

**Practice Note: No. 32 – 7 October 1994**  
**Income Tax: Valuation of stock: nurserymen**

1. Persons conducting the business of a nursery in the course of which plants are grown are regarded as carrying on farming operations. Section 26 of the Income Tax Act (the Act) provides that the taxable income of persons carrying on farming operations shall, in so far as such income is derived from such operations, be determined in accordance with the provisions of the Act, but subject to the provisions of the First Schedule thereto.
2. In terms of paragraph 2 of the First Schedule to the Act a farmer is required to include in his income tax return the value of all produce held and not disposed of by him at the beginning and end of each year of assessment. Furthermore, paragraph 9 of the Schedule provides that the value to be placed on such produce shall be such fair and reasonable value as the Commissioner may fix. The value of standing crops (in the case of nurserymen, plants which are not yet ready for sale) must, however, not be included in the valuation.
3. With regard to the valuation of the produce held and not disposed of, a fair value is considered to be the lower of *production cost* or *market value*. It is the responsibility of each nurseryman to decide which of his plants are ready for sale and to value them on this basis. Plants purchased from outside sources as well as fertiliser and other trading stock offered for sale must be included in the stock valuation at the lower of cost price or market value.

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