

17 March 2011

Income Tax Practice Note 1/2011

Game Farming

Keeping you in the know

Inland Revenue issued an Income Tax Practice Note (1/2011) on Game Farming because of the rapid growth in the game farming industry and to ensure a unified application of the Income Tax Act by all game farmers.



When will you be regarded as a game farmer for tax?

Inland Revenue will apply the same tests for game farmers as for ordinary farming operations. This implies that *bona fide* game farming operations must be conducted and that a person must actually trade with game on a regular basis. Factors that Inland Revenue will consider are regular game acquisitions, regular selling of game, breeding etc. Where a person owns land and occasionally allows hunters to cull game, that person will not be regarded as a game farmer.

Inland Revenue will also require that a game farmer:

- exercise proper control over their game on the farm;
- do annual counts; and
- keep proper records/ registers in respect of the game counts and all permits issued by the Ministry of Environment and Tourism for hunting of game and related products.

Income

Any income, whether or not due to a fortuitous sale of game and game related products, will constitute game farming income and will be taxed as such. Income derived from persons to whom the right is granted to hunt game will also be regarded as game farming income.

Income solely derived from the following activities will not be regarded as game farming income and will be taxed as normal income:

- accommodation and catering on the farm;

- admission charged to persons for spending holidays on the farm; and
- where the farmer or his/her employees act as tour guides for tourists/hunters.

Expenditure

In line with the normal deduction provisions of the Income Tax Act, acquisition of game will only be allowed as a deduction if the expenditure was actually incurred to acquire game.

Stock

Opening and closing stock should be excluded when calculating taxable income from game farming.

Every *bona fide* game farmer will have to include in his or her income tax return, a reconciliation of game. This reconciliation will have to include the following information:

- the number of game sold and purchased;
- the number of game hunted;
- an estimate number of births and deaths;
- the number of game donated; and
- the opening and closing balances of game.

Capital Improvements

Capital improvements (so-called farming capex) incurred during a year of assessment by a game farmer will be allowed as a tax deduction, provided those improvements will be used in connection with game farming operations. Such expenditure includes, for example dams, drinking troughs, boreholes, fences, fire breaks, roads, electrical power, etc. Such expenditure may not exceed the taxable income for a particular year and if it does exceed the taxable income it can be carried forward to a following tax year.

Housing

Expenditure incurred in respect of residential facilities such as bedrooms and dining rooms that are made available to tourists and hunters will not be regarded as game farming expenditure and will not be tax deductible in terms of the above-mentioned paragraph.

Expenditure incurred during the year of assessment by a *bona fide* game farmer in respect of furniture, refrigerators, stoves etc. will be allowed as a deduction against camping fees, accommodation fees and visitors fees, in terms of section 17(1)(e) of the Income Tax Act (i.e. the normal wear & tear provision).

Timing

The practice note is effective from 1 March 2010 in the case of any taxpayer other than a company and in the case of a company, in respect of financial year-ends commencing on or after 1 January 2010.

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