FLOWERDALE ESTATE ALPACAS

Alpaca Farming – Some Financial Considerations.

We asked a leading business and tax advisor to provide a commentary on some important tax aspects of alpaca farming. This is their response.

The farming of alpaca's may in addition to considerable pleasure, provide the opportunity for financial gain through breeding and the sale of fleece. With that financial gain may also come the opportunity to seek taxation deductions from either the revenue of alpaca farming or your other assessable income.

These taxation benefits are not dissimilar to negative gearing in respect to property investment, or the "Collins Street" farming concepts of "normal" farming with cattle, sheep, horses, crops or wine growing subject to various "farming" limitations (see later).

Operating Costs and Deductions.

Subject to the "farming" limitations, taxation deductions would normally be available for items including;

- Agricultural supplies including feed and fertilizing.
- Insurance.
- Shearing.
- Vet Supplies.

In addition interest in respect to any loans taken out to fund your operating costs or acquisition of animals would also usually be available as a deduction against your ncome.

Deductions based on the Averaging Principal.

In respect to your actual expenditure on the acquisition of alpaca's, no deduction is normally available until disposal of the specific animal. While varying methods are available for determining closing stock values, including cost and market, if the animals are not specifically identifiable or the number in the herd makes it impractical to account for them individually, the Taxation Department (ATO) would normally allow the concept of averaging to determine cost.

Averaging is a method by which the cost of stock acquisitions and natural increase are combined and averaged per head to determine an average value. The total number of animals on hand, at the end of the period, then uses this average value for determining the closing total value of stock at the end of the tax year.

Averaging is perhaps best demonstrated by example;

Scenario 1 – Assuming stock was relatively identifiable

			Cost
Purchase	20 “Black” animals		$42,000 (Say $2,100 **1** each)
	10 “White” animals		$30,000 (Say $3,000 **1** each)
Natural increase	12 animals		-
Sell say	3 “Black” animals		
	0 “White” animals		
	3 Natural increase		
	6	Proceeds	$17,000 **2**

Outcome Year 1

Sales	Proceeds	$17,000
Costs	3 Black @ $2,100 cost	$ 6,300
	0 White @ $3,000 cost	-
	3 natural increases	“no cost”
	“Deemed cost of sales”	6,300
Tax profit on sale under identifiable method		**$10,700**

Scenario 2 - Assuming averaging used.

Purchase	20 animals	$42,000 (Say $2,100 **1** each)
	10 animals	$30,000 (Say $3,000 **1** each)
Natural increase	12 animals @ $20 each (Notional value allowed by ATO).	$ 240
	42 animals	$72,240
	Average per head ($27,240/42)	**$ 1,720**
Sell say the same 6 animals – Total proceeds		$17,000 **2**

Outcome Year 1

Sales			$17,000
	Opening stock – Nil		
	Purchases –	$72,000	
		$72,000	
	Closing stock (36 (42 – 6) @ $1,720)	$61,920	
	“Cost of Sales”		$10,080
	Tax profit on sale under averaging		**$ 6,920**

1: *Assumes no practical identifiable distinction in purchase price between the individual animals*
2: *Break up of proceeds not relevant/not required*

As can be seen from the above scenarios, averaging can provide a greater deduction/lesser profit when animals with a relatively low cost price are sold from a herd with a higher average price. Conversely if higher value animals are sold from a herd with a relatively low average price averaging will tend to be disadvantageous.

Any benefits from averaging will only be of a timing nature. In Scenario 2 the closing stock value is effectively “artificially” low because the averaging methodology has “assumed” that the animals sold had a higher average value or conversely, that those still held have a lower average value. The averaging benefit would be reversed once the balance of the stock is disposed of in later period(s).

Various other valuation considerations/options apply in respect to livestock in which you may seek professional guidance.

Eligibility for Deductions.

If your assessable income from non primary production is greater than $40,000, deductions in respect to your “primary production” are available providing the “venture” passes one of the following tests (In the absence of the ATO’s discretion);

1. Assessable income test – assessable income from the activity is at least $20,000 for the year.
2. Profits test – the activity has made a profit (for tax purposes) in at least 3 of the past 5 income years.
3. Real property test – the total value of real property, or interests in real property used on a continuing basis in carrying on the activity is at least $500,000.
4. Other asset test – the total value of other assets (except cars, motorcycles and similar vehicles) used on continuing basis in carrying on the activity is at least $100,000.

With various proviso’s the deductions may be carried forward and set against future assessable income.

Disclaimer

These notes are provided for very general purposes only. They do not purport in anyway to be financial or income tax advice and you should seek you own individual advice from your accountant, legal or business advisor. Nothing within this paper should be taken as an indication of the financial viability or otherwise of acquiring or investing in Alpacas.

Prepared for Flowerdale Alpacas by a qualified business/tax advisor.