



IT 33 - Valuation of trading stock for nurserymen

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 This ruling contains references to repealed provisions, some of which may have been rewritten. The ruling still has effect. Paragraph 32 in [TR 2006/10](#) provides further guidance on the status and binding effect of public rulings where the law has been repealed or repealed and rewritten. The legislative references at the end of the ruling indicate the repealed provisions and, where applicable, the rewritten provisions.

TAXATION RULING NO. IT 33

VALUATION OF TRADING STOCK FOR NURSERYMEN

F.O.I. EMBARGO: May be released

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FACTS

Representations were made in relation to the application of the trading stock provisions of the Income Tax Assessment Act to certain categories of stock held by nurserymen at the end of a year of income. Of particular concern was the treatment to be accorded to greenstock, an expression which refers to stocks of plants in containers.

2. The representations have their origin in modern developments in the trading methods of the horticultural industry. Originally most nursery production was grown in the ground. Some of this production was transplanted into containers before sale but, at that time the quantities of greenstock in pots was relatively insignificant. Because the plants grown in the ground were not regarded as trading stock nurserymen had little or no greenstock to bring to account for taxation purposes at that time.

3. Modern methods of production, including the increasing use of greenhouses, has led to the greater use of containers to produce greenstock. In most sections of the industry there has been a corresponding reduction in the cultivation of land although most grower still cultivate some land. Tube propagation is now also widely used. This involves the planting of the seed or cutting in a tube of special propagating mixture and the subsequent planting in a container.

4. In the result the greater part of stock held by growers at the present time consists of stocks of plants in containers some of which may not have matured to the point of sale and some of which may have.

5. It was claimed that greenstock which has not matured to the point of sale is not trading stock at all - it should be likened to the growing crops of the farmer which do not constitute trading stock. Alternatively it was argued that, if the unmaturing stocks are considered to be trading stock, the Commissioner should accept that, until they have matured into saleable plants, no cost should be attributed to them. This

argument was based on the difficulty that would be experienced by growers in applying an absorption cost basis of valuation to stocks on hand and on the fact that there is a relatively high risk of loss of unmaturing stock.

6. The enquirer accepted that matured stocks of greenstock on hand represent trading stock but submitted that material costs only, and not labour and overhead costs, should be taken into account in determining the cost price of matured greenstock on hand at the end of year.

7. Trading Stock as defined under the Act includes anything produced, manufactured, acquired or purchased for purposes of manufacture, sale or exchange. The decision of the High Court in *FC of T v St. Huberts Island Pty. Ltd.*, (1978) 138 CLR 210, is the most recent judicial expression of the view that goods in the course of production represent trading stock. In the light of this decision and other decided cases it is not open to say that greenstock is not trading stock for the purposes of Subdivision B of the Act.

8. The analogy drawn by the enquirer between greenstock and growing crops of a farmer is not considered an apt one. Generally it is not the growing crops as such that a farmer produces for sale, etc. but the produce of those crops. Crops, fruit, wool, etc. come into existence as chattels or goods and are taken into account as trading stock only at the time they are harvested, or shorn, as the case may be. On the other hand, a nurseryman produces the very item he intends to sell - he is in fact always in possession of existing articles and there is no need for harvesting or gathering as there is with the produce of a farmer. The analogy drawn by the enquirer is considered even less apt when regard is had to modern methods of production of plants and seedlings. At the same time, however, it is still accepted that plants growing in the ground do not represent trading stock.

9. The basic contention of the enquirer was rejected. On the premise that greenstock constitutes trading stock the law requires that greenstock on hand at the end of a year be taken into account, at the option of the taxpayer, at cost price, market selling price or the cost of replacement.

10. Where a nurseryman elects to value greenstock on hand at cost price, the cost of materials, labour and proportion of overheads must be taken into account in determining cost price for tax purposes. In cases where it can be established that all or part of greenstock on hand at the end of a year has a market selling value lower than cost, or has not such value, it is of course open to nurserymen to elect to value the greenstock, or the part of it, at market selling value. However, the fact that greenstock has not matured to a stage where it would ordinarily be sold by a nurseryman does not necessarily mean that it has no market value.

11. Information obtained in the course of examining the question of trading stock held by nurserymen has indicated that, in the

general run of cases, the incidence of loss of greenstock is not insignificant. Further enquiries into the matter have suggested that the loss factor may be as high as 25 per cent. Section 31(2) provides a discretion to reduce the value of trading stock, calculated in accordance with the law, where special circumstances exist. It is accepted that an incidence of loss of 25 per cent is a special circumstance of the kind contemplated by section 31(2). Indeed to ignore the possibility of loss this magnitude would not give a true reflection of income for the year. It has been decided, therefore, that the discretion given in section 31(2) may be exercised to reduce the total cost price of greenstock on hand at the end of a year by as much as 25 per cent in cases where a nurseryman elects to value his stock at cost price.

12. In summary therefore -

- (i) the law requires the conclusion that greenstock is trading stock;
- (ii) it is open to a nurseryman in any year to value greenstock on hand at the end of a year at market selling value. If the stock has no market selling value, and provided this can be established by the taxpayer concerned, no value could be ascribed to it for tax purposes;
- (iii) where a nurseryman elects to value stock on hand at cost price, absorption cost is the appropriate basis of valuation. A loss factor of 25 per cent may be taken into account in determining cost price for assessment purposes.

COMMISSIONER OF TAXATION