TD 93/D91 - Income tax: where primary producers have set quotas for delivery to marketing authorities yet have excess stock on hand at year end, what value will be placed on this stock?

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Draft Taxation Determination

Income tax: where primary producers have set quotas for delivery to marketing authorities yet have excess stock on hand at year end, what value will be placed on this stock?

1. When produce is delivered to a marketing authority, it ceases to be trading stock of the producer and a debt arises (*Farnsworth v FC of T* (1948) 9 ATD 33, 78 CLR 504). This applies to both quota and above quota stock.

2. Excess stock that is not disposed of, and is on hand at year end, is trading stock which must be brought to account. The value that can be placed on such stock is cost, replacement price or market selling value (subsection 31(1) of the *Income Tax Assessment Act* 1936).

3. It has been argued that stock held by a primary producer in excess of the quota limit set by the relevant marketing authority has no value because it cannot be sold. If the excess stock is destroyed, it need not be valued. Similarly, excess stock which at year end has been identified for destruction, maybe valued at zero, provided it is destroyed within a reasonable time. However, if the excess stock is held, for example for sale in the following year, it must be valued to reflect the possibility of a sale.

4. Stock that deteriorates over time, but is still on hand for possible sale, may be brought to account at a fair and reasonable value that is lower than the subsection 31(1) value (subsection 31(2)).

Example

Jane is a tobacco grower. Tobacco which exceeds the quota limit allocated to each grower cannot be sold but must either be destroyed or held for sale in the following year. If Jane does not destroy the excess tobacco, she must bring its value to account at the end of the year of income. As the quality of tobacco deteriorates over time, Jane can bring the value of the tobacco in excess of the quota to account at year end at a fair and reasonable value to reflect the fact that it will be worth less the following year.

Commissioner of Taxation
15/04/93

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