Income Tax (National Standard Costs for Livestock) Determination 1993

1. Title and Application

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.

2. Interpretation

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 live- stock 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 purpose

"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 tax- payer 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 two 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 live- stock 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 a 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.

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

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.

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 live- stock 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.

Note: Cattle breeds for national standard cost 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.