

# **Accounting for Agriculture**

Presenter: Caryn Maitland CA(SA)

**IFRS, IFRS for SME's and tax**

# About SAAA

**Creating opportunities to connect our partners to succeed**

SAAA offers CPD training for accountants, auditors, bookkeepers and tax practitioners. We give you access to professional and technical content that ensures both your knowledge and skills are maintained so you remain professionally competent.

**The CPD policy is compliant with IFAC IES7**

All training offered by SAAA is recognised for CPD hours by the relevant professional bodies.

# **SAAA Rewards**

**CPD Subscribers gain access to various rewards**

These can be accessed from your profile by logging in and navigating to your “My Rewards” > “Find out more” to see the reward partner benefits and claim it.

These rewards include discounts, reduced premiums and free stuff.

# Reward Partners



Acts Online provides legislation, including amendments and regulations, in an intuitive, online format.



Draftworx provides automated drafting and working paper financial software.



EdNVest offers an exciting and unique product that leverages Section 10(1)(q) of the Income Tax Act



InfoDocs Company Secretarial Software.

# Reward Partners



Practice Ignition simplifies onboarding - from engagement letter creation to securing client signatures.



QuickBooks Cloud Accounting Platform: The one place to grow and manage your entire practice.



Join the largest accounting and tax franchise in Southern Africa.

# Webinar Housekeeping

The webinar recording and presentation will be available at the end of the webinar within your SAAA profile.

These can be accessed from your profile by logging in and navigating to your “My Dashboard” > “View Events” and then clicking on “Links & Resources” next to the webinar title.

The webinar is available under the “Recording(s)” tab and the presentation under the “Files” tab.

# Claiming CPD Hours

You can claim your CPD hours for this webinar at the end of the webinar within your SAAA profile.

This can be accessed from your profile by logging in and navigating to your “My Dashboard” > “View Events” and then clicking on “Links & Resources” next to the webinar title.

The “Claim My CPD” option is available under the “CPD” tab. Once claimed you will be able to view and download your certificate.

# Disclaimer

## **Disclaimer**

Whilst every effort has been made to ensure the accuracy of this presentation and handouts, the presenters / authors, the organisers do not accept any responsibility for any opinions expressed by the presenters / author, contributors or correspondents, nor for the accuracy of any information contained in the handouts.

## **Copyright**

Copyright of this material rests with SA Accounting Academy (SAAA) and the documentation or any part thereof, may not be reproduced either electronically or in any other means whatsoever without the prior written permission of SAAA.



# Ask Questions

To ask questions and interact during the webinar please use the chat sidebar to the right of the video / presentation on the screen.

Feel free to ask your questions during the webinar in the chat, these will be address in the formal Q & A at the end of the presentation.

# Presenter

## Caryn Maitland

Caryn is a qualified CA(SA and RA, who has lectured extensively at UKZN (and other institutes) where she lectured Advanced Financial Accounting up until 2011 as well as co-ordinating the module on the Pietermaritzburg campus and was appointed Section Head of Financial Accounting and Deputy Head of the School of Accounting (managing the Pietermaritzburg campus) prior to leaving UKZN.

She has conducted independent workshops and seminars for professional accountants since 2006 on various topics and has consulted on a number of technical issues. Since January 2011, she has focused on her own business as technical freelance consultant and trainer to those working within the accounting profession. Caryn is a technical advisor to the SAICA Eastern Region Midlands District, Northern District and Southern District Associations, as well as the Small Practice Interest Group in Durban – specialising in financial reporting (IFRS, IFRS for SME's and general accounting), assurance, legislation and ethics. Caryn has a passion for Corporate Governance, which together with her Companies Act specialism and Financial Management for Non Financial Management lecturing background, has served her well in consulting and advising various Boards of Directors in recent years.

Caryn is also a platform presenter for various institutes as well as many small to medium accounting practices across the country and into Southern Africa. Maitland was appointed as a visiting Associate Professor to the University of Limpopo tasked with mentoring their Financial Accounting staff (Aug 2011 to Dec 2013).

Maitland's passion is IFRS and IFRS for SME's and was delighted at the opportunity granted in 2013 to serve on the APC subcommittee constituted to investigate the need for Micro GAAP and the role of IFRS for SME's for small and medium sized practitioners. Caryn, also serves on the Joint Accountants, Auditors and Attorneys Committee of SAICA, and is part of the School Governing Body project initiated by SAICA in KwaZulu-Natal, and has been appointed as an alternative member to the APC in June 2020

Caryn was elected as the first woman Chairperson for the Midlands District Association for SAICA in 2018 and also serves on the Eastern Region SMP Committee as well as the Local Subvention Committee for SAICA. In 2019 Caryn was appointed to the SAICA Eastern Region Council. As someone who is committed to environmental affairs, Caryn serves as a non-executive director for the Institute of Natural Resources, a Non Profit Company focusing on research. Since 2018 Caryn has worked extensively with commerce and industry, assisting analysts, directors and other users of financials to interpret, prepare, analyse and forecast based on the results of financial statements.



# Course Outline

# Table of Content

- 1) IAS 41 Agriculture
- 2) IFRS 13 Fair Value Measurement
- 3) IFRS for SME's
- 4) Intangible Assets
- 5) Government Grants
- 6) Tax and Farming
- 6) VAT and Diesel Rebates

# Words to ponder...

*“The farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays the freight both ways.” — John F. Kennedy*

*“Agriculture is our wisest pursuit, because it will in the end contribute most to real wealth, good morals, and happiness.” — Thomas Jefferson*

# Introduction

- Need recognised in 1994
- Statement finally approved by the IASB in 2000
- Need for statement
  - Excluded from others
  - Accounting treatment historically developed piecemeal
  - Nature of agriculture makes applying “traditional” accounting methods difficult.
- Significant industry and financing issues

# IAS 41

- Prescribes the
  - accounting treatment
  - presentation and disclosure
  - Related to agricultural activity
- Agricultural activity is defined as
  - The management by an entity
  - Of the biological transformation of living animals or plant (biological assets)
  - For sale, into agric produce, or into additional biological assets

# Scope

- Includes
  - Biological assets
  - Agricultural produce at point of harvest
    - After harvest refer to IAS 2 Inventories
  - Certain government grants
- Excludes
  - Land related to agricultural activity
  - Intangible assets



# Per the statement

<b><u>Biological Asset</u></b>	<b><u>Agric. Produce</u></b>	<b><u>Products that have been processed</u></b>
Sheep	Wool	Yarn, Carpet
Trees (in plantation)	Logs	Lumber
Plants	Cotton, Harvested cane	Tread, clothing Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured ham
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit Trees	Picked fruit	Processed Fruit

# Specific Definitions

- Biological asset
  - A living animal or plant
- Agricultural activity
  - Management of the
  - biological transformation of biological assets
  - For sale, into agric produce or into additional biological assets
- Biological transformation
  - Processes of growth, degeneration, production and procreation that
  - Cause quantitative and qualitative changes

- Group of biological assets
  - Aggregation of similar living animals or plants
- Agricultural produce
  - Harvested product
- Harvest
  - The detachment of produce or
  - The cessation of a biological asset's life processes

# Agricultural activity

- Range of activities
  - Raising livestock
  - Forestry
  - Annual or perennial cropping
  - Cultivating orchards or plantations
  - Floriculture
  - Aquaculture (including fish farming)

# Common features

- Capability to change
  - Animals and plants are capable of transforming
- Management of change
  - Transformation facilitated
  - By enhancing or stabilising
  - Conditions necessary for the process to take place
- Measurement of change
  - In quality – fat cover, ripeness, genetic merit
  - In quantity – progeny, cubic metres, fibre length

# Outcomes of transformation

- Production of agricultural produce
- Asset changes through
  - Growth
  - Degeneration
  - Procreation

# Other definitions

- Asset.....
- Carrying amount = SoFP amount
- An **active market** is a market where **all** the following conditions exist:
  - Homogeneous items traded
  - Willing buyers and sellers can be found at all times
  - Prices are available to the public.
- Government Grant (Per IAS 20)

# Fair value definition

- **Old definition**
- **Fair value** is the amount that an
  - Asset could be exchanged or a liability settled
  - Between knowledgeable, willing parties
  - In an arm's length transaction
  - Based on present location and conditions



# Detour – IFRS 13

# IFRS 13 FV Measurement

- New definition:
  - “the price that would be **received**
  - To **sell** an asset or
  - **Transfer** a liability
  - In an **orderly transaction**
  - Between market participants
  - At measurement date”

- Exit price
- Valuation techniques:
  - Market approach,
  - income approach (DCF),
  - cost approach (depreciated replacement cost)
- Market participant focus
- Date specific

# The transaction

- **1<sup>st</sup> Choice: Principal market**
  - The market with the greatest volume and level of activity for the asset or liability
- **2<sup>nd</sup> Choice: Most advantageous market**
  - The market that
  - maximises the amount that would be received, or
  - minimises the amount that would be paid to transfer a liability
  - **AFTER** taking into account
    - Transaction costs and
    - Transport costs
  - **ONLY** used in the absence of a principal market
- Entity perspective: can the access the market??

- Highest & best use – non financial assets
  - Physically possible? Yes, then
  - Is it legally permissible? Yes, then
  - Is it financially feasible? Yes, then
  - Does it maximises value? Yes, then
- Consider in valuing asset.
  - regardless of current use
- If no at any point– not considered in valuing asset

- Example: Highest & best use
  - Entity C acquires a patent in a business combination for a specific seed
  - They do not intend to use the patent as it competes with existing patents that they have.
  - The benefit to Entity CC for shelving the patent is R8 million
  - The value of the patent to a market participant is R5million
- What is the fair value of the brand?
  - A) R5 million
  - B) R8 million
  - C) zero

- Inputs into valuation techniques
- Premiums & discounts
  - Consider the relevant unit of account (group vs. Single assets)
  - Consider whether market participants would include them
- Blockage factors for large holdings
  - Not permitted
  - Not a characteristic of the asset, but rather the size of the holding
- Bid & offer prices
  - Use price within the spread that is most representative of FV in the circumstances
  - IAS 39 norm = bid for long position, offer for short position

- Fair value hierarchy
  - Relates to FV inputs
  - Same as IFRS 7
- Level 1:
  - quoted (unadjusted) price
  - in an active market
  - For identical assets & liabilities
  - That the entity can access at reporting date
- Level 2:
  - Inputs other than quoted prices included in level 1
  - That are observable for the asset/liability
  - Either directly or indirectly
- Level 3:
  - Unobservable inputs



# Disclosures

- Need to provide info that allows users of AFS to assess
  - Methods and inputs used in FV measurements
  - For reoccurring FV measurements using level 3 inputs, the effect on measurement of profit/OCI
- Certain min disclosures required by class of asset/liability
  - Level within hierarchy is required for all assets/liabilities measured at FV or for which FV is disclosed
  - Level 3 items – significantly more disclosure
- Use tabular form unless another method more appropriate

Back to Biological assets

# Recognition

- Recognise a biological asset or produce when
  - The entity **controls** the asset as a result of past events
  - **Probable** that future benefits will flow
  - Fair value or cost can be **measured reliably**
- Control evidenced by
  - Legal ownership
  - Marking e.g. Branding on cattle

# Measurement

- **Fair value less estimated point of sale costs**
- When?
  - On initial recognition
  - at each balance sheet date
  - At point of harvest (will become cost for Inventory statement)
- Fair value vs Cost approach

# Point of sale costs

- **Include**

- Commissions to brokers and dealers
- Levies by regulatory agencies and commodity exchanges
- Transfer taxes and taxes

- **Exclude**

- Transport and other costs attributable to get assets to the market.
- These are taken into account by netting off against the market price to get to FV.

# Determining Fair Value

- Can group assets according to significant attributes
  - E.g. age, size or quality
  - Need to match market's basis for pricing
- Future contracts not necessarily relevant
  - Need to reflect current market
  - Onerous contracts

# Active market exists

**FV = quoted price**

- Different active markets
  - Use relevant market
  - i.e. Choose the one most likely to use

# No active market....

- The most recent market transaction price
  - No significant change in economic conditions since then
- Market price for similar assets
  - Adjusted for differences
- Sector benchmarks
  - Eg value of cattle = Price per kg of meat



# Problems

- **Problem 1:**

- Information sources listed could give different fair values, so

- **Solution**

- Consider reasons for differences
- Work down to most reasonable, reliable estimate of FV
- Within a relatively narrow range

- **Problem 2:**

- Biological assets are attached to land
- No separate active market of biological asset,
- BUT market exists for land (raw and improved) + biological assets

- **Solution**

- use combined asset price as a starting point,
- Then deduct value of land to get to residual value for the biological assets.

- **Problem 3:**

- Market-determined prices not available for asset in its present condition

- **Solution:**

- Discount cash flow model
- Expected net cash flows
- Discounted at a current market-determined pre-tax rate

# Considerations for DCF calculations

- **Present condition and location!!!**

- Therefore excludes:

- Increases in value from additional biological transformation in the future
- Future activities of the entity related to enhancing the future transformation, harvesting and selling.

- **Excludes** cash flows from

- Financing activities
- Taxation
- Re-establishing assets after harvest

- **Possibility of variations in cash flows**
  - Need to work into calculation (CF's, rate or both)
  - Probabilities etc

# Could we use cost as a FV?

- Cost resembles FV when:
  - Little transformation has taken place since initial cost incurred
  - Impact of the biological transformation on price is not expected to be material
    - Eg initial growth of trees in plantation

# Gains and Losses

- Movement in FV less point of sale costs from date to date of biological assets:
  - **GOES TO THE PERFORMANCE STATEMENT!!!!**
- Loss can arise on initial recognition
  - Due to point of sale costs
- Gain can arise on initial recognition
  - E.g. Birth of a calf
- Same principle applies to gains and losses due to agricultural produce
  - Result of harvesting

# Inability to measure FV reliably?

- Rebuttable presumption that FV can be measured reliably for biological assets.
- Rebuttable only for initial recognition
  - Market prices not available or
  - Alternative estimates clearly unreliable
- Then can use HDC
  - Cost – Acc Depn – Acc impairment
- Need to go back to FV method asap
  - As soon as FV is available



- Reclassify a non current biological asset as “Held for sale”
  - Implies FV available
- Criteria for “Held for Sale”??
  - Available for immediate sale
  - Sale is highly probable, and management is committed
  - Active programme to find a buyer in place
  - Asset actively marketed at a reasonable price
  - Sale expected to take place within a year from reclassifying
  - Actions required to complete to sale, make it unlikely that the sale will be withdrawn.

# Bearer plants IAS 41 and IAS 16 Amendments

- Amendments – brought into IAS 16 in 2014
- PPE
  - Cost accounting
  - Revaluation
  - Impairment

# Intangible Assets and Farming

# Government Grants

- Relates only to biological assets measured at FV less point of sale costs
  - If measured at HDC – go back to IAS20 statement
- Unconditional
  - Recognise as income when grant is receivable
- Conditional
  - Recognise to income when conditions are satisfied

- Conditions could vary
  - Conditions could include the entity NOT doing something
- How is granted released? Farm land for 5 years.
  - Do we lose the grant if we stop before 5 years?
    - Only recognise after 5 years
  - Or is it retained based on the passage of time?
    - Recognise based on time apportionment

Disclosure

# Statement of Comprehensive Income

- Aggregate gain or loss arising during the current period
  - On initial recognition of biological assets and produce and
  - From movements in the FV less point of sale of biological assets.

## Description of each group of assets

- Can be narrative or quantified
- Encouraged to distinguish between
  - consumable and bearer biological assets and/or
  - Mature vs. immature biological assets
- (disclose basis for distinction)



- Consumable = to be harvested or sold as biological assets
  - Trees for lumber, cows for beef, maize and sugar cane
- Bearer = other than consumable assets
  - not agricultural produce and are self regenerating
  - Dairy cows, grape vines, fruit trees
- Mature
  - reached harvestable specifications (consumable)
  - Are able to sustain regular harvests (bearer)

# If not disclosed elsewhere..

## Description of

- Nature of activities involving each group of biological assets
- Non financial measures or estimates of physical quantities of
  - Each group of biological assets at Y/E
  - Output produced during period

# Fair valuing

- Fair value less estimated point of sale costs of biological assets at year end
- Methods and significant assumptions used to get FV for each group of
  - Biological assets and
  - Agricultural produce
- Fair value less estimated point of sale costs of agricultural produce harvested during the year
  - At the point of harvest

# Commitments, security and risk

- Existence and CV of biological assets
  - Whose title is restricted and
  - Pledged as security for liabilities
- Commitments for development or acquisition of biological assets
- Financial risk management strategies relating to biological assets
  - Market risk.....

# Opening to closing balance recon

- Gains and losses due to changes in FV less point of sale costs
- Purchases
- Decreases due to sales and reclassification as “Held for sale”
- Decrease due to harvest
- Increase from business combinations
- Net exchange differences due to presentation translation differences
- Any thing else???

# Useful disclosure

- Split between change in value due to
  - Physical changes
  - Market price changes
- Encouraged to disclose especially if production cycle is more than one year.
- Physical changes
  - Growth, degeneration, production, procreation and harvest

- Exposure to climatic, disease and other natural risks
- IAS 1 disclosure for any expenses or income as a result thereof
  - Nature size and incidence
  - Gross Tax Net
- Examples
  - Outbreak of disease, flood, drought, frost, plague of insects.....

# FV can't be measured

- If using HDC, additional disclosure required
  - Description
  - Explanation why can't get FV
  - (if possible) range of estimates where Fv could be
  - Depreciation method
  - Useful lives or rate
  - Opening and Closing CV = cost, accumulated depreciation and impairment



# FV can't be measured (cont)

- Income Statement
  - Gain or loss on disposal
- Reconciliation between OB and CB
  - As before, plus
  - Impairment losses
  - Reversal of impairments
  - Depreciation.

# Previously at HDC, now FV

- Description
- Explanation as to why FV can be reliably measured
- The effect of the change

# Government Grants

- If related to agricultural activity covered by this statement
  - Nature and extent of grant
  - Unfulfilled conditions and other contingencies
  - Significant decrease expected in level of grant

# Intangible Assets

# IFRS for SME accounting

- Part of Section 13 Inventory

# Biological Assets

- Agricultural assets still fair valued, after harvest becomes cost of asset
  - Needed published price
- Fair value **NOT** readily determinable:
  - Measure at cost less accumulated impairment/depreciation

# Tax and Farming

# Farming tax

An overview



# Why separate taxes?

- Provide incentives
- Accept that farming income is cyclical and weather dependant
- Most of the tax act is set up around manufacturing, not growth. Using the capital allowances law you learnt, how would you grant allowances on dairy cows?

# More information?

- Livestock values on SARS website
- <http://www.sars.gov.za/TaxTypes/VAT/Pages/Farming.aspx>

# So where do we look?

- S26 of the Income Tax Act
- First Schedule
  - Special Capital Development Expenditure allowances
  - Specific treatment of trading stock/ “floating capital”
  - Concessions for forced sales
  - Tax rate concessions

# How does this fit into the tax calc?

Tax Computation		
Gross Income		100,000
Less: Exemptions		<u>10,000</u>
Income		90,000
Less: Deductions		20,000
Add: s26 Farming taxes		40,000
Farming income	120,000	
Less: Exemptions	<u>15,000</u>	
Net farming gain	105,000	
Less: Farming allowances	<u>65,000</u>	
Net Farming income	40,000	
Taxable income		110,000

# What is farming income?

- No definition for farming!
  - Intention to farm, along with profit prospects
  - Must be more than a hobby or as an enjoyable way of life
  - Need not be profitable now, but must reasonably be deemed possible
- Farming income
  - Must be closely related. ITC 1548 held that shearing someone else's sheep for payment is not farming income. Must have right of use of the asset (ie: sheep)
  - CIR vs D&N Promotions: renting farming land is not farming income. (exception: sheep lease, ie: lessee returns not the same leased sheep, but sheep of the age and condition as at the beginning of the lease)
  - MUST also be part of farming operations to fall into s26
  - CIR vs Zamoyski: Farming income is calculated without taking assessed losses into account, ie: ringfenced income is pre loss.

# New case law

- Avenant v The Commissioner for the South African Revenue Service (367/2015) [2016] ZASCA 90 (1 June 2016)
  - If farmer converts his produce, still considered part of farming operations
  - Delivery to a co op where you retain ownership and merely pool your stock is not a disposal and doesn't change the principle above
  - Pulping grapes doesn't change their nature nor does making wine as it's still essentially grape juice.

# New case law

- Klüh Investments (Pty) Ltd v Commissioner, South African Revenue Service 2015 (1) SA 60 (WCC)
  - Taxpayer bought land and plantations
  - Another entity had the equipment and worked the land. At no point did the taxpayer take on any risk related to the trees.
  - Sale of land and trees not part of farming operations

# Why is this so important?

- Farming income is used in the rating formula
- Certain deductions are limited to farming income



# Stock/Floating capital

- For both livestock and produce:
  - Add closing stock
  - Deduct opening stock
- Sounds familiar? Think cost of sales treatments!
- (Remember in accounts we are adjusting purchases)
- Opening stock = Last years closing stock + MV of any previous non farming assets now held as farming + MV of donations/inheritance
- Closing stock = On hand at the end of the year

# Stock/Floating capital

- Farmer Brown has 2 chickens at the end of the 2018 YOA. During 2019 he inherits 6 chickens, raises 7 chicks and 4 chickens die. What number of chickens should he use for opening and closing stock purposes on his 2020 tax return?
- Opening stock = 8
- Closing stock = 4 chickens, 7 chicks.
- NB: In farming the age of the animals make a difference!

# Livestock vs produce:

- Livestock: All animals used by the farmer in his farming operations
  - Eg: Horses used to breed = livestock, horses held to race are not livestock
- Produce: What the farmer grows or what is produced by the livestock
  - No WIP for tax purposes. The harvested produce must be on hand for it to count as produce.

# Livestock vs produce:

- Which comes first – the chicken or the egg?
- A company that sells chicken meat must raise those chickens from eggs. Are the eggs livestock or produce?
- Are the chickens livestock or produce?
- Would your answer change if the company sold some eggs as part of their operations?

# When does something become produce?

- Great revised IN 79 goes into quite a bit of detail on this.
  - Plants attached to soil – not produce
  - Plants that are considered moveable – produce (think bulbs that are grown for harvesting)
  - Core question is intent
  - What about plants grown in pots?
    - Become produce when in saleable condition

# Why does it matter?

- For valuation purposes:
- Livestock values given in Para 5 of the First Schedule.
  - If not listed, then value must be agreed with Commissioner
  - Farmer may change, but not by more than 20% with approval
- Produce = Commissioners discretion (usually cost)
  - Rex vs Variawa: Mielies are produce
  - Milk = produce, condensed milk doesn't

# First ring fencing provision: Para 8

- Expenditure on the acquisition of livestock is limited to farming income adjusted for opening and closing stock. Any amounts disallowed are carried forward to the next YOA.
- Eg: Zola has opening stock of R 1 000, farming income of R 200 000, purchases of R 300 000, closing stock of R 11 000.
- Para 8 (1) allows a deduction of:  $R\ 200\ 000 + 11\ 000 - 1\ 000 = R210\ 000$ . NOT R 300 000, 90 000 disallowed.
- Para 8 (3): Assume the MV of the stock at YE is 50 000.
  - Reduction in disallowed portion:  $90\ 000 + 1\ 000 - 50\ 000 = 41\ 000$ .
  - Therefore total deduction allowed =  $R\ 210\ 000 + 41\ 000 = 251\ 000$

# Non trade disposal of livestock/produce

- Domestic use:
  - Farming income inclusion at cost. If no cost price, then MV
- Removal from the Republic:
  - Inclusion at MV
- Other:
  - Donations/sale less than MV, in specie dividends
    - Inclusion at MV
- If farmer uses livestock in her trade, then use MV. Eg: Dairy farmer allows her workers to each take 1l milk/day
- Animal changes it's nature from livestock to something else. Eg: Breeding mare now used as a race horse:
  - Inclusion at MV



# Forced sales of livestock – Para 13/Drought relief para 13A

- Sale due to drought/stock disease, etc
  - Must be replaced within 4 years
  - Have the option of:
    - Deducting cost of replacement stock in the year sale took place
    - Deducting it from income in the year replaced
- Sale due to Government livestock reduction scheme
  - Must be replaced within 9 years
  - As above
  - NB: May not use para 19 rating formula for gov sales, may use for drought sales
- Drought relief (13A)
  - If sale due to drought and proceeds deposited with the Land Bank:
    - Income can be postponed for as long as cash is left, ltd to 6 years
    - If this provision is used, then can't use relief above

# Capital Development Expenditure

- 3 options: s12B, para 12 or s 11(e). Residential accommodation straight to s 13!
- Capital Development Expenditure:
  - Noxious plant eradication
  - Prevention of soil erosion
  - Dipping tanks
  - Dams, irrigation schemes, etc
  - Fences
  - Erection of ANY farm buildings, other than those used for domestic purposes
  - Planting of plants to produce fruit
  - Roads and bridges used in farming
  - Building power lines to farming apparatus

# Capital Development Expenditure

- So what can we do?
  - Full deduction on qualifying expenditure
  - Limited to farming income before these deductions (ring fencing)
  - EXCEPT for noxious plants and soil erosion
  - Carry over unredeemed capital development expenditure
- NB: Para 12 states that recoupments must first be set off against unredeemed capital development expenditure
- NB2: Unredeemed CDE can be added to BC of farm when sold, can't be used to create capital loss.

# Capital Development Expenditure

- Other considerations:
  - Recoupments follow the same principles as s8, but are housed in para 12.
  - Para 12 (1C) deems a fair value (limited to cost) inclusion for assets donated or sold at < MV
  - If use para 12, can't use s11(e) or s11(o)

# S13sex Residential units

- Applicable on or after 21 October 2008
- Requirements:
  - New or unused buildings
  - If only claiming on improvement, then same conditions
  - Taxpayer must own the units
  - Used SOLELY for the purposes of trade
  - Taxpayer must own at least 5 residential units used for trade purposes.
- Rate:
  - 5 %
  - 10% for low cost housing

# S13sex Residential units

- Low cost housing:
  - A building whose cost does not exceed R300 000 + monthly rent does not exceed 1% of cost
  - An apartment whose cost does not exceed R350 000 + monthly rent does not exceed 1% of cost
- Notes:
  - Cost is the lower of cost or market value in an arm's length transaction. If you buy a portion of the unit, cost is:
    - 55% of purchase price where a unit is acquired
    - 30% of purchase price where an improvement is acquired
  - Allowances may not exceed cost
  - Can't use s13sex if another allowance is available

# s12B – capital allowances

- Must be used before para 12 allowances
- Not limited to farming income
- Allowed on all assets owned by the farmer
  - 50%/30%/20%
- Brought into use for the first time
  - Specifically disallowed:
    - Aircraft (except crop sprayers)
    - Office furniture/equipment
- S11(e) is used for any remaining assets!

# Some bits and pieces:

- Para 17A: If lessor leases land used for farming, may deduct soil erosion prevention expenditure if
  - Obtains relevant certificate
  - Deduction is limited to income received from land
- S24J – Applies to purchases of livestock
- Practice Note 6 deals with game farmers.



# Rating formula

- 3 separate formula's exist to reduce the tax paid by a farmer:
  - The General para 19 formula
  - The Plantation formula (para 15)
  - The Sugar Cane formula (para 17)

# Plantations

- Any artificially established tree as ordinarily understood except those for the production of grapes, fruit, nuts, tea, coffee, hops, sugar, vegetable oils, fibers
- Para 14: Sale of the land will be split between the trees (revenue) and land (capital)
- Para 15: May deduct the cost of
  - establishing, maintaining a plantation
  - Acquiring plantations LIMITED to the income received from that specific plantation

# Plantations – Para 15 (3)

- Applies to natural persons only
- If a farmer earns plantation income and
  - The taxable income exceeds the annual average taxable income from the preceding 3 years, then
  - The excess is subject to tax as per s5(10).

<b>Current Year</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>
Year – 1	6,000	6,000	6,000	-
Year -2	3,000	3,000	-	-
Year -3	3,000	-	-	-
Total for 3 years	12,000	9,000	6,000	-
Average	4,000	3,000	2,000	-
<b>Excess</b>	<b>4,000</b>	<b>5,000</b>	<b>6,000</b>	<b>8,000</b>

# S 5(10) rating formula

$$\bullet Y = \frac{A}{B+D - (C + L)} \times (B-L) + (L \times R)$$

- Y = Normal tax payable
- A = Normal tax
- B = Taxable income for the year
- C = Excess plantation taxable income (actual – 3 year average)
- L = lumpsums from retirement
- D = RAF contributions
- NB: Rate of tax may never be <18%

# S5(10) - Example

	Plantation	Farming	Total
<b>2020</b>	50,000	178,000	228,000
2019	30,000		30,000
2018	20,000		20,000
2017	10,000		10,000

Therefore the farmers 2020 tax =

B = 228 000

C =

Total for 3 years	60,000
Average	20,000
<b>Excess</b>	<b>30,000</b>

D,L = 0

A = 40 260 (tax on 198k as per table)

$Y = 40\,260 / (228\,000 - 30\,000) \times 228\,000 = 46\,360$  (before rebate)

# Sugar cane – Para 17

- Where the sugar cane is sold because of fire destruction, such income is taxed in terms of s5(10)
- C = Proceeds from the fire sale
- Can use para 15 and para 17 together

# General Provisions – Para 19

- If this provision is used, the farmer may not use para 13, 15 or 17!

- $$Y = \frac{A}{B+D - (C + L)} \times (B-L) + (L \times R)$$

- Y = Normal tax payable
- A = Normal tax
- B = Taxable income for the year
- C = Excess farming taxable income (actual – 5 year average)
- L = lumpsums from retirement
- D = RAF contributions
- NB: Rate of tax may never be <18%

# General Provisions – Para 19

- Average annual income:
  - ALL farming income from current + previous 4 years added together and divided by 5
  - If farmed for < 5 years, as many as you have
  - Losses are included in the calculation,
  - If no farming ops whatsoever previously then:
    - If < R 5 000, use actual
    - If R 5000 < taxable inc < R 7 500, then R 5 000
    - If R7 500 < taxable inc, then 2/3 of actual
  - Limited to a minimum of nil



# General Provisions – Para 19

	Farming	Other	Total
<b>2020</b>	200,000	160,000	360,000
2019	160,000		160,000
2018	100,000		100,000
2017	-80,000		-80,000
2016	20,000		20,000
2015	40,000		40,000
<b>Total for 5 years</b>	<b>400,000</b>		
Average	80,000		
<b>Excess</b>	<b>120,000</b>		

$$A = \text{Tax on } B - C = 52\,260$$

$$B = 360\,000$$

$$C = 120\,000$$

$$Y = 52\,260 / 240\,000 \times 360\,000 = 78\,390$$

# Quick VAT/Diesel Rebate Recap

# Farming zero rating – Schedule 2 Part A

- Animal Feed
  - Animal remedy
  - Fertilizer
  - Pesticide
  - Plants
  - Seed
- 
- NB: Unlike zero rated foodstuffs, zero rating attaches to vendor, not the type of product!

# Zero rating

- The sale of banned substances (such as DDT) will not be zero rated.
- If not specifically mentioned, not zero rated. Eg: Item 2 in Schedule 2 refers to Animal remedies. It does not refer to the vet's consult fee.
- As a general rule of thumb, the zero rate applies only to the product, not the process. Eg: maize is zero rated, the labour/capital costs involved are not. So if you provide harvesting services, it is not zero rated, even though it is farming services.

# Zero rating

- NB: The Schedule for farming zero rating is very very specific. Please do NOT learn shortcuts – must refer specifically to it. Eg: Potatoes that can be grown would be seeds under this Schedule. Potatoes suitable for consumption would not. So even the packaging can have an impact!
- NNB: There are two zero rating rules: General zero rating on fruit and veg and then only on the sale of approved products to registered farmers

# The Diesel Refund System

- How qualifies?
- How to register?
- How the system works
- <https://www.sars.gov.za/ClientSegments/Customs-Excise/Excise/Pages/Diesel-Refund-System.aspx>

# Diesel Rebate

## Calculation of DIESEL REFUND IN TERMS OF THE CUSTOMS AND EXCISE ACT

C. Calculation of DIESEL REFUND IN TERMS OF THE CUSTOMS AND EXCISE ACT																											
<b>On Land:</b>											OLDR101																
Total purchases ()	21																										
Non-eligible purchases ()	22																										
Eligible purchases ()	23											x		%													
Claimable litres ()	24											x			(d) <b>Total</b>	25	R										
<b>Offshore:</b>											FFGED01																
Total purchases ()	26																										
Non-eligible purchases ()	27																										
Eligible purchases ()	28											x			(d) <b>Total</b>	29	R										
<b>Rail &amp; Harbour services:</b>											DCALR01																
Total purchases ()	30																										
Non-eligible purchases ()	31																										
Eligible purchases ()	32											x			(d) <b>Total</b>	33	R										
<b>TOTAL AMOUNT PAYABLE/REFUNDABLE 20 - (25 + 29+ 33) or 20 + (25 + 29+ 33)</b>													34	R													
															TAPRED1												

# Diesel Rebates

- Intensive consultation showed need for:
  - Industry specific regulation
  - Draft rules and notes for stand alone system published for comment this year
  - Further consultation may be needed

Diesel refunds decreased by 40% from R5.0 billion to **R3.0 billion** in 2017/18

This decrease was driven by the decline in the use of diesel generators for electricity production in the energy sector





# Other points

- SARS should prepopulate the refund rate for diesel
- You must be registered with SARS to claim this refund – it is NOT automatic
- [http://www.treasury.gov.za/comm\\_media/press/2017/20170215001%20-%20REVIEW%20OF%20THE%20DIESEL%20FUEL%20TAX%20REFUND.pdf](http://www.treasury.gov.za/comm_media/press/2017/20170215001%20-%20REVIEW%20OF%20THE%20DIESEL%20FUEL%20TAX%20REFUND.pdf) – updated process for claiming diesel refunds

# Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.

If you would like to e-mail a question please use:

[technicalquestions@accountingacademy.co.za](mailto:technicalquestions@accountingacademy.co.za)

**Thank you for your  
participation**