Inland Revenue
Te Tari Taake

OPERATIONAL STATEMENT

Valuation of livestock

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Operational statements set out the Commissioner of Inland Revenue's view of the law in respect of the matter discussed and deal with practical issues arising out of the administration of the Inland Revenue Acts.

This statement describes the options available for taxpayers who are in the business of farming to value the livestock they have on hand at balance date.

All legislative references in this statement are to the Income Tax Act 2007, unless stated otherwise.

START DATE
31/03/2025

REPLACES

- Income Tax Act 1976 *Tax Information Bulletin* Vol 5, No 10 (March 1994): 8 at 9 (access to herd scheme)
- Access to herd scheme *Tax Information Bulletin* Vol 5, No 10 (March 1994): 9
- Livestock valuation at farmer's death *Tax Information Bulletin* Vol 6, No 14 (June 1995): 26
- Livestock valuation – election of method *Tax Information Bulletin* Vol 16, No 5 (June 2004): 41

- Livestock valuation – previous years' invalid elections *Tax Information Bulletin* Vol 16, No 5 (June 2004): 45
- Values placed on exotic livestock *Tax Information Bulletin* Vol 7, No 2 (August 1995): 30
- Valuing livestock when estate continues farming activity previously carried on by deceased *Tax Information Bulletin* Vol 7, No 2 (August 1995): 30

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Key terms

A **taxpayer** or a **farmer** means, solely for the purposes of this statement, a taxpayer or a farmer who is in the business of farming livestock.

Class of livestock means one of the categories for a type of livestock listed in column 2 of sch 17 (types and classes of livestock). For instance, the classes of sheep are ewe hoggets, ram and wether hoggets, two-tooth ewes, mixed-age ewes, rising 5-year and older ewes, mixed-age wethers and breeding rams.

Farming means, solely for the purposes of this statement, the business of rearing and growing livestock for the purpose of selling that livestock or their bodily produce.

Livestock means, solely for the purposes of this statement, all live animals the breeding of which is regulated by humans and are held as assets of a farming business.[1]

Non-specified livestock means livestock other than bloodstock, high-priced livestock and specified livestock.

Specified livestock means an animal of a type specified in column 1 of sch 17 (types and classes of livestock): beef cattle, dairy cattle, deer, goats, pigs and sheep. It generally does not include an animal that is high-priced livestock.[2]

Type of livestock means a category of livestock listed in column 1 of sch 17 (types and classes of livestock). These types are beef cattle, dairy cattle, deer, goats, pigs and sheep.

Introduction

1. Historically, for tax purposes, "livestock" was included in the definition of "trading stock". As a result, any business taxpayer that held livestock for sale or exchange as part of their business was required to:
   - include as income, an amount equal to the value of the livestock that they had on hand at balance date; and

[1] *Land Projects Ltd v CIR* [1964] NZLR 723; *Peterborough Royal Fox Hound Show Society v IR Commrs* [1936] 1 All ER 813. See also *Wardhaugh (AF) Ltd v Mace* [1952] 2 All ER 28 at 31.

[2] Except as provided for in s EC 37 (bailments).

- value that livestock using one of the valuation options available to all business taxpayers to value their trading stock, or at a standard value issued by the Commissioner.

2. Standard values were generally set when a farming business began, and they remained at that set level for the life of the farming operation.

3. In its May 1986 report, the Consultative Committee on Primary Sector Taxation recommended the government allow livestock to be valued using methodologies specific to livestock.[3] The government accepted this recommendation, with effect from the 1987 income year.

4. The enactment of the Income Tax Act 2004 saw the removal of livestock from the definition of trading stock. What remains is the requirement for taxpayers that hold livestock for the purposes of farming that livestock as part of their farming business[4], to value that livestock at the end of each income year using one of the available livestock valuation methods.[5]

Livestock required to be valued

5. Section EC 1 provides that all livestock that is held for the purposes of farming them as part of a farming business is subject to valuation in accordance with the rules in subpart EC. Bailors of livestock, although they may not meet all these requirements, are specifically included. However, livestock held as part of a business of dealing in livestock is excluded. Section EC 1 is reproduced in the Appendix to this statement.

6. For the purposes of this statement, the words farming and livestock are defined in the key terms section earlier in this statement. From the wording of s EC 1 and these definitions, the following matters need to be noted:

[3] Consultative Committee on Primary Sector Taxation, *Report of the Consultative Committee on Primary Sector Taxation* (Inland Revenue, Wellington, May 1986)

[4] Section EC 1.

[5] Section EC 2(1).

- Animals must be living to fall within the definition of **livestock**. This means unborn animals (eg, unhatched eggs) are excluded from the definition of livestock.[6, 7]
- It is not sufficient that a farmer merely owns livestock. This is so even where the farmer rears this livestock and/or uses that livestock in the farming business. To come within the definition of livestock, the livestock must be "farmed" by the farmer; that is, reared for sale (or the sale of their bodily produce) as part of the farming business. Because of this, livestock that are not farmed do not require valuation. Examples include:
  - livestock raised for home consumption (or for their produce such as chicken's eggs or cow's milk);
  - working horses or dogs used on the farm; and
  - household pets.

  If the nature of the farming operation changes such that any of these animals start to be farmed as part of a farming business, then valuation would be required. An example of this could be where a farmer starts a business involving the breeding, rearing and sale of working dogs.
- It is not sufficient for the livestock to merely reside on the farming property. They must be farmed as part of the farming business. Therefore, for instance, any feral animals (deer, pigs, goats etc) residing on the farming property do not require valuation, unless the farmer incorporates them into the farming business and begins to farm these animals.

Options available to value livestock

7. The options available to taxpayers to value livestock on hand at the end of an income year are for:[8]

[6] Ostriches and emus – valuation for income tax purposes *Tax Information Bulletin* Vol 9, No 8 (August 1997): 11.

[7] Where eggs are sold as part of a business of trading in eggs, eggs on hand at balance date, while not livestock, do come within the definition of trading stock and need to be valued using the trading stock rules in subpart EB.

[8] Introduced by s 20 of the Income Tax Amendment Act (No 2) 1993 and ss 20 to 26 of the Income Tax Amendment Act (No 3) 1993.

- **specified livestock**, one of the following methods:[9]
  - the national standard cost (NSC) scheme (discussed from [19]);
  - the herd scheme (discussed from [32]);
  - another valuation method – cost price, replacement price or market value (discussed from [72]; or
  - a formula available to the bailee of bailed livestock (bailed livestock is discussed from [98]);
- **non-specified livestock**, one of the following methods (discussed from [86]):[10]
  - cost price;
  - replacement price;
  - market value; or
  - with the Commissioner's consent, its standard value;
- **high-priced livestock**,[11] the livestock's cost price less a depreciation percentage determined by the Commissioner (discussed from [68]); and
- **bloodstock**,[12] generally its cost price (discussed from [93]).

Discussion

Specified livestock – electing a valuation method

8. In their first year of business, a taxpayer must decide which valuation method they will use to value their specified livestock; the taxpayer "elects" to use a certain option (or options). For all options except the herd scheme this is done simply by the taxpayer using the chosen method in their return of income for the income year.[13] Those who wish to use the herd scheme for a type of livestock must provide notice to the Commissioner.

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[9] Section EC 7.

[10] Section EC 30.

[11] Sections EC 33 and 34.

[12] Sections EC 38, EC 39, EC 39B, EC 39C, EC 40 to EC 47, EC 47B, EC 47C, EC 47D and EC 48.

[13] Section EC 7(2).

9. Owners of specified livestock that are also high-priced livestock or bailed livestock do not have a choice of valuation method. The methods are set by legislation and are discussed in later paragraphs.

10. When a taxpayer chooses a valuation method, that method continues to apply in each of the following income years unless they choose another method that is available to them. The taxpayer must satisfy the relevant requirements for the use of the other method.[14]

Types of election

11. How a taxpayer makes an election varies depending on what the taxpayer is electing to do. For instance, some elections allow taxpayers to "choose" what they wish to do and to then advise the Commissioner of this choice by taking the relevant position in their income tax return.

12. Some elections require the taxpayer to "notify" the Commissioner in the same year that the taxpayer wishes their election of method to be effective. Where this requirement exists, a taxpayer must notify the Commissioner by the date of filing their return of income for the income year in which the election is first to apply. Taxpayers may "notify" the Commissioner electronically (by email or myIR) or in writing.[15] Merely taking the relevant position in their income tax return is not sufficient. Unless legislation specifically requires a taxpayer to provide an election to the Commissioner in writing, the Commissioner accepts that such notification is not required.

13. Some elections require the taxpayer to notify the Commissioner 2 years before the income year in which the election is to become effective. As with same-year elections that are discussed above, the taxpayer must notify the Commissioner electronically or in writing. However, in these cases the taxpayer must notify the Commissioner by the date of filing their return of income for an income year that is at least two income years before the income year in which the election is to first apply.

Situations that do not require the Commissioner to be notified

14. Examples of situations that do not require the Commissioner to be notified in writing are where the taxpayer:

[14] Section EC 7(3).

[15] Sections 14C(2) and 14F(3) of the Tax Administration Act 1994

- is electing which valuation method(s) to use in their first year of farming specified livestock (other than for the use of the herd scheme), as stated at [8];
- has adopted the herd scheme and is using an alternative valuation option to value livestock of a class (see further from [42]);
- moves additional livestock onto the herd scheme from an alternative valuation option, where the herd scheme is already being used to value some livestock of that same type; or
- is moving between the cost price, market value and replacement price methods.

Situations that require the taxpayer to "notify" the Commissioner in the same year

15. Situations that require a taxpayer to notify the Commissioner in the same year that the taxpayer wishes their election to be effective include when the taxpayer wishes to:

- value livestock of a particular type under the herd scheme (discussed further at [34]);[16]
- use a herd value ratio or Chatham Islands adjustment in the first year they elect to value livestock using the herd scheme[17] (see more on the herd value ratio (and recalculated ratio) from [45] and the herd value ratio Chatham Islands adjustment from [52]); and
- exit the herd scheme when all female breeding stock are to be used in a fattening business[18] (further discussed at [39]).

Situations that require the taxpayer to provide 2 years notice to the Commissioner

16. Situations that require a taxpayer notify the Commissioner 2 years before the income year in which the election is to become effective include when the taxpayer is electing to:

[16] Section EC 11(2)(a).
[17] Section EC 11(2)(b).
[18] Section EC 11(2)(c).

- adopt a herd value ratio or Chatham Islands adjustment, or recalculating either ratio, after adopting the herd scheme (see further from [45]);[19] or
- changing between the cost price and NSC methods[20] (see further at [30]).

Information requirements for notices of election

17. All notices of election must be provided electronically or in writing and must include the:[21]
    - first income year in which the election is to apply;
    - type, class or other description of the applicable livestock;[22] and
    - existing and proposed methods of valuing the applicable livestock.
18. For an election to use a herd value ratio or recalculated herd value ratio, the notice of election must also include the:
    - assessed value of an average animal of each applicable class of livestock;[23]
    - date on which the valuation of each animal was made; and
    - valuer's name and address.

National standard cost scheme

19. In its final report to the Ministers of Finance, Agriculture and Forests, the Consultative Committee on Primary Sector Taxation described the cost options that should be available for farmers to value their livestock:[24]

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[19] Section EC 11(3)(b).

[20] Section EC 11(3)(c) and (d).

[21] Section EC 11(4).

[22] What the **description of the applicable livestock** should be depends on the valuation method being elected. When the method chosen allows only for election by type or class, then type or class is the appropriate description. If the method chosen allows for some livestock of a class to be elected to a scheme, then the type, class and number of livestock is the appropriate description.

[23] Section EC 17(4).

[24] Consultative Committee on Primary Sector Taxation, *Report of the Consultative Committee on Primary Sector Taxation* (Inland Revenue, Wellington, May 1986) at 25, 26.

> Our suggestion is that taxpayers who wish to adopt the cost option be entitled to use one of the following methods of arriving at the cost of **farm bred stock only**:
>
> actual cost, based on specified costing systems and records,
>
> …
>
> Purchased stock, whether high-priced or other, would be brought in at actual cost.

20. The committee added:

> The Consultative Committee has been advised that the greatest part of the cost of "growing" an animal (as distinct from maintaining it) occurs during its first two years of life (first year for pigs).
>
> …
>
> Any rule about cost accumulation can only be arbitrary. As an arbitrary rule, therefore, we suggest that for farm-bred animals, cost should be accumulated to the point of maturity, set at first balance date after birth for pigs, second balance date after birth for all other species.

21. This 1986 committee was describing what is now the cost price method (further discussed from [72]). However, the subsequent Consultative Committee on Livestock Valuation in 1992 adopted these same requirements for a new NSC scheme that was introduced with effect from the 1993 income year.[25]

22. The two cost schemes have one main difference. Namely, the farmer self-assesses the cost price method and that assessment reflects their personal farm costs of production, whereas the Commissioner determines the values used in the NSC scheme and they reflect national average costs of production.

NSC values

23. The Commissioner determines NSC values and generally publishes them in February each year. The values determine the national average cost of producing livestock to a mature state – that is, the costs of production. Schedule 18 sets out the livestock for which the Commissioner must determine NSC values.

[25] Consultative Committee on Livestock Valuation, *Report of the Consultative Committee on Livestock Valuation* (Inland Revenue, Wellington, September 1992).

24. For most types of specified livestock, the Commissioner determines the national average cost of:[26]

- breeding, rearing and growing rising 1-year-old stock of each type (BRG costs); and
- rearing and growing rising 2-year-old stock of each type (RG costs).

25. Separate cost figures are determined for: purchased bobby calves, 3-year-old male, non-breeding cattle, weaner pigs up to 10 weeks of age, and growing pigs aged 10 to 17 weeks.[27]

26. The NSC values the Commissioner determines reflect the national average costs of production of the various types and classes of immature livestock at each stage of their growth. Farmers using the scheme apply the BRG costs to rising 1-year stock bred on the farm during the year and the RG costs to immature animals on hand at the beginning of the year (rising 2-year stock). The actual cost of acquisition is used to value any immature livestock the taxpayer purchased during the year.

27. The weighted average of these two costs (the NSC values the Commissioner determines and the purchase price of immature livestock the taxpayer acquires) is used to calculate the final closing value of immature livestock on hand. Once livestock reaches maturity, each animal holds that cost until disposal and no further RG costs are allocated to them. This is illustrated in Example 1.

[26] The exceptions are beef cattle and dairy cattle, for which the Commissioner determines three costs.
[27] Suckling pigs are valued at nil for tax purposes.

Example 1: Calculating the closing value of immature livestock

The calculation for rising 1-year livestock starts with the formula:

((homebred numbers × BRG cost determined by the Commissioner) plus total purchase costs) ÷ homebred numbers plus purchase numbers

The farmer has homebred 1,250 lambs in the 2023 income year and purchased a further 500 hoggets for $30,000. Therefore, the final closing value for these rising 1-year animals is:

Number	Calculation	$
1,250	Homebred rising 1-year x BRG for the 2023 income year ($47.50)	59,375.00
500	Purchase cost of rising 1-year hoggets	30,000.00
1,750	**Amount included in tax accounts**	**89,375.00**

This represents an average cost per head of $51.07 ($89,375 ÷ 1,750).

28. When the NSC scheme was introduced, Inland Revenue and the then New Zealand Institute of Chartered Accountants[28] developed the methodology for calculating the national average cost of production for each type of immature livestock (the BRG and RG costs).

29. The NSC values determined include not only the direct costs of breeding, rearing and growing rising 1-year and 2-year livestock (feed and vet fees for example) but also the indirect costs incurred in undertaking these activities (eg, wages, freight, seed and fertiliser costs, repairs and maintenance costs, and depreciation). The costs determined exclude costs incurred in owning (or leasing) and operating the farm business. They also exclude the costs of operating non-livestock enterprises (such as cropping) and direct costs associated with producing and harvesting any of the livestock's dual products (depending on the type of animal, this might be the production of meat, wool, fibre, milk or velvet).

[28] Now Chartered Accountants Australia and New Zealand (CA ANZ).

Elections to enter and exit the NSC scheme

Restrictions on entering the NSC scheme

30. Taxpayers may choose to value specified livestock under the NSC scheme, without providing a written election to the Commissioner, unless:

- the taxpayer is using the cost price method to value any livestock in the same income year;[29]
- the taxpayer used the cost price method to value any livestock in the preceding year and has not given at least 2 years' written notice of their intention to value specified livestock under the NSC scheme;[30]
- specified livestock has been made available to another person under a profit-sharing arrangement and, in the income year, the other person values any livestock of that type under the cost price method;[31]
- the taxpayer has bailed or leased livestock to another person under a long-term bailment (ie, not a profit-sharing arrangement);[32]
- the livestock is of a type or class that is not included in sch 18 (categories of livestock for which national standard costs to be declared);[33] or
- the livestock is male breeding stock, where livestock of the same type is valued under the herd scheme in an income year; this is so even where some livestock of that same type have been valued using the NSC scheme.[34]

[29] Section EC 9(1).

[30] Section EC 9(2).

[31] Section EC 9(3).

[32] Section EC 9(4).

[33] Section EC 9(5).

[34] Section EC 8(6).

Exiting the NSC scheme

31. Taxpayers may exit the NSC scheme without providing written notice, except that they must give:

- written notice in the same year to move livestock of a particular type from the NSC scheme to the herd scheme;[35] and
- 2 years' written notice to move from the NSC scheme to the cost price method.[36]

Herd scheme

32. In its final report, the Consultative Committee on Primary Sector Taxation described the herd scheme as follows:[37]

> The herd scheme is intended to reflect the fact that in some respects a herd or flock can be likened to a "machine". The "machine" is a relatively fixed asset, owned and maintained for the sale value of what it produces, rather than for its own inherent sales value. The herd scheme exempts from tax any inflationary gains on the realisation of the "machine" over and above its "cost", but rather than permitting annual depreciation, the scheme gives tax deductions for the annual cost of "repairs and maintenance" i.e. the difference between the replacement animals and the proceeds from the sale of the stock replaced.

33. The means of excluding these "inflationary gains" for tax purposes is to attribute the same value to the specified livestock on hand at both the opening and closing balance dates of the farmer. In this way, it is only an increase or decrease in the value of livestock numbers over the income year that affects a taxpayer's taxable profit (or loss).

Herd scheme values

34. Each year, the Commissioner must determine the national average market values (NAMVs) of all types and classes of specified livestock that are to be valued under the herd scheme for an income year.[38]

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[35] Section EC 11(2)(a).

[36] Section EC 11(3)(d).

[37] Consultative Committee on Primary Sector Taxation *Report of the Consultative Committee on Primary Sector Taxation* (Inland Revenue, Wellington, May 1986) at 17.

[38] Section EC 15(1).

35. To ascertain the NAMVs of the various classes of livestock, the Commissioner contracts with highly experienced livestock valuers situated throughout the country.[39] Each valuer is asked to provide the market value of the various livestock classes in a specified region. Generally, more than one valuer is contracted for each region. The market valuations required are for good quality, on-farm animals (capital stock) on 30 April.

36. From these valuations, the Commissioner calculates the NAMV for each livestock class. In the case of the sheep, beef, dairy cattle and deer (red, wapiti and elk) classes, a weighted average is used against the values each valuer produces. The weighted average is calculated based on total livestock numbers for a type of livestock in a particular region compared with the national herd numbers for that type of livestock.[40] Because of their comparatively low numbers, a straight average is used for the remaining livestock types, except “other deer”. The value of other deer is taken as the mid-point between the trophy and meat market values.

37. The NAMVs that are determined are published (generally in May each year) and apply to the income year for which they are determined, irrespective of whether that income year started before, on or after the date on which the Commissioner made the determination.[41]

Elections to enter and exit the herd scheme

Entering the herd scheme

38. An election to enter the herd scheme may be made in relation to only a “type” or “class” of livestock;[42] for instance, all dairy cattle or a class of dairy cattle (mixed-age cows)). An election cannot be made in respect of partial class; x number of mixed-age cows for example. As stated at [15], same-year written notice is required for the taxpayer to enter the herd scheme. This is so even in the first year of business, which is not the case for other valuation options. The reason for this is that an election to enter the herd scheme is largely irrevocable.[43] Therefore, the taxpayer should have turned

[39] Usually this involves gaining valuations from 38 valuers.

[40] Stats NZ collates livestock numbers.

[41] Section EC 15(2).

[42] Section EC 14(1).

[43] Section EC 7(3).

their mind to the consequences of using this option. The contents of a notice of election are discussed at [17].

39. A taxpayer can exit the herd scheme if at least one of the following criteria is met:[44]

- A taxpayer can exit if they are going to stop using all female livestock for breeding and, instead, will use them in a fattening operation. The taxpayer must provide the Commissioner with same-year notice (this is further at [12]).
- A taxpayer can exit if the number of animals in a class has increased in an income year. To the extent of that increase, the taxpayer may use an alternative valuation option. The taxpayer is not required to provide notice to the Commissioner (further discussed at [14] and [44]).

40. Even if a taxpayer meets one of these criteria, if livestock of a particular type is valued under the herd scheme, all male breeding stock of that type must be valued under the herd scheme.

41. Despite these restrictions, a taxpayer may still elect to adopt a herd value ratio or recalculated herd value ratio or the Chatham Islands adjustment for any livestock type. An election to use one of these valuation options must be made 2 years before the income year in which the valuation method is to become effective.[45]

Use of an alternative valuation option

42. As stated at [39], where a taxpayer is valuing livestock under the herd scheme and the number of livestock in a class increased in an income year, then, to the extent this "base number" has increased, a taxpayer may use an alternative valuation option to value that increase.

43. In calculating the amount of any increase in livestock numbers, a farmer must take last year's closing stock numbers for a class and add to that number the number of any livestock of that class acquired from an associated person,[46] where that associated person acquisition was not made in the ordinary course of business and was from a person that used the herd scheme to value that livestock.[47] The section of the Act that contains the formula to be used (s EC 8) is reproduced in the Appendix. Whether an

[44] Section EC 8(1).

[45] Section EC 11(3)(b).

[46] Section EC 8(4).

[47] Section EC 4B.

acquisition has been made in the ordinary course of business is further discussed from [56] and in Example 2.

Example 2: Using an alternative valuation option

Jim is a dairy farmer. He is considering whether he can use an alternative valuation option in relation to an increase in the number of mixed-aged cows in his herd. This year, due to his acquisition of an adjoining block, these numbers have increased from 350 to 450.

Complicating his decision is the fact that during the year he acquired 60 cows from his father and this acquisition was not made in the ordinary course of his father's business. To see whether he may use an alternative valuation option, Jim must first calculate a base number that can be compared with his current herd number. Jim's base number is:

Category	Number
Mixed-aged cows on hand at the end of the previous year*	350
Mixed-aged cows acquired from associated person	60
Base number	**410**

* Although s EC 8(4) and (5) refers to animals of the relevant class that the person valued under the herd scheme at the end of the year before the current year, this equates to the livestock of that class on hand at the start of the current year.

As the number of mixed-aged cows Jim now owns (450) exceeds this base number (410), he may use an alternative valuation option in relation to 40 cows.

44. If a taxpayer meets the requirements to use an alternative valuation option, the Commissioner is not required to be notified of the decision to use the alternative option.

Herd value ratio (and recalculated ratio)

Option available if the market value of a farmer's livestock differs from the NAMV

45. As described from [34], NAMVs provide the **national** average market value for the specified livestock types and classes. Because of this, they may not always reflect the average market value of the livestock of a particular taxpayer or even of a particular

region. Where a farmer believes the average market value for their type of livestock regularly differs markedly from the NAMVs determined by the Commissioner, they may elect to use a herd value ratio to reflect more accurately the value of their livestock. They can apply a ratio to only an entire type of livestock rather than to individual classes within that type.[48]

46. A farmer may recalculate the herd value ratio if they believe their current ratio no longer reflects market value. The Commissioner may also require a ratio to be recalculated for the same reason.[49]

47. The ratios that can be used are 0.9 (90%), 1.0 (100%), 1.1 (110%), 1.2 (120%) and 1.3 (130%) of the NAMVs determined in that income year.[50] The section of the Act containing the formula for calculating a herd value ratio (s EC 17) is reproduced in the Appendix. The herd value ratio that may be used is the one that is the closest match to the market value of the applicable livestock.

48. The farmer needs to obtain a valuation from a recognised livestock valuer. The valuation must be that of an **average animal** for each class, of each type of specified livestock for which a herd value ratio is intended to apply. It cannot be the average of all the livestock of that class the taxpayer owns.[51]

49. As with the values the Commissioner obtains to calculate that year's NAMVs, the taxpayer must carry out their herd value ratio valuation on 30 April **in the year they elect to adopt a herd value ratio**.[52]

Elections to use or recalculate a herd value ratio

50. Where a taxpayer elects to use a herd value ratio before adopting the herd scheme, written notice to the Commissioner is required in the same year that the herd value ratio is first used.[53] Once a taxpayer has adopted the herd scheme, they must give 2 years' written notice to adopt or recalculate a herd value ratio.[54] The contents of elections were discussed at [17].

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[48] Section EC 17(1).
[49] Section EC 18.
[50] Section EC 17(5).
[51] Section EC 17(4).
[52] Section EC 17(4).
[53] Section EC 11(2)(b).
[54] Section EC 11(3)(b).

51. As stated above, a taxpayer using the herd scheme to value a type of livestock must obtain a valuation at the time they elect to use a herd value ratio for that type of livestock. Effectively, this means that valuation must be obtained 2 years before the taxpayer uses that herd value ratio. Example 3 illustrates the factors farmers must weigh up in using a herd value ratio.

Example 3: Using a herd value ratio

Mary and Tony are King Country sheep farmers. Their livestock is valued under the herd scheme. They believe the NAMVs for sheep that the Commissioner has determined historically have been higher than the market value of their livestock. The reason for the difference may be that their farm is located on rough hill country.

They are aware that before they can elect to use any of the available herd value ratios, they must obtain a valuation from a recognised livestock valuer that justifies their use of a particular ratio. In discussing herd value ratios with them, their agent emphasises that they must make it clear to the valuer that the valuation they wish to obtain is **not** one that provides the average value of each of their livestock classes; rather, the valuation must be that of an average animal in each class on 30 April of that year.

The valuations Mary and Tony obtained showed that, while the average animal value in all classes of their livestock was below the NAMVs the Commissioner determined for that year, most were only marginally so. Only the value of their two-tooth and mixed-age ewes are sufficiently lower to justify a herd value ratio of 0.9. A ratio of 0.9 (or 90%) is the only available ratio that is less than the declared NAMVs.

Because Mary and Tony are already using the herd scheme to value their livestock, their agent advises them that if they want to use this ratio, they must elect to do so 2 years before they apply the ratio. As Mary and Tony believe the ratio is historically accurate (and will remain so), they decide to go ahead with their election.

In discussing this matter with the farmers, their agent also points out that if the reduced values were of short duration (because of the effect of an adverse event on their livestock for instance), using a ratio would not have been useful. This is because the livestock values would be expected to return to normal within the 2-year election period.

Herd value ratio – Chatham Islands adjustment

52. Due to their low values, specified livestock that are on the Chatham Islands at the end of an income year may be subject to a **Chatham Islands adjustment.** Only farmers on the Chatham Islands may elect to use this adjustment.[55] This adjustment is an extension to the herd value ratios that may otherwise apply and that the Commissioner determines from time to time. The adjustment to the herd value ratio is 0.3 (30% of the NAMV for specified livestock set each year). This adjustment applies to only sheep and beef cattle.[56]

53. The election requirements for the Chatham Islands adjustment are the same as those for a herd value ratio (discussed from [50]).

Sales to associated parties

54. Where a transfer of specified livestock occurs between associated parties and that livestock has previously been valued using the herd scheme, the associated party acquiring the livestock must continue to use the herd scheme to value that stock.[57] The party acquiring the livestock also assumes the same position as the original owner in relation to the previous herd scheme election, herd scheme base number and herd scheme values. This rule applies even where the transfer is made under the Property (Relationships) Act 1976.[58]

55. This general rule has three exceptions: sales made in the ordinary course of business; intergenerational transfers; and deceased estates.

Sales made in the ordinary course of business

56. The first exception relates to sales made in the ordinary course of business.[59] The Commissioner acknowledges that associated parties may trade among themselves in the ordinary course of carrying on their businesses. These sales are not affected by the general rule.

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[55] Section EC 19.

[56] Livestock values – Chatham Islands, Appendix *Tax Information Bulletin* Vol 5, No 2 (August 1993): 22.

[57] Section EC 4B(1).

[58] Section FB 15.

[59] Section EC 4B(1).

57. Given the large number of scenarios that could exist in this area, what constitutes "the ordinary course of business" is left to the judgement of the parties to the transactions, rather than being defined by legislation.

Intergenerational transfers

58. The second exception relates to intergenerational transfers.[60] It applies when livestock is transferred to the son, daughter or grandchild of the original owner and the:

- recipient did not have an interest in the livestock before transfer;
- transfer is at market value on commercial terms and conditions (other than financing); and
- original owner has disposed of all specified livestock and does not derive income from specified livestock for the following 4 years.

59. To make this work, a complicated application of the associated person rules is needed. Essentially, where the **only** connection between the parties is this blood relationship, the exception can apply. As noted above, the recipients of the livestock cannot have an interest in the livestock before transfer.

60. The original owner of the livestock must stop deriving income directly or indirectly from the disposal of specified livestock, which is part of a business, for the next 4 years. This doesn't mean they must dispose of all their livestock; rather, they must not use any remaining livestock in a business.

61. For instance, the vendor could graze a few animals on a lifestyle block for personal consumption. They could retain only the land and enter into a 50:50 sharemilking arrangement, or start farming non-specified livestock, all without disturbing the exception.

62. The word "indirectly" refers to the situation where the livestock are owned by a trust or company the vendor is associated with.

63. The 4-year period was chosen because it should be long enough to confirm there was a genuine intention to cease deriving income from specified livestock.

[60] Section EC 4B(2).

Deceased estates

64. The third exception relates to deceased estates.[61]. The rule here is that the intergenerational transfers exception applies unless the will creates a life interest in the relevant livestock.

65. Example 4 and Example 5 illustrate two scenarios involving sales to an associated party. For more information about sales to associated parties, see **Associated party transfers of herd scheme livestock**.[62]

Example 4: Sales to an associated party in the ordinary course of business

George is a dairy farmer. His son, Tahi, recently acquired a block of land near the family farm on which he is establishing a beef-fattening operation. Tahi values his livestock using the NSC valuation option, while his father values his dairy herd using the herd scheme option.

One way Tahi acquires stock is by purchasing his father's unwanted rising 1-year steers. Tahi acquires this stock at market value, while George provides loan finance so his son can acquire the livestock.

In this circumstance, as Tahi's father is disposing of his rising 1-year steers as part of his usual business operations and Tahi is acquiring the livestock at market value, the Commissioner would accept that the transfer of livestock has occurred in the ordinary course of business. The fact the acquisition has been funded with finance George has provided is not relevant to this outcome.

Therefore, Tahi is free to value the acquired livestock using a valuation option other than the herd scheme (which the livestock had previously been valued under).

[61] Section EC 4B(3).

[62] Associated party transfers of herd scheme livestock *Tax Information Bulletin* Vol 25, No 9 (October 2013): 4.

Example 5: Sales to associated party by intergenerational transfer

Some years have passed since the scenario in Example 4 occurred. While Tahi's fattening operation is now well established, George has decided it is time he retired.

George would like the farm to remain in family hands, so he approaches Tahi with the proposition that Tahi takes over the family dairy farm on normal commercial terms with financial assistance from George. Tahi agrees to do this.

Tahi remembers the previous discussion about acquiring livestock from an associated person. In discussing the proposed change of ownership with their agent, he asks if he will have to use the herd scheme to value the dairy herd that he will be acquiring in this new scenario. The agent first asks George and Tahi whether the transfer will be at market value on usual commercial terms. After they confirm it will be, the agent advises Tahi that if George gives up any business of farming specified livestock for at least 4 years, Tahi can use a valuation option other than the herd scheme to value the dairy herd.

Farmer disposes of livestock before Commissioner determines NAMVs

66. Where, in an income year, a farmer ceases to derive income from the sale of specified livestock and disposes of that livestock before 1 November that precedes the determination of the NAMVs for that income year, the opening value of that specified livestock is:[63]

- the opening value of the livestock for the previous income year; or
- if a herd value ratio has been adopted, the herd value multiplied by the herd value ratio applying in the previous income year.

67. Note that, as discussed at [54], this treatment may not apply if the disposal is to an associated person.

[63] Section EC 20(1) and (2).

High-priced livestock

68. "High-priced livestock" is defined as being specified livestock that are purchased for at least $500 per head **and** cost at least five times the national average market value that the Commissioner determined for that class of specified livestock in the year of acquisition or the previous year, whichever value is higher. Further, on acquisition, the animal must be capable of being used for breeding or, if it is immature, it must be expected to be capable of being used for breeding when it reaches maturity.[64]

69. High-priced livestock must be valued at its cost price. Mature, high-priced livestock are valued at cost less an amount of depreciation, for which the Commissioner sets the rate.[65] Immature high-priced livestock (less than 1 year old at the end of the year of acquisition) are valued at cost price and may not be depreciated until they reach maturity. For the current depreciation rates, see the section on **assigned percentages of high-priced livestock** in **Average market values of specified livestock – 1996**.[66]

70. Taxpayers must choose either the straight-line method or the diminishing value method of depreciation.[67] If a taxpayer chooses the diminishing value method, they must notify the Commissioner of this (by email or myIR or in writing[68]) at the time of filing the first income tax return of income that uses the high-priced scheme. The decision to use the diminishing value method is irrevocable [69]

71. Each head of stock remains high-priced livestock until the:

- year in which the depreciated value for that livestock is equal to or below the level of the NAMVs the Commissioner determines for that class of livestock;[70] or
- taxpayer no longer expects to use that livestock for breeding or intends to sell the livestock to another person for breeding purposes.[71]

[64] Section YA 1.

[65] Section EC 34(1).

[66] Average market values of specified livestock – 1997 *Tax Information Bulletin* Vol 9, No 6 (June 1997): at 2.

[67] Section EC 32(2).

[68] Section 14C of the Tax Administration Act 1994.

[69] Section EC 32(3).

[70] Section EC 35(1).

[71] Section EC 35(2).

At either time, the high-priced livestock reverts to being ordinary specified livestock and is generally valued using the method that the taxpayer is already using to value other livestock of that type.[72] This is illustrated in Example 6.

Example 6: Valuation of high-priced livestock

Aisha purchased a Romney ram for $2,200 during the 2019–20 income year. The NAMV for rams that year was $340 and $338 in the previous income year. As Aisha's ram was acquired for more $500 **and** more than five times the higher of these values, the Romney ram needs to be valued using the high-priced valuation method.

Aisha decides to use the straight-line method to calculate the depreciating value of the ram. For sheep, the straight-line depreciation rate is 25% per annum. In the following years the written down value of the ram will be:

Income year	Written down value ($)
2020	1,650
2021	1,100
2022	550

Due to decreased performance, the decision is made during the 2022–23 income year to stop using the ram for breeding. At this time, as Aisha uses the herd scheme to value all sheep classes, the ram (if retained) would be valued at $372, the herd scheme value for breeding rams for the 2022–23 income year.

[72] Section EC 35(3) and (4).

Other valuation methods – cost price, market value or replacement price

Cost price method

72. As discussed at [19], in its final report, the Consultative Committee on Primary Sector Taxation described the cost options that should be available to value livestock. As a result of that and later advice from the committee, the cost price and NSC methods were implemented. Both methods seek to determine the costs of production to bring livestock to a mature state.

73. The cost method works similarly to the NSC method, except that rather than the Commissioner determining the costs of production at a national level, a farmer uses their self-assessed costs of production to determine costs at a farm level.

74. The guidelines for calculating a self-assessed cost for specified livestock were developed for introduction in the 1991–92 income year. These guidelines are complex and rely on the farmer having an inventory system capable of tracking individual livestock units over their life on the farm.

75. Calculating the production costs of specified livestock (other than pigs, for which different steps apply) involves six main steps:

    - **Step 1** – Identify and specify the direct costs of livestock production and assign identifiable costs to each livestock type.
    - **Step 2** – Calculate the total farm livestock units.
    - **Step 3** – Apportion the undivided direct costs of livestock production between the livestock types. Do this based on the proportion of total farm livestock units associated with each type and class of livestock.
    - **Step 4** – Use dual product multipliers to allocate some of the costs to the production of meat, wool, fibre, milk or velvet, as appropriate.
    - **Step 5** – Include the costs of livestock purchased.
    - **Step 6** – Calculate an average cost per head and use it to value that year's intake of stock in each age group on hand at the end of the income year. Where mature livestock of mixed ages and intake years is valued at cost, you will need an inventory system to account for livestock over their lifetime on the farm.

76. For more information on calculating costs for specified livestock, see Appendix A: Livestock production – establishing a self-assessed cost.[73]

77. If a taxpayer uses the self-assessed cost method, they should take care to establish sufficient documentation to support the values used.

78. The Commissioner recommends that a taxpayer seeks professional advice before endeavouring to use this method.

Market value and replacement price methods

79. The valuation options of market value and replacement price are sufficiently similar to discuss together.

80. The concept of market value appears throughout the Act. It is regarded as the current selling value in the relevant selling market of the taxpayer's business.[74]

81. Replacement price is the market value of the livestock at balance date or, if there is no market value at that date, the last price the taxpayer paid during the income year to acquire equivalent livestock. In establishing replacement price, any amount of GST input tax is disregarded.[75]

82. Although it is not a legislative requirement to obtain an independent market valuation to support the values used, a taxpayer using market value or replacement price must be able to substantiate the value used if the Commissioner requires them to. In view of this, many taxpayers find obtaining a valuation from a recognised livestock valuer the easiest (and most accurate) way of supporting the valuations they have used. Any valuation must be accurate as at a taxpayer's balance date.

[73] Appendix A: Livestock production – establishing a self-assessed cost *Tax Information Bulletin* Vol 4, No 7 (March 1993): 2.

[74] *Australasian Jam Co Pty Ltd v FCT* [1953] HCA 52.

[75] Section EB 10.

Non-specified livestock

Meaning of "non-specified livestock"

83. The term "non-specified livestock" means livestock other than bloodstock, high-priced livestock and specified livestock.[76]

84. For the purposes of this statement, "livestock" means **all live animals the breeding of which is regulated by humans and are held as assets of a business**. This being so, the term non-specified livestock could include any type of livestock other than bloodstock, high-priced livestock and specified livestock. It could include, for instance, such diverse animals as chickens, emus, ostriches, rabbits, alpacas, farmed fish and shellfish.

85. While these types of animals **could be** non-specified livestock, they **will be** non-specified livestock, and subject to the valuation requirements set out in subpart EC, if they are farmed as part of a farming business (as discussed from [5]).

Valuation methods

86. The owners of non-specified livestock can choose to value that livestock using:[77]

- the (self-assessed) cost price method;
- the market value method;
- the replacement price method; or
- if the Commissioner agrees, a standard value.

87. A taxpayer may move freely between these options without providing written notice to the Commissioner. For instance, they could choose to value their non-specified livestock using the cost price method one year, and then the next year choose to value that stock using the market value method.

88. While the legislation provides for a standard value as a legitimate valuation option, this option is available only if the Commissioner agrees to such a value. The Commissioner has not approved any standard values.[78]

[76] Section YA 1.
[77] Section EC 30.
[78] As required by s EC 29.

Cost price method (self-assessed)

89. As it relates to specified livestock, the cost price method was discussed from [72]. The matters covered apply equally to non-specified livestock, except that the Commissioner has not published generic guidelines for calculating a self-assessed cost for all non-specified livestock.

90. The only published guidelines that involve non-specified livestock are contained in Ostriches and emus – valuation for income tax purposes.[79] These guidelines are based on those developed for specified livestock, with variations to account for the unique nature of farming birds, such as a methodology for valuing the bird's eggs at the end of the year.[80]

91. These guidelines, and the guidelines developed for specified livestock, may be of use to owners of non-specified livestock (depending on the type of livestock they are valuing). However, it is important that any methodology taxpayers develop to value their livestock is based on accurate, verifiable data that realistically captures the costs of production for that livestock type.

Market value and replacement price methods

92. As they relate to specified livestock, the market value and replacement price valuation methods were discussed from [79]. The matters covered apply equally to non-specified livestock.

Bloodstock

93. For the purposes of the livestock valuation rules, "bloodstock" means a horse that is a member of the standardbred or thoroughbred breed of horses. It also includes a share or interest in such a horse.[81]

94. At the end of each year, bloodstock that is used or intended to be used for breeding must be valued at its cost price. From maturity, that cost price must be reduced by an

[79] Ostriches and emus – valuation for income tax purposes *Tax Information Bulletin* Vol 9, No 8 (August 1997): 11.

[80] Although as previously mentioned in this statement, eggs are not *livestock* and therefore not subject to the requirement to be valued as livestock, they may need to be valued as ordinary trading stock if they are produced for sale.

[81] Section YA 1.

amount that varies based on whether the bloodstock is a stallion or mare and whether a previous owner has used the horse for breeding.[82]

95. Even where the actual cost cannot be calculated (with certainty), such as with home-bred progeny, a bloodstock breeder must still establish the cost price of that progeny. For guidance on how to calculate that cost price, see QB 21/09.[83]

Other matters

Transfers of livestock between a wholly owned group of companies

96. Livestock transferred between members of a wholly owned group of companies during the income year may be valued at year end at the cost of that livestock to the company that originally owned it. This can occur when:

- the group members that have owned the livestock are all resident in New Zealand;
- both the company that owned the livestock at the beginning of the income year and the company owning the livestock at the end of that year are still members of the group at the end of the income year; and
- both companies share the same balance date or, if they do not, the Commissioner has approved their adoption of different balance dates because those dates correspond to the end of a business cycle and are necessary to avoid material distortions in net income.

97. If the companies stop being part of the same wholly owned group, then the company that owns the livestock at the end of the income year is treated as disposing of and reacquiring the livestock for its market value at the time the group membership ends. If the market value of the livestock cannot be determined separately from other property, the market value of the livestock at the time that company acquired it is treated as its value.

Bailed livestock

98. A bailment of livestock occurs when the owner of livestock (the bailor) bails or leases that livestock to another person (the bailee). There are two forms of bailment

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[82] Sections EC 39, EC 41, EC 42, EZ 5 and EZ 6.

[83] QB 21/09: How to determine the cost price of bloodstock *Tax Information Bulletin* Vol 33, No 9 (October 2021): 42.

agreement.[84] A long-term bailment exists where the bailor does not expect the same livestock that are subject to the bailment agreement to be delivered back to them. This contrasts with a short-term bailment, where the bailor expects to have the same livestock returned to them, and the bailee does not provide consideration for the delivery of the livestock, and the bailment ends no later than the end of the income year after the income year that the bailment agreement was made.

99. Most New Zealand bailments meet the definition of a short-term bailment. Where this is the case, then, while the bailor accounts for this livestock in the ordinary way, the bailee can "back out" the bailed livestock from their accounts. They do this by calculating the number of total livestock in a class (the number they own plus the number of bailed livestock in that class) and deducting from that total the number of bailed livestock in that class. They then value the number left. This is illustrated in Example 7

100. Where the bailment is a long-term bailment both the bailor and bailee must account for the bailed livestock at year end; the bailor as owner and the bailee because they have an interest in the livestock. The bailor must value the bailed livestock using the herd scheme. The NSC and the cost price valuation methods are not available to a bailor where the livestock are being bailed under a long-term bailment arrangement.

[84] Section EC 27.

Example 7: Bailee's treatment of livestock that are subject to a short-term bailment

Livestock class on hand	Total livestock (owned and bailed)	Bailed livestock	Number to be valued for tax purposes
Rising 1-year hinds	220	100	120
Rising 2-year hinds	180	180	0
Mixed aged hinds	310	175	135
Rising 1-year stags	25	0	25
Breeding stags	2	0	2
Total	**737**	**455**	**282**

Livestock gifted because of an adverse event

101. Sometimes, where a farmer has lost stock because of an adverse event, they may receive replacement livestock from other farmers. Often the other farmers give this livestock for consideration that is less than market value or may even donate it for no consideration. Where either of these situations occurs and the recipient and supplier are not associated, both parties treat the acquisition and disposal of the livestock as being disposed of and acquired at the greater of nil or the actual consideration paid.[85]

102. Where the parties are associated, then both parties to the transaction are required to treat the transaction as having occurred at the market value of the livestock transferred.[86]

[85] Section EC 5.

[86] Section GC 1.

Joint interests – partnerships, joint ownership and look-through companies

Jointly owned livestock requires joint election of valuation method

103. For any election to be effective, where livestock is owned by two or more persons all owners must jointly elect the valuation method to be used.[87]

104. Where no effective election is made, then:

- where the owners bail or lease livestock, or enter a profit-sharing arrangement, the market value method applies; and
- in any other case, the NSC scheme applies.[88]

105. Where owners have a profit-sharing arrangement and livestock under the arrangement is valued using the cost price or NSC method, all parties to the arrangement are treated as the single owner of the livestock.[89]

106. Where a taxpayer has an interest in livestock in a partnership or a look-through company, they must treat these interests separately to any other livestock interests they have. While separate elections are required for the different interests, the taxpayer does not have to choose the same valuation method for each interest.[90]

Changes in partnership interests

107. Where partnership interests change (so a new partnership is created) and more than 50% of the property is the same between the two partnerships, the new partnership must value specified livestock in the same manner as the old partnership.[91] A change in partnership interests can occur not only when a partner leaves or joins a partnership but also when a partner retires or dies.

[87] Section EC 12(1).
[88] Section EC 12(2).
[89] Section EC 12(3).
[90] Section EC 12(4) and (5).
[91] Section EC 13.

108. Special rules apply when a new partner enters a partnership and acquires an interest in specified livestock (that include female breeding stock) that the partnership has valued using the cost price or NSC method.[92]

109. Where this occurs, in the partnership accounts the new partner is treated as using the same cost base as the exiting partner;[93] the partnerships livestock cost base does not alter to account for the acquisition cost the new partner may have paid, and the partnership carries on as though nothing has happened (other than the change in partner).

110. The exiting partner accounts for any profit made on the sale of livestock in the tax year in which that profit is derived.

111. The new partner may claim the cost of acquiring the livestock as a deduction. However, they must also calculate a new cost base for the acquired livestock.

112. In the year of acquisition, the value of this new cost base will be that livestock's existing cost base (as shown in the partnership's accounts) plus, an amount calculated using the formula in [113]. It must be a positive amount. In the following years, this cost base amount is progressively reduced so as to provide an amount of amortisation that the new partner may claim as a deduction.

113. The yearly amounts to be added to the existing cost base are based on the formula:

livestock cost base difference × current year count ÷ allowed years[94]

Where:[95]

Livestock cost base difference equals the price the new partner paid to acquire the exiting partner's share of partnership livestock, less the existing cost base for that livestock in the year of acquisition.

The **allowed years** are five, unless, before the end of the income year in which the livestock was acquired, the partnership acquires or disposes of any further partnership interests (that include livestock). If this occurs, the allowed years are four.

Where the allowed years are five, the **current year count** equals five in the year of acquisition, four in the following year, three in the next and so on.

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[92] Section EC 26B(1).

[93] Section EC 26B(2).

[94] Section EC 26B(3).

[95] Section EC 26B(4).

This is illustrated in Example 8.

Example 8: Calculating the spread available to a new partner

To calculate the amount available to be spread to future years by a new partner, the following information is relevant.

- The new partner paid $750,000 to acquire the exiting partner's share of partnership livestock during the 2018 tax year. The exiting partner's cost base for that livestock was $310,000. Therefore, the livestock cost base difference is $440,000.
- As the partnership did not acquire or dispose of any further partnership interests in the year of acquisition, the allowed years is five.

Using the formula **livestock cost base difference × current year count ÷ allowed years** the amount to be added to the livestock's existing cost base in each year is as follows:

Tax year	Calculation	$
2018	($440,000 x 5 ÷ 5)	440,000
2019	($440,000 x 4 ÷ 5)	352,000
2020	($440,000 x 3 ÷ 5)	264,000
2021	($440,000 x 2 ÷ 5)	176,000
2022	($440,000 x 1 ÷ 5)	88,000

The effect of this calculation in the new partner's income tax return in 2018 and 2019 years is as follows:

2018	$		$
Purchases	750,00	Existing cost base	310,000
		Formula amount	440,000

		Closing stock (new cost base)	**750,000**
	750,000		**750,000**

The income effect for the 2018 year is $0.

2019	**$**		**$**
Opening stock	750,000	Existing cost base	310,000
		Formula amount	352,000
		Closing stock (new cost base)	**662,000**
		Amortisation amount	88,000
	750,000		**750,000**

The income effect for the 2019 year is -$88,000.

114. As Example 8 shows, the amount to be amortised (the difference between the acquisition price and the existing cost base of that livestock – $440,000 in this example), is amortised on a straight-line basis over the five **allowed years**. In this example, the 2019 year amortisation of $88,000 is allowed as a deduction in each of the following allowed years. The formula does not allow an amortisation deduction in the year of acquisition.

Valuation of livestock on the death of the farmer

Executors and administrators are bound by the farmer's valuation elections

115. When a farmer dies and their estate is transferred to an executor or administrator, the estate (including any livestock) is deemed to have been disposed of by the farmer and acquired by the executor or administrator immediately before the farmer's death.[96]

[96] Section FC 2(1) and (2).

116. Because executors and administrators effectively step into the shoes of the deceased as their personal representative, they are bound by any valuation elections the deceased made.

117. Exceptions to this approach apply where the property is transferred to the deceased's surviving spouse, civil union partner, de facto partner, a person who is within the second degree of relationship to the deceased person (ie their children) or a charity.[97] In these circumstances, the livestock is treated as a transfer of property on the settlement of relationship property as long as certain other legislative requirements are met.[98] These requirements are set out in s FC 4 (property transferred to charities or to close relatives and others), which is reproduced in the Appendix.

Where the deceased used the herd scheme to value specified livestock

118. Where the farmer had used the herd scheme to value a type or class of specified livestock, the herd scheme must continue to be used for that livestock when the:

- will creates a life interest in the relevant livestock; or
- livestock is transferred to the executor or administrator (because the executor or administrator "stands in the shoes" of the deceased).

This Statement was signed on 26 March 2025.

Stephen Donaldson

Technical Lead, Technical Standards, Legal Service

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[97] Sections FC 3 and FC 4.

[98] Sections FC 3(1) and FC 4(1) and (3).

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Income Tax Amendment Act (No 2) 1993, s 20

Income Tax Amendment Act (No 3) 1993, ss 20 to 26

Property (Relationships) Act 1976

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Appendix: Legislation

Income Tax Act 2007

A1. To determine the livestock required to be valued (discussed from [5]), s EC 1:[99]

> **EC 1 Application of this subpart**
>
> (1) This subpart applies to the valuation of livestock when -
>
> (a) a person who owns or carries on a farming business, other than a livestock dealing business, holds livestock for the purposes of farming that livestock in the ordinary course of carrying on the farming business:
>
> (b) a person who owns livestock bails that livestock to another person under a bailment, lease or other agreement.
>
> (2) Subsection (1) applies for the 2008–09 and later income years. However, subsection (1) does not apply to a person in relation to a tax position taken by the person—
>
> (a) in the period that starts on the first day of the 2008–09 income year and ends on 26 August 2024; and
>
> (b) relating to the valuation of livestock; and
>
> (c) that is inconsistent with the amendment made to section EC 1 by subsection (1).

A2. To calculate the number of livestock for which an alternative valuation option other than the herd scheme can be used (discussed from [42]), s EC 8(3) to (5) provides:

> **EC 8 Restrictions arising from use of herd scheme**
>
> …
>
> *Second exception: increase in a class*
>
> (3) Despite subsection (1), a valuation method other than the herd scheme is available to a person in an income year, to the extent of a person's animals of a class, in an income year (the **current year**), that are in excess of the person's class closing animal balance.

[99] As introduced by the Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Measures) Bill 2024.

> *A definition and a formula*
>
> (4) **Class closing animal balance** means the number of animals of a class calculated using the formula—
>
> last year's class amount + associated class transfers.
>
> *Definition of items in formula*
>
> (5) In the formula,—
>
> (a) **last year's class amount** is the animals of the relevant class that the person valued under the herd scheme at the end of the year before the current year:
>
> (b) **associated class transfers** is the amount, if positive, calculated under section EC 4B(5), for the relevant class, that are transferred in the current year to the person to the extent to which section EC 4B(4) applies to the type of animals transferred.

A3. To calculate the herd value ratio (discussed from [45]), s EC 17(5) to (7) provides:

> **EC 17 Herd value ratio**
>
> …
>
> *Calculation of herd value ratio*
>
> (5) The herd value ratio for livestock of a particular type is calculated by using the formula in subsection (6) and rounding the result of the calculation to the nearest of the following figures: 0.9, 1.0, 1.1, 1.2, 1.3.
>
> *Formula*
>
> (6) The formula is—
>
> Σ(average value × number) ÷ Σ(herd value × number).
>
> *Definition of items in formula*
>
> (7) In the formula,—
>
> (a) **Σ** is the total of the individual calculations for all applicable classes of livestock type valued under the herd scheme:
>
> (b) **average value** is the average value of an animal in a class as described in subsection (4):
>
> (c) **number** is the number of all livestock of that class on hand at the end of the income year, including livestock that are not in the herd scheme, but not including high-priced livestock:

(d) **herd value** is the herd value of livestock for a class.

A4. To calculate the partners' cost base (discussed from [107]), s EC 26B provides:

EC 26B Entering partners' cost base

When this section applies

(1) This section applies when an entering partner has acquired specified livestock that includes female breeding livestock for which section HG 10 (Disposal of livestock) applies, and the partners use the cost price method or the national standard cost scheme.

Existing cost base

(2) For the specified livestock, the entering partner is treated as having the same existing cost base that the exiting partner would have had for the purposes of the cost price method or national standard cost scheme for an income year, if they had not disposed of the interests.

Addition to cost base

(3) For the purposes of determining the value of the specified livestock at the end of an income year for the purposes of section EC 2, the entering partner must add to the existing cost base, described in subsection (2), the amount for the income year (the **current year**) calculated using the following formula:

livestock cost base difference × current year count ÷ allowed years.

Definition of items in formula

(4) In the formula,—

(a) **livestock cost base difference** is the cost base that the entering partner would have for the specified livestock at the end of the income year in which the acquisition of the specified livestock occurred, ignoring subsection (2) reduced by the entering partner's existing cost base for the specified livestock at the end of that year, described in subsection (2). It must be a positive number:

(b) **current year count**,—

(i) is the allowed years reduced by the number of years between the current year and the income year in which the entering partner's acquisition of the specified livestock occurred, ignoring years in which the partners do not use the cost price method or national standard cost scheme (for example: **current year count** is **1**, if the allowed years is **4**, and the acquisition of the specified livestock occurred in the 2010–11 income year, and the current year is the 2013–14 income year, and the relevant method or scheme was used for all relevant income years):

(ii) may equal the allowed years (for example: the current year is the same year as the income year in which the entering partner's acquisition of the specified livestock occurred), but must not be a negative number:

(c) **allowed years** is—

(i) 4, if the partners acquire or dispose of any partnership interests that include any livestock after the entering partner's acquisition of the specified livestock and before the end of the income year in which that acquisition occurred; or

(ii) 5, if the partners do not acquire or dispose of any partnership interests that include any livestock after the entering partner's acquisition of the specified livestock and before the end of the income year in which that acquisition occurred.

A5. For the transfer of property upon death, s FC 4 (discussed from [115]) provides:

FC 4 Property transferred to charities or to close relatives and others

When this section applies

(1) This section applies in the circumstances described in section FC 1(1)(b) when tax-base property is transferred on a person's death if—

(a) each beneficiary of the deceased person is described in subsection (2); and

(b) no life interest in the property is created; and

(c) no trust over the property is created, other than a trust to execute the will and administer the estate; and

(d) the net income of the estate is distributed as described in subsection (3).

Beneficiaries of deceased

(2) A beneficiary of the deceased person must be—

(a) a close relative of the deceased person:

(b) a person exempt under section CW 41, CW 42, or CW 43 (which relate to exempt income of charities).

Income from estate must be distributed

(3) While the administration of the estate is continuing, the net income of the estate is distributed to the extent allowed—

(a) under the will or the rules governing intestacy; and

(b) by the trustee's legal obligations.

Transfer subject to subpart FB

(4) The transfer is treated as a transfer of property on a settlement of relationship property under subpart FB (Transfers of relationship).