



IT 2667 - Income tax: trading stock valuation of freshwater crayfish

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This document has been Withdrawn.

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 This ruling contains references to repealed provisions, some of which may have been rewritten.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in [TR 2006/10](#) provides further guidance on the status and binding effect of public rulings where the law has been repealed or repealed and rewritten. The legislative references at the end of the ruling indicate the repealed provisions and, where applicable, the rewritten provisions.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

Income tax: trading stock valuation of freshwater crayfish

Income Tax Rulings do not have the force of law. Each decision made by the Australian Taxation Office is made on the merits of each individual case having regard to any relevant Ruling.

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What this Ruling is about

1. This Ruling explains:
 - (a) that freshwater crayfish (e.g. marron, Murray crayfish and yabbies) produced for sale are trading stock; and
 - (b) how the number of crayfish is to be calculated as a necessary preliminary step in determining the value of stock on hand at the end of a year of income for the purposes of section 28 of the *Income Tax Assessment Act 1936*.

Ruling

2. Freshwater crayfish are trading stock as defined in subsection 6(1) because they are produced in the course of carrying on a business for purposes of sale and because they are livestock.
3. In determining the value of crayfish on hand at the end of a year of income, a crayfish farmer may make a reasonable estimate of the number of crayfish on hand. The estimate may be based on, for example:
 - (a) the weight of the stock of crayfish on hand to specific volume of water; or
 - (b) the number of original parent stock and any introduced parent stock.
4. The basis of estimating closing stock to be adopted by the crayfish farmer is the one that is most likely to reflect the quantity of crayfish held by the farmer. The basis should not be changed unless the crayfish farmer can demonstrate that some other basis gives a more accurate indication of crayfish on hand.

Date of effect

5. A necessary implication of this Ruling is that a crayfish farmer is obliged to take into account the value of the crayfish on hand when calculating the farmer's taxable income. Previous advice from National Office to a Branch Office indicated that crayfish farmers had an option of accounting for the crayfish by reference to net sales against expenses without taking into account the value of the livestock on hand.

6. Because of this change in our approach, this Ruling applies only from and including the 1991-92 year of income unless the crayfish farmer asks that it apply to earlier income years. In these circumstances, assessments for earlier income years may be amended on request to the extent permitted by section 170.

7. Section 28 requires that the value of crayfish on hand at the end of a year of income ('the current year') be compared with the value of the crayfish at the beginning of the current year to ascertain whether an amount is assessable under subsection 28(2) or deductible under subsection 28(3). For this purpose, the value of the crayfish at the beginning of the current year is to be the same as that taken into account at the end of the previous income year (section 29). If, in relation to the first income year in which this Ruling is applied, no value was taken into account in the previous year, the opening value for the current year is to be the value that would have been taken into account at the close of the previous year if this Ruling had applied to that previous year.

Explanations

Meaning of trading stock

8. Subsection 6(1) defines trading stock to include anything produced, manufactured, acquired or purchased for the purposes of manufacture, sale or exchange.

9. We take the view that crayfish fall within the definition of 'trading stock' because they answer the description 'anything produced ... for purposes of ... sale'.

10. The word 'anything' can encompass not only an inanimate object but also an animate object or entity. It can extend to living things such as crayfish.

11. Freshwater crayfish kept or bred on farms or in hatcheries are 'produced' in the required sense. In *GTK Trading Pty Ltd v. Export Development Grants Board* (1981) 40 ALR 375 (the *GTK Trading*

case), the Federal Court of Australia (while deciding that lobsters caught at sea were not livestock for the purposes of the *Export Expansion Grants Act 1978*) expressed the opinion that the *Shorter Oxford English Dictionary* definition of the verb 'produce' is appropriate to describe:

- (a) the act of catching lobsters at sea as bringing them forth or 'producing' them; and
- (b) the act of catching them together with the acts of caring, grading, checking and packing them after they are caught and before they are loaded for journey overseas as 'producing' them.

12. By analogy, the acts of placing appropriate numbers of crayfish of breeding age in ponds or dams, keeping them until they reach marketable size and age, and harvesting them for marketing are considered to constitute 'producing' them. The crayfish are therefore considered to be 'produced' in terms of the definition of trading stock.

13. Accepting that crayfish constitute 'anything' and are 'produced', there is no doubt that crayfish kept and bred on farms or in hatcheries are produced for sale.

Meaning of livestock

14. Subsection 6(1) also defines trading stock to include livestock.

15. We take the view that crayfish also fall within the definition of 'trading stock' because they are livestock.

16. The context of the term 'livestock' in the income tax law (compare the context in *DFC of T (NSW) v. Zest Manufacturing Co. Pty Ltd* (1949) 79 CLR 166 and in the *GTK Trading* case) is not conclusive. There is some doubt whether the meaning of 'livestock' in that context covers fish.

17. However, the *Macquarie Dictionary* (2nd revision, 1987) defines 'livestock' to mean the horses, cattle, sheep and other useful animals kept or bred on a farm or ranch. Crayfish kept or bred on farms or in hatcheries for the purpose of sale would fit this dictionary definition.

18. We accept that crayfish kept and bred on farms or in hatcheries for sale are livestock for income tax purposes.

Calculating number of crayfish on hand

19. Crayfish are bred in specially constructed ponds or dams. They are cannibalistic and their number on hand will fluctuate.

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20. Because of the difficulties involved in determining the number of crayfish on hand, different methods of valuation are used in the industry, including:

- (a) estimating the number on hand by using a specific weight of livestock in a given volume of water, applying that ratio to the whole pond or dam and placing a monetary value on the total number of livestock estimated; and
- (b) valuing the number of original parent stock plus any introduced parent stock and adopting this total value as the closing stock on hand at each year end for the life of the farm or hatchery.

21. As a result of this difficulty, we will accept any reasonably based estimate made by the farmer of the number of crayfish on hand (e.g. either of the bases set out in paragraph 3) as a necessary preliminary step for the purpose of determining the value of the stock of crayfish on hand.

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- ITAA 6(1); ITAA 31

case references

- GTK Trading Pty Ltd v. Export
Development Grants Board (1981)
40 ALR 375
- DFC of T (NSW) v. Zest
Manufacturing Co. Pty Ltd (1949)
79 CLR 166