee's recommendation that bailors and lessors of livestock be excluded from using national standard cost (NSC) or self assessed cost (SAC) was agreed by Government and enacted. An exception was made that where the bailment was more akin to the grazing out of livestock (with the expectation that the original livestock would be returned at the end of the bailment); national standard cost or self assessed cost could be used if certain criteria were met.

Bailors were provided with a transitional five-year spread to move to the herd scheme, the market value option, the replacement price option, or a transitional scheme solely for bailed livestock. The spread applies to the additional income arising in the 1992-93 income year as a result of a person moving to another livestock valuation method. This transitional scheme was available only to bailments in existence as at 2 September 1992 or where a binding agreement to enter a bailment existed at that date and

(continued on page 24)

(from page 23)

- the livestock had been valued under the former trading stock scheme for 1991-92 income year; or
- where a class of livestock was not owned in the 1991-92 income year was acquired and bailed on or before 2 September 1992 or subject to a binding agreement to bailment at that date.

It allowed bailors to value their bailed livestock at 70% of the national average market value.

After approaches by people concerned about the tax treatment of bailments the Minister of Revenue announced a review of the tax treatment of bailed livestock. The review concentrated on the transitional treatment applying to taxpayers who entered into bailments before the announcement of the new livestock valuation regime.

Proposed Amendments to the Treatment of Bailors

Transitional Treatment of Bailed Livestock

The transitional provisions applying to bailed livestock have been amended in two ways. The Bill proposes to amend the transitional scheme for bailments or agreements to bail in existence as at 2 September 1992 to provide closing values based on 70% of a three year rolling average of the relevant national average market values. This replaces the current approach of a straight 70% of the relevant national average market value.

The ruling average approach spreads the transition to higher values rather than impacting in one income year. In effect, this duplicates the now repealed trading stock scheme without the capping.

This provision is available permanently to those who elect, with their 1992-93 tax return, to use the provision. It does not expire unless the bailment ceases or the bailor elects another valuation option. If another valuation option is elected, however, this provision cannot be re-adopted.

The second proposed amendment is an introduction of a new transitional provision allowing bailors to continue to value bailments or agreements to bail in existence as at 2 September 1992 at the capped 1991-92 trading stock values until the end of the 1996-97 income year. At the end of that year the bailor must adopt either the herd scheme, the market value option or replacement price.

The option to use 70% of three years' worth of national average market values will not be available at that time, nor will the transitional spread. This provision is intended for those winding up bailments before the end of the 1996-97 income year or who cannot afford to move to another valuation scheme currently but will be able to by 1996-97.

Because the capped values can be used, no transitional spread is available for the cost of moving livestock from the capped value provision to other schemes, the increased flexibility under the herd scheme would allow livestock to be moved to that scheme on an animal by animal basis.

The Bill also provides for elections already furnished and those which may be furnished before the Bill is enacted. Any notice of election to value livestock under the 70% of the national average market value option shall be treated as not being made unless it clearly identifies, or is subsequently confirmed as identifying, whether the taxpayer wishes to use the capped standard value option or the 70% rolling average option.

The Commissioner has been given the discretion to extend the time in which elections can be furnished to cover cases where a taxpayer wishes to revise an election already furnished with a return.

Livestock Placed At Use Of Another Person

The treatment of bailed livestock has been amended to provide for arrangements where livestock is placed at the use of a farming entity for no fixed fee and the return to the bailor is dependent on the profit of the business. This type of arrangement is most commonly based around a partnership where a partner places livestock at the use of the partnership but retains legal ownership and in return shares any profits earned by the partnership. In effect this arrangement is a way of pooling trading stock when commencing a business, rather than a bailment arrangement.

Given this, it is appropriate to allow bailors to use national standard cost and self assessed cost where all the persons involved are treated as one taxpayer. To qualify for this provision the bailment must meet the test of being a profit sharing arrangement, meaning:

- the bailor must make the livestock available to the other party without a specified fee; and
- the return to the bailor is dependent on the profits of the business in which the livestock is used; and
- the bailor directly or indirectly participates in the profit or losses of the business in which the livestock is used; and
- where the livestock is bailed to a partnership, the bailor is a partner in the business to which the livestock is bailed and is bound by the liabilities and obligations of the Partnership Act.

Where an arrangement qualifies as a profit sharing arrangement the bailor may use national standard cost or self assessed cost provided that the bailor's livestock values are calculated as if the bailor, the person using the livestock and any other person making livestock available to the person using the bailor's livestock under a profit sharing arrangement, were one person.

Other Amendments Included in Reform Bill

The Government has agreed to replace the current method of determining the national average market values with a survey based upon the opinions of livestock valuers. The livestock valuer survey, known as the "snapshot", is considered more accurate than the previous method, especially in the case of female breeding stock. The Government also decided that the date on which the snapshot should be undertaken should be 30 April each year for all livestock types to allow for early release of the national average market values. This proposed amendment applies from the 1993-94 income year.

The adoption of the 30 April snapshot date requires a consequential amendment to bring the provisions relating to the calculation of differential herd values (the option to value a type of livestock at 90% - 130% of the national average market values) into line. For the 1993-94 income year and future years a farmer adopting a differential herd value will be required to value a type of livestock as at 30 April rather than 15 May, as currently provided by the legislation.

The provisions relating to the treatment of persons required to make a joint election to value livestock under a particular livestock valuation scheme have been amended. Where no valid election exists livestock will be valued at market value in the case of bailed or leased livestock or livestock subject to a profit sharing arrangement. In all other cases where no joint election is received national standard cost is applied.

A number of changes have been made to the income equalisation scheme and the adverse event income equalisation scheme to consolidate under one Crown Bank account deposits to the income equalisation scheme and the adverse event income equalisation scheme This will allow for quicker movement of funds and updating of accounts.

A number of minor drafting errors are also corrected. These changes apply from 1 April 1993.

The high-priced livestock scheme has been amended to remove a drafting error which prevented livestock being transferred from the high-priced livestock scheme to other schemes when depreciated to on or below the national average market value.

The bailment provisions have been tidied up to provide that the transitional provisions apply in all cases to bailments and binding agreements to bail livestock entered into on or before 2 September 1992 (the announcement date of the amended treatment of bailed livestock).

Other issues addressed by Government

The Livestock Valuation Consultative Committee proposed that separate North Island and South Island national standard cost values for pigs be set. However, the Income Tax Amendment Act (No.2) 1993 provided for national pig values. The Committee's reason for proposing separate values was the likelihood of substantial differences in national standard cost value between the two islands. This difference has not arisen so national values will continue to be set for pigs.

Average Market Values of Specified Livestock - 1993

The Governor-General has announced the average market values of specified livestock for the 1992-93 income year, by Order in Council.

The values have been announced later than usual this year due to a review of the way they are worked out. The Government has trialled a "snapshot" valuation method (recommended by the Livestock Valuation Consultative Committee) alongside the existing sales-based system. Government has decided that the "snapshot" valuation of "on-farm" values gives a more accurate value of the livestock on a farmer's property at or near the end of year balance date.

The values listed below apply to animals valued under the herd scheme. Trading stock values are not shown this year as that scheme has been repealed from 1 April 1992.

Animals not valued under the herd scheme must now be valued under one of these new options:

- national standard cost
- self assessed cost
- replacement price or market value.

High Priced Livestock

The trigger price for high priced livestock purchased in the 1992-93 income year is now the greater of:

- $500, or
- five times the greater of
  - (a) the national average market values listed below, or
  - (b) the national average market values declared for the 1991-92 income year.

Type of Livestock	Classes of Livestock	Average Market Value Per Head	High-Priced Threshold
		$	$
Sheep	Ewe hoggets	40.10	500.00
	Ram and wether hoggets	40.60	500.00
	Two-tooth ewes	47.00	500.00
	Mixed-age ewes (rising three-year and four-year old ewes)	41.60	500.00
	Rising five-year and older ewes	35.20	500.00
	Mixed-age wethers	35.10	500.00
	Breeding rams	151.70	876.50
Beef cattle	***Beef breeds and beef crosses:***		
	Rising one-year heifers	324.00	1,620.00
	Rising two-year heifers	474.00	2,370.00
	Mixed-age cows	616.00	3,080.00
	Rising one-year steers and bulls	427.00	2,135.00
	Rising two-year steers and bulls	612.00	3,060.00
	Rising three-year and older steers and bulls	757.00	3,785.00
	Breeding bulls	1,499.00	9,635.00
Dairy cattle	***Friesian and related breeds:***		
	Rising one-year heifers	451.00	2,255.00
	Rising two-year heifers	799.00	3,995.00
	Mixed-age cows	917.00	4,585.00
	Rising one-year steers and bulls	318.00	1,635.00
	Rising two-year steers and bulls	521.00	2,605.00
	Rising three-year and older steers and bulls	699.00	3,740.00
	Breeding bulls	1,030.00	5,265.00
	Jersey and other dairy cattle:		
	Rising one-year heifers	393.00	1,965.00
	Rising two-year heifers	693.00	3,465.00
	Mixed-age cows	824.00	4,120.00
	Rising one-year steers and bulls	240.00	1,765.00
	Rising two-year and older steers and bulls	460.00	2,685.00
	Breeding bulls	842.00	4,210.00
Deer	***Red deer:***		
	Rising one-year hinds	123.00	615.00
	Rising two-year hinds	232.00	1,160.00
	Mixed-age hinds	277.00	1,385.00
	Rising one-year stags	188.00	940.00
	Rising two-year and older stags (non-breeding)	310.00	1,550.00
	Breeding stags	1,999.00	9,995.00

Type of Livestock	Classes of Livestock	Average Market Value Per Head	High-Priced Threshold
		$	$
Deer	***Wapiti, elk, and related crossbreeds:***		
	Rising one-year hinds	156.00	780.00
	Rising two-year hinds	282.00	1,410.00
	Mixed-age hinds	329.00	1,645.00
	Rising one-year stags	216.00	1,080.00
	Rising two-year and older stags (non-breeding)	369.00	1,845.00
	Breeding stags	2,043.00	10,215.00
	Other breeds:		
	Rising one-year hinds	60.00	500.00
	Rising two-year hinds	98.00	500.00
	Mixed-age hinds	125.00	625.00
	Rising one-year stags	83.00	500.00
	Rising two-year and older stags (non-breeding)	120.00	600.00
	Breeding stags	426.00	2,130.00
Goats	***Angora and angora crosses (mohair producing):***		
	Rising one-year does	24.00	500.00
	Mixed-age does	26.00	500.00
	Rising one-year bucks (non-breeding / wethers	14.00	500.00
	Bucks (non-breeding) / wethers over one year	17.00	500.00
	Breeding bucks	124.00	620.00
	Other fibre and meat producing goats (cashmere or Cashgora producing):		
	Rising one-year does	17.00	500.00
	Mixed-age does	20.00	500.00
	Rising one-year bucks (non-breeding) / wethers	13.00	500.00
	Bucks (non-breeding) / wethers over one year	14.00	500.00
	Breeding bucks	77.00	500.00
	Milking (dairy) goats:		
	Rising one-year does	53.00	500.00
	Does over one year	64.00	500.00
	Breeding bucks	152.00	1,000.00
	Other dairy goats	34.00	500.00
Pigs	Breeding sows less than one year of age	149.00	745.00
	Breeding sows over one year of age	253.00	1,265.00
	Breeding boars	340.00	1,700.00
	Weaners less than 10 weeks of age (excluding sucklings)	45.00	500.00
	Growing pigs 10 to 17 weeks of age (porkers / baconers)	124.00	620.00
	Growing pigs over 17 weeks of age (baconers)	178.00	890.00

National Standard Cost Values for Livestock - 1993

The National Standard Cost (NSC) scheme for valuing livestock was introduced in the new section 86C of the Income Tax Act 1976 (the Act). The 1992 - 93 income year is the first year it has operated.

Under the authority of section 86C(1) of the Act the Governor-General has declared the national standard costs for the income year commencing on 1 April 1992.

The costs are listed in the table below.

Type of Livestock	Classes of Livestock	National Standard Cost $
Sheep	Rising 1 year	13.00
	Rising 2 year	7.50
Dairy cattle	Purchased bobby calves	119.00
	Rising 1 year	232.00
	Rising 2 year	58.50
Beef cattle	Rising 1 year	109.00
	Rising 2 year	62.70
	Rising 3 year male non-breeding cattle (all breeds)	62.70
Deer	Rising 1 year	31.20
	Rising 2 year	18.10
Meat and Fibre Goats	Rising 1 year	9.90
	Rising 2 year	6.00
Dairy Goats	Rising 1 year	52.70
	Rising 2 year	9.70
Pigs	Weaners to 10 weeks of age	74.10
	Growing pigs 10 to 17 weeks of age	56.10

The table above gives the breeding, rearing and growing (BRG) costs for rising 1 year animals and the rearing and growing (RG) costs for rising 2 year animals - apart from pigs which show the BRG for weaners up to 10 weeks of age and RG costs for growing pigs between 10 and 17 weeks of age.

Under the national standard cost scheme, a farmer applies a national standard cost value to homebred stock, and values purchased stock at their purchase price. The farmer then applies the average of these costs to stock on hand at year's end to derive a closing value. This approach is used to determine the value of rising one year and rising two year immature stock (and rising three year male non-breeding cattle). Once livestock reach maturity the cost assigned to a particular animal is held until the animal is sold or dies.

Example

In 1993 a farmer home breeds 1,000 lambs and purchases 400 lambs during the year for $25.00 a head. In this example we have used the BRG figure for the 1992-93 year from the table above ($13.00)

Calculation

1,000	homebred lambs at $13/head	$13,000
400	purchased lambs at $25/head	$10,000
1,400		$23,000

Average cost per lamb = $23,000 / 1,400

= $16.42/head

In the following income year (1993-94) the opening value of hoggets on hand will be $16.42/head. The farmer will add to this the RG cost for that year (say $7.50). Providing there are no purchases of sheep in that income year the closing value of two-tooths on hand at year's end will be $23.92.

Any purchases of mature sheep will need to be averaged and added to this cost as follows:

Calculation

400	opening hoggets at $16.42/head	$6,568
	Rearing and growing cost of opening numbers (400 x $7.50)	$3,000
200	sheep purchased at $30/head (average)	$6,000
600		$15,568

Average cost per mature sheep = $15,568 / 600

= $25.94/head

For the 1992-93 income year the opening value for the rising two year classes will be the 1991-92 closing value for the rising one year class. This will generally be the trading stock value for that year.

See the previous article in this TIB for the 1993 National Average Market Values (NAMVs) for livestock.