

(ix) FARMERS' BREEDING-STOCK SHOULD BE CAPITAL STOCK

The present position is governed by section 16 (1) of the Land and Income Tax Amendment Act, 1939, which states :—

For the purpose of this section the term " trading stock " includes anything produced or manufactured and anything acquired or purchased for the purpose of manufacture, sale, or exchange, and also includes live-stock, but does not include land.

We do not agree that a farmer's live-stock should be regarded as trading stock, which is how it must be classified according to the above section. A farmer acquires his flock of sheep or herd of cattle for the purpose of obtaining from them products for sale. It is from this production that he gains his revenue, or income. He does not buy or sell live-stock for the purpose of buying or selling them, as he would if they were trading stock. Instead, when his ewes become too old, he fattens them and sells them to the works. With the proceeds he purchases new breeding-ewes to maintain his flock. Clearly these stock are his capital which is necessary to produce his goods for sale in the same way as the capital of the manufacturer whose machines produce his revenue. Similarly, the breeding-ewe produces the revenue for the farmer. The same position obtains for the store breeder as for the fattener. The former rears his ewe lambs as replacements for his capital or breeding-stock and has for sale wether lambs and culled ewes from which he derives his revenue. The latter derives his revenue from the sale of old ewes and lambs, less the cost of buying replacement ewes. We consider that a farmer's permanent breeding flock or herd is his capital stock and should be treated accordingly.

Treatment in this way will substantially increase the availability of land for servicemen and younger farmers. At present when a farmer sells his property the difference between the book value of his stock and their market value is added to his income for the year in which he sells. This difference may amount to thousands of pounds. Income-tax is levied on this, in addition to the ordinary taxable income for the year, thus taking away a substantial portion of his capital. The result is that he will not sell and remains on his farm, often to the detriment of both national production and the farm. Treatment of his permanent breeding flock and herd as capital stock would, in our opinion, overcome what we consider to be an injustice and encourage him to sell to a serviceman or younger farmer. The position is more acute at death, when death duties have to be paid in addition to income-tax.

In England a farmer may elect whether to have his flock treated as capital stock or as trading stock, and it has been suggested in evidence before us that this system should be adopted in New Zealand. The Commissioner of Taxes has stated that this system would be cumbersome and unworkable in New Zealand, and we are inclined to agree with his point of view. We are impressed by the views of Mr. R. W. Chaplin, at Gisborne, and of Mr. D. W. Gilbertson, at Hastings, in favour of the recommendations of both of whom we have finally decided.

We recommend, therefore, that the words " and also includes live-stock " should be deleted from section 16 (1) of the Land and Income Tax Amendment Act, 1939. Instead, a farmer's permanent breeding flock and herd should be treated as capital stock. We recommend this as a general principle, realizing that the manifold details involved should be worked out by a committee of experts, including experienced farm accountants.