Farming chargeable income/loss

Mr burs, a resident farmer, declares the following for tax year 2006/2007 ndividuals who are in the farming business have the following concessions; Farming means the carrying out of farming operations. It involves all farming activities including poultry, piggery, stud farming, horticulture, rearing of cattle, sheep, goats and cultivation of crops. Farming is covered under the following sections of the income tax act; sections 28,29,30,42,47 and 48 the first schedule and third schedule. This is where the farmer is given an option to apply in writing to the commissioner within six months after the end of any tax year to elect that their chargeable income be averaged for a period of three years. ndividuals who are in the farming business have the following concessions; Farming means the carrying out of farming operations. It involves all farming activities including poultry, piggery, stud farming, horticulture, rearing of cattle, sheep, goats and cultivation of crops. Farming is covered under the following sections of the income tax act; sections 28,29,30,42,47 and 48 the first schedule and third schedule. This is where the farmer is given an option to apply in writing to the commissioner within six months after the end of any tax year to elect that their chargeable income be averaged for a period of three years.

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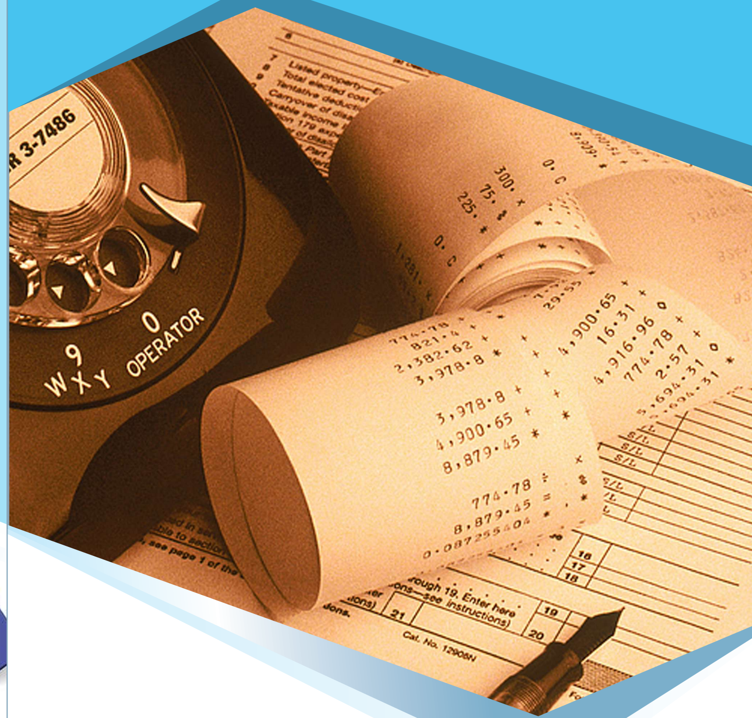
KNOW MORE ABOUT BURS



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ABOUT BURS

The brochure aims to help you as a Tax payer understand your obligations and accurately calculate your chargeable income.

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There are three types of farmers (section 2);

- Livestock
- Agricultural farmer
- Pastoral farmer (combination of the two above)

OUR SERVICES

It includes stock held at the beginning and end of the tax year,
i.e. opening and closing stock.

In terms of the income tax act, a farmer is considered to be carrying out the business of farming when he/she meets the following threshold;

- Livestock farming; more than 300 cattle.
  6 Sheep/goat = 1 head of cattle
- Dryland farming; cultivated land exceeding 100 hectares

* FARMING OPTIONAL LIABILITY

this refers to individuals who can opt or elect to be registered as farmers even though their farming business does not meet the threshold stated above.

N.B. the election once made cannot be revoked/changed

VALUATION OF FARM TRADING STOCK (FIRST SCHEDULE)

Every farmer is required at the end each tax year to include the value of his stock. This closing stock excludes animals used as working animals (horses, donkeys etc) or held for any other purpose other than business.
Closing stock of current tax year=opening stock for the next year
Closing stock can be valued by either;

- Purchase price
- Standard value as per 1st schedule
- Current market value or cost price

Valuation of mafisa, matimela, donations and stock taken for own consumption

MAFISA (LIVESTOCK LENT TO ANOTHER PERSON FOR A PERIOD)

these cattle form part of the owner's herd and are taxable in his/her own hands. (1St schedule, part 11paragraph 6)

these cattle reduce the farmer's closing stock. If found they will be included in the opening stock as lost and found.

DONATIONS AND OWN CONSUMTIONS

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ADVANTAGE TO THE FARMER;

- This election is advantageous in that it evens out the abnormal results caused seasonal changes and disease outbreaks.
- Averaging reduces the tax liability as evidenced by the example below

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Based on rates for tax year 2001-2006
Mr x makes an election on the 25th October 2006
His income will be as follows; 154 500 /3 =51 500

TAX YEAR	INCOME	TAX
03/04	51 5001	712.50
04/05	51 500	1 712.50
05/06	51 500	1712.50
		5137.50

N.B • Averaging is permitted on a 3 year cycle
• A tax year qualifies for averaging only once

2. FARMING LOSSES

- Farming losses are carried forward indefinitely to be deducted from future farming chargeable income. (Sec 46)
- Farming loss can be deducted from any other income of the same tax year if an election is made within three years after the end of the tax year in which the loss was incurred. (Sec 47).
- The assessed loss shall not exceed 50% of the chargeable income used for set off.(Sec 47)
- Where a farming loss is incurred in any tax year, the farmer may set off all or part of the loss against farming income in the two previous taxyears.(Sec 48)

E.G. TAX YEAR	INCOME
2005	5000
2006	5000
2007	(6000)

The farmer can thereof apply to set off his 2007 loss against the 2005 and 2007 income.