Nexia Australia

Valuation of winestock

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Except under special circumstances such as obsolescence, the tax law provides the taxpayer a choice to opt for any one of the following methods to value the trading stock at the end of the income year:

- Its cost; or
- its market selling value; or
- its replacement value

The Taxation Office has taken a view that the absorption cost method is the correct means of ascertaining the cost of trading stock on hand at the end of a year. The cost includes the following:

- Material Costs
- Direct Labour Costs
- Production Overheads Costs

The Taxation Office's Ruling IT 2001 deals with the valuation of wine stocks and states:

- Where a winemaker grows his own grapes, the cost of the winemaker's trading stock should include some of the pre-harvesting costs while arriving at the cost of the stock.
- Costs associated with the establishment of the vineyard, for example, land preparation, propagation and planting costs are not required to be included in the valuation.
- Certain expenses that may require apportionment between the manufacturing and other operations of a business are:
    - Salaries
    - Payroll tax
    - Rates and taxes
    - Motor vehicle expenses
    - Depreciation
    - Superannuation contributions for employees
- Expenses which do not call for apportionment either because they are remote from the manufacturing process or, in the main, are too small in relation to the cost of goods produced would, in most instances, include:
    - Interest
    - Insurance
    - Bank Charges
    - Office supplies and stationery
    - Postage
    - Telephone
    - Subscriptions
    - Licenses and registrations
    - All selling expenses
- Rent paid, unless there are special circumstances indicating the contrary, would be regarded as a financial rather than as a manufacturing charge and may be disregarded in ascertaining the cost of trading stock.
- Storage and handling charges need to be apportioned as these charges play a part in obtaining the finished product to some degree.
- In special circumstances such as partial failure of the grape harvest, the taxpayer can opt for a reasonable basis of valuation.

It is important to also note that the value of a taxpayer's trading stock in its financial accounts is not necessarily its value for taxation purposes. For instance, while under the accounting standard, inventories may be recorded in the financial accounts at either their 'cost' or their 'net realisable value', the tax law does not permit a taxpayer to value articles of trading stock at their 'net realisable value'. Similarly, the income tax law allows two other bases of valuation, namely market selling value and replacement value which are not permitted under the accounting standard.

If you would like further information, or assistance with your wine stock valuations, please contact your local Nexia Advisor.

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