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	P2300
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	72 00	6 840	600	247 590

SALES	CATTLE /GOATS	888 500/ 2300	90 800
Less: Cost of goods sold			
Opening stock		252 990	
Add purchases			0
Less closing stock		(247 590)	5 400
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.

WITHHOLDING TAX RATE FOR SALES OF LIVESTOCK FOR SLAUGHTER OR FEEDING FOR SLAUGHTER

- WHT rate is 4% on gross sales of livestock
- Gross sales is prior to charge of VAT or deduction of government levy
- WHT to be deducted by buyer if buyer is in pursuit of his business of trading in livestock for slaughter or feeding for slaughter e.g. butchery, feedlot, etc
- Livestock sales between two persons not involved in the trade of buying or selling of livestock for slaughter or feeding for slaughter does not attract the withholding tax;
- Examples of transactions not affected include private purchase of cattle for breeding or cultural/traditional activities such as wedding feasts, funeral activities or for 'bogadi'.

NB: The record must be kept for a period of 8 years as they may be inspected by tax officials.

CONTACTS

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FARMING BUSINESS

CARRYING OUT OF FARMING OPERATIONS

burs

botswana unified revenue service

INTRODUCTION
This brochure aims to help you as a farmer to 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, dairy cattle, sheep for wool, irrigated agriculture and horticulture;. Farming is covered under the following sections of the income tax act; sections 28, 29,30,42,46 and the first schedule and third schedule.

There are three types of farmer (section 2);
- Livestock
- Agriculture farmer
- Pastoral farmer (combination of the two above)

FARMING GROSS INCOME
It includes stock held at the beginning and end of the ta 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

VALUATION OF FARM TRADING STOCK (FIRST SCHEDULE)
Each farmer is required at the end of each tax year to include the value of 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 farmers 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	
Full 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 FRAMING 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 the tax year to elect that their chargeable income be averaged for a period of three years.

ADVANTAGES 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
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
	154 500	14 625

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	1712.50
05/06	51 500	1712.50
		5137.50

NB
- Averaging is permitted on a 3 year cycle
- A tax year qualifies for averaging only once

2. LIMITATION OF FARMING LOSSES
No assessed loss incurred shall be carried forward as a deduction for more than the five years next succeeding the tax year in which that loss arose.

Application of limitation for farming losses - example

TAX YEAR	AMOUNT OF INCOME/ LOSS	ACCUMULATED LOSS
2010/2011	(500)	(500)
2011/2012	(250)	(750)
2012/2013	150	(600)
2013/2014	50	(550)
2014/2015	(100)	(650)

The accumulated loss at the end of the 2014/2015 tax year – P650 will be carried forward for 5 years and treated as if the whole amount of the loss occurred in 2014/2015

Farming losses cannot be offset against other income.