

**REPUBLIC OF SOUTH AFRICA**  
**SOUTH AFRICAN REVENUE SERVICE**  
**OFFICE OF THE COMMISSIONER FOR THE**  
**SOUTH AFRICAN REVENUE SERVICE**

**PRACTICE NOTE: NO 6/1999**

**DATE: 30 JULY 1999**

**INCOME TAX: GAME FARMING**

1. Due to the rapid growth in game farming and organised hunting expeditions on game farms it has become necessary to explain the South African Revenue Service's practice in regard to these activities.

2. It appears that a large number of farmers are carrying on farming operations with game in addition to other farming operations, and it is almost impossible to distinguish between the two activities.

3. The same tests used to determine whether a person is carrying on ordinary farming operations are applicable to game farming. Where a person who owns land and occasionally allows hunters, for example, to cull the game thereon, such activities cannot, on that account alone, be accepted as constituting farming with game. Such a person will have to convince the Commissioner that game is purchased, sold, bred, etc on a regular basis before the activities can be regarded as bona fide farming operations.

4. Game farming:

4.1 Income

4.1.1 The fortuitous sale of game, game carcasses, skins, etc by a farmer constitutes farming income and is taxable. Income derived from persons to whom the right is granted to hunt game on the farm is also regarded as farming income.

4.1.2 Income from the following activities is not regarded as farming income and therefore separate financial accounts must be submitted:

- Accommodation and catering.
- Admission charged to persons for spending holidays on the farm.
- Where the farmer or his or her employees act as guides for holiday-makers/hunters.

4.2 Stock

4.2.1 Opening and Closing stock

Because of the practical difficulties encountered in establishing the actual number of game livestock on hand at any given time, the prevailing practice of excluding game livestock from opening and closing stock is continued.

4.2.2 Paragraph 8 of the First Schedule to the Income Tax Act, 1962 (the Act)

In view of the fact that game farming has taken on substantial proportions, significant amounts are expended in order to acquire game that is utilised for breeding and hunting purposes, and in order to treat all types of livestock farming on the same basis the provisions of paragraph 8 of the First Schedule to the Income Tax will be applied to game stock acquired. The prevailing practice is therefore withdrawn and the limitations of paragraph 8 of the First Schedule will therefore also be applicable to game acquired with effect from 1 March 1999.

Paragraph 8 of the First Schedule to the Income Tax Act provides that where any farmer during the year of assessment incurred expenditure in respect of the acquisition of livestock, the deduction which may be allowed in terms of section 11(a) or (b) of the Act in respect of the cost price of such livestock will be ringfenced. The purchase price and the value of livestock held and not disposed of by a farmer at the beginning of the year of assessment will be limited to the sum of the income received and accrued to the farmer from farming together with the value of the livestock held and not disposed of by him at the end of the year of assessment.

The balance of the purchase price, if any, will be carried forward to the following year of assessment, where the same principle will be applicable.

The practical implication is illustrated by way of the following example:

		R	R	R
Farming income				50 000
Plus:	Standard value of livestock at the			
	end of the year:			
	other than game	300		
	game	NIL	300	
	Produce			
	Value of produce at the end of the year		2 000	2 300
				52 300
Less:	Standard value of livestock at the			
	beginning of the year:			
	other than game	279		
	game	NIL		
	produce	NIL	279	279
	Amount by which expenditure deductible			52 021
	under section 11(a) or (b) must be limited			
Less:	Expenditure deductible under section 11(a) or	300 000		
	(b) in respect of the acquisition of game			
	livestock			
	Deductible during current year		52 021	
	Transferred to the following year		247 979	

#### 4.2.3 Paragraph 13 and 13A

Game livestock is regarded as livestock if a person is carrying on farming.

It is accepted that where a taxpayer carries on farming operations with game and game has been sold in the circumstances contemplated in paragraphs 13 and 13A of the First Schedule to the Act, the taxpayer

will be entitled to the relief provided for in these paragraphs.

#### 4.3 Expenditure

##### 4.3.1 The following expenditure is regarded as farming expenditure:

Equipment - vehicles, fire-arms, meat saws, two-way radios, etc.

(Depreciation in terms of section 12B).

Facilities - slaughter rooms, meat rooms, cooling rooms, biltong rooms, skin rooms and trophy rooms.

(Allowable in terms of paragraph 12(1) of the First Schedule to the Income Tax Act).

Services - butchers, trackers, professional hunters.

[Running expenses – section 11 (a)].

Promotion and - travelling costs (overseas), advertising material.

Advertising [Running expenses – section 11 (a)].

Other - ammunition, fuel, etc.

[Running expenses – section 11 (a)].

#### 5. Improvements:

Expenditure in respect of dams, boreholes, pumping plants and fencing incurred by a game farmer qualifies as a deduction in terms of paragraph 12(1) of the First Schedule to the Income Tax Act (the Act).

Expenditure on improvements in respect of buildings and the construction of roads and bridges will only be allowed as a deduction if they are being used in connection with farming operations. In this regard the judgements handed down in Special Court cases 23 SATC 336 and 40 SATC 232 can be used as guidelines. Expenditure in respect of facilities which are used to accommodate visitors and hunters will not qualify as expenditure on improvements.

#### 6. Housing for safari-goers and hunters:

Expenditure in respect of residential facilities such as bedrooms, dining-rooms and sitting rooms that are made available to safari-goers and hunters, is not farming expenditure and therefore not deductible in terms of paragraph 12(1) of the First Schedule to the Act. Wear and tear in terms of section 11(e) on beds, furniture, refrigerators, stoves, etc will be allowed as a deduction against camping fees, accommodation fees and visitors fees.

This Practice Note replaces Practice Note No 27 dated 19 August 1994.