

Farming chargeable income/loss

Mr burs, a resident farmer, declares the following for tax year 2006/2007

Fully grown cattle	520
2 Year olds (heifers)	85
1 Year olds (calves)	50
Goats	102
Kids	75

During the year the following occurred;

	SALES	BIRTHS
Fully grown cattle	90	
Fully grown goats	25	
Calves		80
Kids		60

The sales realised;

	CATTLE	GOATS
	P88 500	P2 300
Feeding expenses	=	P58 000
Farm wages	=	P15 000
Transport costs	=	P25 000

Computation of chargeable income assuming that mr burs chooses relevant standard values (rsv)

CLASSES	COWS	HEIFERS	CALVES	GOATS	KIDS	TOTAL
Opening Stock	520	85	50	102	75	-
Purchases	0	0	0	0	0	-
Births	-	-	80	-	60	-
Promotions	85	50	-	75	-	-
SUBTOTAL	605	135	130	177	135	-
Sales	90	-	-	25	-	-
Transfer out	-	85	50	-	75	-
Closing date	515	50	80	152	60	-
Rsv	430	230	90	45	10	-
Closing stock 221 450	11 500	7 200	6 840	600	247 590	

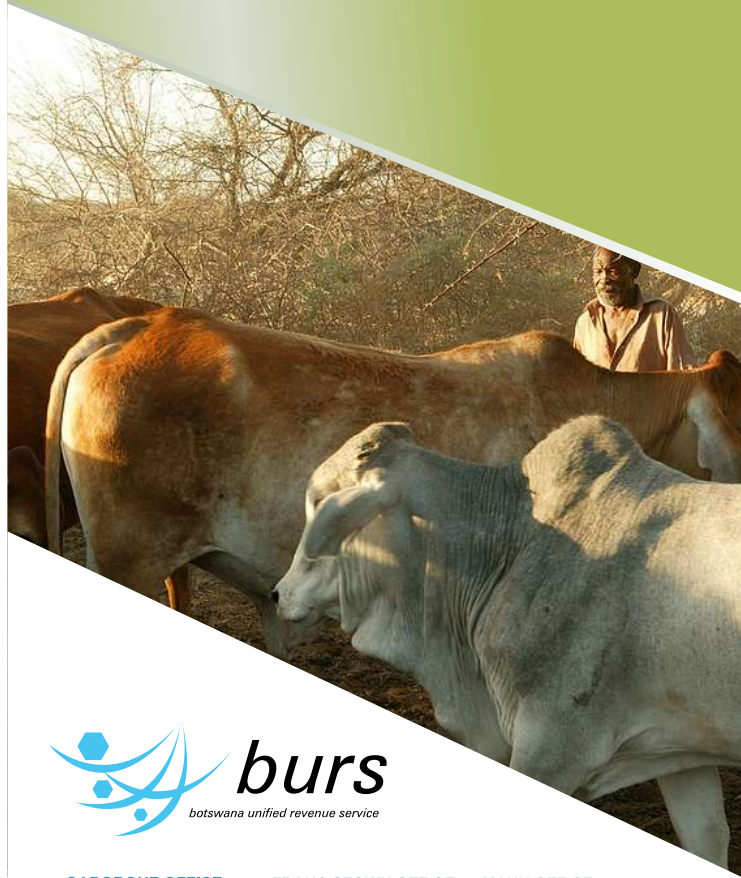
Sales	Cattle Goats	888 500 2 300	90 800
Less cost of goods sold			
Opening stock		252 990	
Add purchases			0
Less closing stock		(247 590)	5400
Gross profit			85 400
Less expenses			
Feeding expenses			58 000
Farm wages			15 000
Transport			25 000
			98 000
Farming loss			(12 600)

Where there is chargeable income, tax will be charged on the income.

Obligations of a farming taxpayer

1. File returns annually
2. Keeps proper records of your
3. Sales receipts or payment invoices should always be kept to be used as proof whenever requested to do so.

NB: the record must be kept for a period of 7 years as they may be inspected by tax officials.



Farming Business

Carrying out of Farming Operations



GABORONE OFFICE

Private bag 0013, Gaborone
Tel.: 3638000/9000, Fax: 3953101

FRANCISTOWN OFFICE

Private bag 38, Francistown
Tel.: 2413635, Fax: 2413114

MAUN OFFICE

P.O. Box 219, Maun
Tel.: 6861321, Fax: 6860194

SELIBE PHIKWE OFFICE

P.O. Box 129, Selibe-phikwe
Tel.: 2613699, Fax: 2615367

LOBATSE OFFICE

P.O. Box 263, Lobatse
Tel.: 5330566, Fax: 5332477

PALAPYE OFFICE

P.O. Box 97, Palapye
Fax: 4920784
Toll free # 0800 600 649



INTRODUCTION

The brochure aims to help you as a farmer understand your obligations and accurately calculate your chargeable income.

* FARMING BUSINESS

Farming means the carrying out of farming operations. It involves all farming activities including poultry, piggery, stud farming, horticulture, rearing of cattle, sheep, goats and cultivation of crops. Farming is covered under the following sections of the income tax act; sections 28,29,30,42,47 and 48 the first schedule and third schedule.

There are three types of farmers (section 2);

- Livestock
- Agricultural farmer
- Pastoral farmer (combination of the two above)

* FARMING GROSS INCOME

It includes stock held at the beginning and end of the tax year, i.e. opening and closing stock.

* FARMING FOR TAX PURPOSES

In terms of the income tax act, a farmer is considered to be carrying out the business of farming when he/she meets the following threshold;

- Livestock farming; more than 300 cattle.
6 Sheep/goat = 1 head of cattle
- Dryland farming; cultivated land exceeding 100 hectares

* FARMING OPTIONAL LIABILITY

this refers to individuals who can opt or elect to be registered as farmers even though their farming business does not meet the threshold stated above.

N.B. the election once made cannot be revoked/changed

VALUATION OF FARM TRADING STOCK (FIRST SCHEDULE)

Every farmer is required at the end each tax year to include the value of his stock. This closing stock excludes animals used as working animals (horses, donkeys etc) or held for any other purpose other than business.

Closing stock of current tax year=opening stock for the next year

Closing stock can be valued by either;

- Purchase price
- Standard value as per 1st schedule
- Current market value or cost price

Valuation of mafisa, matimela, donations and stock taken for own consumption

MAFISA (LIVESTOCK LENT TO ANOTHER PERSON FOR A PERIOD)

these cattle form part of the owner's herd and are taxable in his/her own hands. (1st schedule, part 11 paragraph 6)

MATIMELA (STRAY CATTLE)

these cattle reduce the farmer's closing stock. If found they will be included in the opening stock as lost and found.

DONATIONS AND OWN CONSUMPTIONS

this is considered as stock drawing. Section 28(2) brings this to form part of the gross income.

They are valued at the market price prevailing at the time of use.

Table of standard values as per first schedule

CLASS OF LIVESTOCK	STANDARD VALUE (P)
CATTLE	
Fully grown animals	430
Tollies and heifers	230
Calves	90
SHEEP AND GOATS	
Grown animals	45
Kids	10

VALUATION OF ANY OTHER PRODUCE

The value of such stock shall be a reasonable value in the opinion of the commissioner, (1st schedule paragraph 5)

FARMING CONCESSIONS

Individuals who are in the farming business have the following concessions;

1. AVERAGING OF FARMING CHARGEABLE INCOME

This is where the farmer is given an option to apply in writing to the commissioner within six months after the end of any tax year to elect that their chargeable income be averaged for a period of three years.

ADVANTAGE TO THE FARMER;

- This election is advantageous in that it evens out the abnormal results caused seasonal changes and disease outbreaks.
- Averaging reduces the tax liability as evidenced by the example below

Example

Mr x, chargeable income from farming operations is as follows

TAX YEAR	INCOME	TAX
2003/04	30 000	250
2004/05	4 500	Nil
2005/06	120 000	14 375
	120 000	14 375

Based on rates for tax year 2001-2006

Mr x makes an election on the 25th October 2006

His income will be as follows; $154\ 500 / 3 = 51\ 500$

TAX YEAR	INCOME	TAX
03/04	51 500	712.50
04/05	51 500	1 712.50
05/06	51 500	1712.50
		5137.50

N.B • Averaging is permitted on a 3 year cycle

- A tax year qualifies for averaging only once

2. FARMING LOSSES

- Farming losses are carried forward indefinitely to be deducted from future farming chargeable income. (Sec 46)
- Farming loss can be deducted from any other income of the same tax year if an election is made within three years after the end of the tax year in which the loss was incurred. (Sec 47).
- The assessed loss shall not exceed 50% of the chargeable income used for set off.(Sec 47)
- Where a farming loss is incurred in any tax year, the farmer may set off all or part of the loss against farming income in the two previous taxyears.(Sec 48)

E.G. TAX YEAR	INCOME
2005	5000
2006	5000
2007	(6000)

The farmer can therefore apply to set off his 2007 loss against the 2005 and 2007 income.

