Farming expenditure and allowances

Expenditure and losses incurred for purposes of trade, that do not qualify as a deduction under the First Schedule, may be claimed under other provisions of the Act provided they meet the requirements of the particular provision.

Section 11(a) and section 23(g)

In determining a person’s taxable income derived from carrying on any trade, the general deduction formula in section 11(a) requires that the expenditure and losses must be actually incurred in the production of income and must not be of a capital nature. In addition, expenditure and losses must be claimed during the year of assessment in which they are actually incurred.

Section 23(g) prohibits the deduction of moneys not expended for the purposes of trade.

Amounts generally deductible under section 11(a) by a game farmer include, for example, –

- normal running expenses of the farming operation (for example, expenditure on ammunition, electricity, feed, fuel, livestock, wages & salaries, and veterinary fees);
- cost of butchers, trackers and professional hunters;
- advertising and promotion costs; and
- travelling costs (both local and overseas).

This list is not exhaustive and the facts of each case will dictate which items of expenditure qualify as a deduction under section 11(a).

Capital allowances

Capital expenditure, which does not qualify as a deduction under paragraph 12, may qualify for a deduction under one of the other capital allowance provisions in the Act. Depending on the nature of the particular asset and the context in which
it is used, the provisions which are likely to be of relevance in the context of game farming are section 12B, 12C or 11(e) and in respect of buildings, section 13bis, 13quin or 13sept.

The different capital allowance provisions are not discussed in detail in this Note. However given its particular relevance to farming operations, section 12B is briefly discussed below. Section 12B provides for the deduction of a special depreciation allowance on machinery, implements, utensils or articles (other than livestock) which are –

• owned by the taxpayer or acquired under an instalment credit agreement;
• brought into use for the first time by that taxpayer; and
• used in the carrying on of farming operations.

The deduction under section 12B is –

• 50% of the cost to the taxpayer in the year of assessment during which the asset is brought into use;
• 30% of the cost to the taxpayer in the second year; and
• 20% of the cost to the taxpayer in the third year.

Equipment used by game farmers that would generally qualify for the special allowance under section 12B includes, for example, vehicles, firearms, meat saws and two-way radios. This list does not limit the qualifying assets and each asset must be considered on its own merits.

The following assets are specifically excluded from section 12B:

• Any motor vehicle the sole or primary function of which is the conveyance of persons.
• Any caravan.
• Any aircraft other than an aircraft used solely or mainly for the purpose of crop-spraying.
• Any office furniture or equipment.

An asset that does not qualify under section 12B may still qualify for an allowance under another provision of the Act. For example, if a game farmer also runs a game lodge business,
the capital assets used in that business (such as beds, furniture, refrigerators and stoves) would not be considered to be used for farming operations and would not qualify for an allowance under section 12B. An allowance under section 12B would also not be available for certain assets used in the farming operations (such as aircraft used for the counting of game and office equipment) as those assets are specifically excluded. The taxpayer may, however, qualify for a depreciation allowance under section 12C in some instances and in other instances under section 11(e).

The deductions allowed under sections 11(e), 12B and 12C are included in the income of the taxpayer if subsequently recovered or recouped under section 8(4)(a). These deductions must also be taken into account when determining whether any deduction under section 11(o) is available on the alienation, destruction or loss of a depreciable asset.