



# Information for primary producers 2021

Work out if you can claim deductions as a primary producer when completing your tax return 2021.

27 May 2021

Information to help primary producers complete their 2021 tax return. A primary producer is an individual, trust or company carrying on a business of primary production, alone or in partnership.

This guide is **not** available in print or as a downloadable PDF.

This information is to help you claim deductions on your 2021 tax return.

## Find out about:

- [Who is a primary producer?](#)
- [Primary production losses](#)
- [Small business entity concessions for primary producers](#)
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**Who is a primary producer?**



**Primary production losses**



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**Who is a primary producer?**

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A primary producer is an individual, trust or company carrying on a primary production business, alone or in partnership. You are a primary producer if you carry on a business undertaking:

- plant or animal cultivation (or both)
- fishing or pearling (or both)
- tree farming or felling (or both)

You need to consider various indicators before you decide if an activity is a business of primary production. **Taxation Ruling TR 97/11 *Income tax: am I carrying on a business of primary production?*** gives a comprehensive explanation of the relevant indicators together with examples of the application of the indicators.

You are not operating a business if the activity is better described as a hobby, a form of recreation or a sporting activity.

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## Primary production losses

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### Non-commercial business losses

Individuals with losses from carrying on non-commercial business activities (either alone or in partnership with others) may be required to defer those losses under the non-commercial business losses (NCL) measures. The NCL measures do not apply if:

- you operate a primary production business and your assessable income from other sources that do not relate to your primary production business is less than \$40,000, excluding any net capital gain

- the sum of your taxable income (ignoring any business losses), reportable fringe benefits, reportable superannuation contributions and total net investment losses, is less than \$250,000 and your business activity satisfies **one of four tests**, or
- the Commissioner of Taxation exercises discretion to allow the loss to be claimed.

If the NCL measures do apply, the loss cannot be claimed in the year it arises. Instead, it is deferred to the next year in which you carry on the business activity or one of a similar kind. The deferred loss is offset against any profit from the activity in that future year. Whether any remaining loss can be offset against other income for that future year will depend on the operation of the NCL measures in that year.

**See also:**

- Non-commercial losses
- Taxation Ruling TR 2001/14 *Income tax: Division 35 – non-commercial business losses*
- Taxation Ruling TR 2007/6 *Income tax: non-commercial business losses: Commissioner's discretion.*

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## Small business entity concessions for primary producers

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If you are a primary producer and are a small business entity, you can choose to access the small business entity concessions that suit your business. You will have to review your eligibility for the concessions each tax year and you may need to satisfy other conditions that apply to a particular concession.

If you are a primary producer and would be a small business entity if the aggregated turnover threshold was less than \$50 million, you can choose to immediately deduct prepaid expenses.

A small business entity may be a sole trader, partnership, company or trust. You can get the latest news and information for small businesses by subscribing to the ATO small business newsroom.

**See also:**

- Eligibility for the small business entity concessions
- Small business entity concessions
- What's new for small business
- Small business newsroom

**In this section:**

- [Simplified trading stock](#)
- [Prepaid expenses](#)
- [Simplified depreciation rules](#)

## Simplified trading stock

Small business entities only need to conduct stocktakes and account for changes in the value of trading stock in limited circumstances (see [Stock on hand](#)).

**See also:**

- Oyster farmers: calculating the value of trading stock

## Prepaid expenses

Small business entities and entities that would have been small business entities if the aggregated turnover threshold was less than \$50 million can claim an immediate deduction for certain prepaid expenses.

**See also:**

- General information about prepaid expenses

## Simplified depreciation rules

If you are an eligible small business entity you may choose to calculate deductions for your depreciating assets using the simplified depreciation rules. These rules include:

- an instant asset write-off for assets that cost less than the relevant threshold
- a general small business pool for assets that cost the same or more than the relevant threshold, which has simplified calculations to work out the depreciation deduction.

A small number of assets are excluded from the simplified depreciation rules and a car limit applies to the cost of passenger vehicles.

If you are a small business entity choosing to use simplified depreciation, the temporary full expensing rules with some modifications apply. You cannot opt out of temporary full expensing for assets that the simplified depreciation rules apply to.

If instant asset write-off and temporary full expensing do not apply to an asset of a small business using simplified depreciation, the backing business investment rules may apply to the asset. If backing business investment rules apply to the asset of a small business using simplified depreciation, it cannot opt out of those rules.

A small business using simplified depreciation must also deduct the balance of their general small business pool for an income year ending between 6 October 2020 and 30 June 2022.

Under the small business entity depreciation rules, the 'taxable purpose proportion' (which includes the proportion the asset is used in your income-earning activities) of the adjustable value and some other costs (see [Depreciating assets generally](#)) of most assets can be deducted. Under these rules:

For each depreciating you purchased any time from 7.30pm (AEST) on 12 May 2015 to before 7.30pm (AEDT) on 6 October 2020 and first used or installed ready for use for a taxable purpose such as for producing assessable income in 2020-21:

- you deduct the business portion of eligible depreciating assets costing less than \$150,000 each (excluding input tax credit entitlements) under instant asset write-off.

For assets you start to hold, and first use (or have installed ready for use) for a taxable purpose any time between 7.30pm (AEDT) 6 October 2020 and 30 June 2022, the instant asset write-off threshold does not apply. You must immediately deduct the business portion of the asset's cost under temporary full expensing.

Under temporary full expensing, you must also claim a deduction for the cost of improvements made from 7.30pm (AEDT) on 6 October 2020 to 30 June 2022 to an asset that you have written off under the simplified depreciation rules (including instant asset write-off) in an earlier income year, provided you have not previously claimed improvement costs to the asset.

If you cease to be a small business entity, or if you choose to stop using the simplified depreciation rules, the rules continue to apply to assets in the general small business pool for the 2021 and later income years. For income years ending between 6 October 2020 and 30 June 2022 you deduct the balance of your small business pool at the end of the income year. Depreciating assets you start to use, or start to have installed ready for use, cannot be added to the general small business pool until an income year in which you are a small business entity or choose to use the simplified depreciation rules.

A small business entity can choose to claim deductions under either the simplified depreciation rules or the uniform capital allowance (UCA) rules for certain depreciating assets used in the course of carrying on a business of primary production. The choice is available for water facilities, fencing assets, fodder storage assets and depreciating assets relating to landcare operations, electricity connections and telephone lines. Once you have made the choice it cannot be changed.

For horticultural plants (including grapevines) you must use the UCA provisions.

**See also:**

- [Guide to depreciating assets 2021](#)
- [Simpler depreciation for small business](#)
- [Temporary full expensing](#)
- [Backing business investment](#)

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- [Deductions for the decline in value of depreciating assets and certain other capital expenditure](#)

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## Deductions for the decline in value of depreciating assets and certain other capital expenditure

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A **depreciating asset** is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used. Some assets are specifically excluded from the definition.

### In this section:

- [Depreciating assets generally](#)
- [Water facilities](#)
- [Tradeable water rights](#)
- [Fencing assets](#)
- [Fodder storage assets](#)
- [Horticultural plants \(including grapevines\)](#)
- [Plants with effective life of three or more years](#)
- [Landcare operations](#)
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## Depreciating assets generally

There is a set of **general rules** for working out deductions for the decline in value of depreciating assets. These rules apply to most depreciating assets used in primary production. However, there are special rules for working out deductions for the decline in value of



some primary production depreciating assets and certain other capital expenditure. Assets that are eligible for the special primary production deductions are not eligible for the temporary full expensing measure.

The decline in value of a depreciating asset starts when you first use it, or install it ready for use, for any purpose (including a private purpose). This is known as a depreciating asset's start time. Although an asset is treated as declining in value from its start time, a deduction for its decline in value is only allowable to the extent it is used for a taxable purpose. Your deduction for the decline in value is reduced to the extent that your use of the asset is for a non-taxable purpose. A taxable purpose includes the purpose of producing assessable income.

Generally, you work out the decline in value of a depreciating asset using either the prime cost or the diminishing value method. Both methods are based on the effective life of an asset. The **Depreciation and capital allowances tool** will help you with the choice and the calculations. For most depreciating assets, you choose whether to self-assess the effective life or use the Commissioner's determination that is in *Taxation Ruling TR 2020/3 Income tax: effective life of depreciating assets (applicable from 1 July 2020)*. You can allocate your low-cost assets and low-value assets to a low-value pool and work out the decline in value of all the assets in the pool in a single calculation.

A low-cost asset is a depreciating asset (excluding a horticultural plant including grapevines) whose cost at the end of the year in which you start to use it, or have it installed ready for use, is less than \$1,000 (excluding input tax credit entitlements). A low-value asset is a depreciating asset that is not a low-cost asset but that has an opening adjustable value of less than \$1,000, and for which you have worked out any available deductions for decline in value for a previous income year under the diminishing value method.

The adjustable value of a depreciating asset is its cost (excluding any input tax credit entitlements) less its decline in value since you first used it or installed it ready for use for any purpose, including a private purpose.

Once you choose to create a low-value pool and a low-cost asset is allocated to the pool, you must pool all other low-cost assets that you start to hold in that income year and in later income years. However, this rule does not apply to low-value assets. You can decide whether

to allocate low-value assets to the pool on an asset-by-asset basis. Once you have allocated an asset to the pool, it remains in the pool.

The following depreciating assets cannot be allocated to a low-value pool:

- assets for which you used the prime cost method to work out any deductions for decline in value for a previous income year
- horticultural plants (including grapevines)
- assets for which you deduct amounts under the simplified depreciation rules
- assets that cost \$300 or less for which you can claim an immediate deduction
- certain depreciating assets used in carrying on research and development activities.

For more information on depreciating assets used in carrying on research and development activities see **Research and development tax incentive**.

## **Tax depreciation incentives**

There are a number of tax depreciation incentives that you may be able to apply. Your eligibility for each of the incentives depends on your aggregated turnover. If more than one incentive could apply to the asset, the order of application is (subject to opt out choices):

- Temporary full expensing
- Instant asset write-off
- Backing business investment

### **See also:**

- [Guide to depreciating assets 2021](#)

## **Water facilities**

A water facility includes plant or a structural improvement, or an alteration, addition or extension to plant or a structural improvement, that is primarily and principally for the purpose of conserving or conveying water. Examples of a water facility are dams, tanks, tank

stands, bores, wells, irrigation channels, pipes, pumps, water towers and windmills.

'Water facility' also includes certain other expenditure incurred on or after 1 July 2004:

- a repair of a capital nature to plant or a structural improvement that is primarily and principally for the purpose of conserving or conveying water. For example, if you purchase a pump that needs substantial work done to it before it can be used in your business, the cost of repairing the pump may be treated as a water facility
- a structural improvement, or an alteration, addition or extension, to a structural improvement, that is reasonably incidental to conserving or conveying water
- a repair of a capital nature to a structural improvement that is reasonably incidental to conserving or conveying water.

Examples of structural improvements that are reasonably incidental to conserving or conveying water include a bridge over an irrigation channel, a culvert (a length of pipe or multiple pipes that are laid under a road to allow the flow of water in a channel to pass under the road) and a fence preventing livestock entering an irrigation channel.

The expenditure on the water facility must be incurred by you primarily and principally for conserving or conveying water for use in your primary production business on land in Australia. You may claim the deduction even if you are only a lessee of the land.

If you incurred the expenditure on or after 7.30pm (AEST), 12 May 2015 you claim the full amount in the year you incurred it.

Your deduction is reduced where the water facility is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose, for example, for producing assessable income.

No deduction is available for capital expenditure incurred to acquire a second-hand commercial water facility unless you can show that no one else has deducted or could deduct an amount for earlier capital expenditure on the construction or previous acquisition of the water facility.

These deductions are not available to a partnership. Costs incurred by a partnership for facilities to conserve or convey water are allocated to

each partner who can then claim the relevant deduction for their share of the expenditure.

Any recoupment of the expenditure may be included in your assessable income. If the expenditure on water facilities is deductible over three income years, special rules apply to determine the amount of any recoupment to be included in assessable income in the year of recoupment and in later income years.

Irrigation water providers are entitled to a deduction for expenditure on water facilities that is incurred on or after 1 July 2004. An irrigation water provider is an entity whose business is primarily and principally the supply (by means other than by the use of motor vehicles) of water to entities, for use in primary production businesses on land in Australia.

If you are a small business entity, you can choose to work out your deductions for water facilities under these UCA rules or the [simplified depreciation rules](#). Once you have made your choice you cannot change it.

**See also:**

- [Guide to depreciating assets 2021](#)

## Tradeable water rights

The states and territories have enacted legislation to enable the trading of water rights. Generally, there are capital gains tax (CGT) and/or general taxation consequences from the sale, transfer or ending of water licences, allocations, quotas and entitlements.

Water rights, such as licences and water allocations, are CGT assets. The permanent trade of a water right constitutes the disposal of a CGT asset. A temporary trade of a water right also constitutes a CGT event, exactly which CGT event will depend on the facts of each case and the rules governing the trade. Whether there are general income tax consequences as a result of trading a water right also depends on your particular circumstances. If you are uncertain, write to us and request a private ruling on how the tax laws apply to your situation.

**See also:**

- [Applying for a private ruling](#)

## Fencing assets

A fencing asset is a fence, and includes; a structural improvement, a repair of a capital nature, or an alteration, addition or extension, to a fence. The expenditure must be incurred by you on the construction, manufacture, installation or acquisition of a fencing asset that is used primarily and principally in a primary production business you conduct on land in Australia. You may claim the deduction even if you are only a lessee of the land.

If you incurred the expenditure on or after 7.30pm (AEST), 12 May 2015 you claim the full amount in the year you incurred it. If you incurred the expenditure before this time (or if the expenditure relates to a stockyard, pen or portable fence), the previous UCA rules that apply to fences continue to apply.

Your deduction is reduced where the fencing asset is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose, for example, for producing assessable income.

No deduction is available for capital expenditure incurred to acquire a second-hand fencing asset unless you can show that no one else has deducted or could deduct an amount for earlier capital expenditure on the construction or previous acquisition of the fencing asset under these rules.

These deductions are not available to a partnership. Costs incurred by a partnership on fencing assets are allocated to each partner who can then claim the relevant deduction for their share of the expenditure.

If you are a small business entity, you can choose to work out your deductions for fencing assets under these UCA rules or the [simplified depreciation rules](#). Once you have made your choice, you cannot change it.

## Fodder storage assets

A fodder storage asset is an asset that is primarily and principally for the purpose of storing fodder. It includes a structural improvement, a repair of a capital nature, or an alteration, addition or extension, to an asset or structural improvement, that is primarily and principally for the purpose of storing fodder.

The expenditure must be incurred by you on the construction, manufacture, installation or acquisition of the fodder storage asset that is used primarily and principally in a primary production business you conduct on land in Australia. You may claim the deduction even if you are only a lessee of the land.

The term 'fodder' refers to food for livestock, usually but not exclusively dried, such as grain, hay or silage. Fodder can include liquid feed and supplements. Examples of fodder storage assets include silos, tanks, bins, sheds and above ground bunkers used to store grain and other animal feed.

You can deduct the capital expenditure you incurred for a fodder storage asset. If you incurred the expenditure:

- **on or after 19 August 2018** – deduct the full cost of the fodder storage asset in the income year you incurred the expense
- **from 7.30pm AEST, 12 May 2015 to 18 August 2018** – deduct one-third of the amount in the income year in which you incurred the expense, and one-third in each of the following two income years
- **before 7.30pm AEST, 12 May 2015** – deduct an amount for its decline in value based on its effective life.

If you incurred the expenditure before 19 August 2018 and the fodder storage asset was first used or installed ready for use on or after 19 August 2018, deduct the full cost of the fodder storage asset in the income year you incurred the expense.

You will need to amend your previous year's tax returns to claim the full cost of the fodder storage asset if:

- the asset was first used or installed ready for use on or after 19 August 2018, and
- you claimed a deduction for part of the cost (for example one-third) in previous years tax returns.

Your deduction is reduced where the fodder storage asset is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose, for example, for producing assessable income.

No deduction is available for capital expenditure incurred to acquire a second-hand fodder storage asset unless you can show that no one

else has deducted or could deduct an amount for earlier capital expenditure on the construction or manufacture of the asset or previous acquisition of the fodder storage asset under these rules.

These deductions are not available to a partnership. Costs incurred by a partnership on fodder storage assets are allocated to each partner who can then claim the relevant deduction for their share of the expenditure.

If you are a small business entity, you can choose to work out your deductions for fodder storage assets under these UCA rules or the [simplified depreciation rules](#). Once you have made your choice, you cannot change it.

## Horticultural plants (including grapevines)

A horticultural plant is a live plant or fungus that is cultivated or propagated for any of its products or parts.

You can claim a deduction for the decline in value of horticultural plants, provided:

- you own the plants; lessees and licensees of land are treated as if they own the horticultural plants on that land
- you use the plants in a business of horticulture to produce assessable income, and
- the expense was incurred after 9 May 1995 (or for grapevines, on or after 1 October 2004).

Your deduction for the decline in value of horticultural plants is based on the capital expenditure incurred in establishing the plants. This does not include the cost of purchasing or leasing land, or expenditure on draining swamp or low-lying land or on clearing the land. It would include, for example:

- the costs of acquiring and planting the seeds
- part of the cost of ploughing, contouring, fertilising, stone removal and topsoil enhancement relating to the planting.

You cannot claim this deduction for forestry plants.

The period over which you can deduct the expenditure depends on the effective life of the horticultural plant. You can choose to work out the effective life yourself or you can use the effective life determined by

the Commissioner, which is listed *Taxation Ruling TR 2020/3 Income tax: effective life of depreciating assets (applicable from 1 July 2020)*.

If the effective life of the plant is less than three years, you can claim the establishment expenditure in full generally in the year in which the products or parts of the plant are first able to be harvested and sold commercially. If the effective life of the plant is three or more years you can write off the establishment costs over the maximum write-off period, which generally commences at the start of what is expected to be the plant's first commercial season. If the plant is destroyed before the end of its effective life you are allowed a deduction in that year for the remaining unclaimed expenses less any proceeds (for example, insurance).

## Plants with effective life of three or more years

### Write-off rates and periods for plants with effective life of three or more years

Effective life	Annual write-off rate %	Maximum write-off period
3 to less than 5 years	40	2 years 183 days
5 to less than 6½ years	27	3 years 257 days
6½ to less than 10 years	20	5 years
10 to less than 13 years	17	5 years 323 days
13 to less than 30 years	13	7 years 253 days
30 years or more	7	14 years 105 days



Where ownership of the horticultural plants changes, the new owner is entitled to continue claiming the balance of the capital expenditure incurred in establishing the plants on the same basis.

If you are a primary producer and a small business entity, you must use the UCA rules to work out your deductions for horticultural plants, as these assets are specifically excluded from the simplified depreciation rules.

## **Landcare operations**

You can claim a deduction in the year you incur capital expenditure on a landcare operation for land in Australia.

The deduction is available to the extent you use the land for either:

- a primary production business, or
- in the case of rural land, a business for the purpose of producing assessable income from the use of that rural land, except a business of mining or quarrying.

You may claim the deduction even if you are only a lessee of the land.

A landcare operation is one of the following operations:

- erecting fences to separate different land classes in accordance with an approved land management plan
- erecting fences primarily and principally to keep out animals from areas affected by land degradation in order to prevent or limit further damage and assist in reclaiming the areas
- constructing a levee or similar improvement
- constructing drainage works (other than the draining of swamps or low-lying land) primarily and principally to control salinity or assist in drainage control
- an operation primarily and principally for eradicating or exterminating animal pests from the land
- an operation primarily and principally for eradicating, exterminating or destroying plant growth detrimental to the land
- an operation primarily and principally for preventing or combating land degradation other than by the use of fences

- an extension, alteration or addition to any of the assets described in the first four dot points or an extension to an operation described in the fifth to seventh dot points.

A landcare operation also includes expenditure incurred on or after 1 July 2004 on:

- a repair of a capital nature to an asset that is deductible under a landcare operation
- constructing a structural improvement that is reasonably incidental to levees or drainage works deductible under a landcare operation
- a repair of a capital nature, or an alteration, addition or extension to a structural improvement that is reasonably incidental to levees (or similar improvements) or drainage works deductible under a landcare operation.

An example of a structural improvement that may be reasonably incidental to drainage works is a fence constructed to prevent livestock entering a drain that was constructed to control salinity.

No deduction is available for capital expenditure on plant, except for plant comprising certain fences, dams or other structural improvements. If the decline in value of plant is not deductible under the landcare provisions, you work out the plant's decline in value using the general rules for working out a decline in value.

Where a levee is constructed primarily and principally for water conservation before 7.30pm 12 May 2015, it is a water facility and no deduction would be allowable under these rules. Its decline in value would need to be worked out under the rules for [water facilities](#).

If you can deduct expenditure under both the carbon sink forests and landcare operation rules, you can only deduct the expenditure as expenditure on carbon sink forests.

Any recoupment of the expenditure may be included in your assessable income.

These deductions are not available to a partnership. Expenses for landcare operations incurred by a partnership are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

Rural land irrigation water providers can claim a deduction for certain expenditure that they incur for a landcare operation. A rural land

irrigation water provider is an entity whose business is primarily and principally supplying water to entities for use in primary production businesses on land in Australia or businesses (except mining or quarrying businesses) using rural land in Australia.

**See also:**

- [Guide to depreciating assets 2021](#)

If you are a small business entity, you can choose to work out your deductions for relevant depreciating assets relating to landcare operations under the UCA rules or the [simplified depreciation rules](#). Once you have made the choice it cannot be changed.

## **Electricity connections and telephone lines**

You may be able to claim a deduction over 10 years for capital expenditure you incur on:

- connecting mains electricity to land on which a business is carried on for a taxable purpose or upgrading an existing connection to that land, or
- installing a telephone line on, or extending to, land on which a primary production business is undertaken.

A recoupment of the deductible expenditure may be included in your assessable income. As the expenditure is deductible over more than one income year, special rules apply to determine the amount of any recoupment to be included in assessable income in the year of recoupment and in later income years.

These deductions are not available to a partnership. Costs incurred by a partnership on connecting mains electricity or installing telephone lines are allocated to each partner, who can then claim the relevant deduction for their share of the expenditure.

If you are a primary producer and a small business entity, you can choose to work out your deductions for relevant depreciating assets relating to electricity connections or telephone lines under the UCA rules or the [simplified depreciation rules](#). Once you have made the choice it cannot be changed.

## Carbon sequestration rights

Farmers and other landowners may manage or plant forests to participate in carbon sequestration activities. The carbon sequestration activities that contribute to greenhouse gas abatement are enabled by state legislation, and are governed by rules under relevant state legislation, related regulations and operating rules.

A carbon sequestration right is a CGT asset. There are CGT consequences of trading in carbon sequestration rights, which will depend on the facts and the manner in which your trade is carried out. For example, selling a carbon sequestration right to another entity before the end of a contract will trigger a CGT event as the sale will result in a change of ownership. A carbon sequestration right, as defined in NSW legislation, is considered to be inherently connected with a primary producer's land and can be an active asset. Therefore any capital gain made by a primary producer from the granting of that right may qualify for the small business concessions if the conditions for those concessions are satisfied.

You are not a primary producer if you plant, manage or establish trees for the sole purpose of carbon sequestration activities and those trees are not intended to be felled in a business of forestry operations; see [Who is a primary producer?](#)

Where you plant and maintain forests in the ordinary course of forestry activities, you may be entitled to a general deduction for the costs of planting and maintaining the forests. You are a primary producer for income tax purposes if you are engaged in 'forest operations' and those activities constitute the carrying on of a business. **Taxation Ruling TR 95/6 *Income tax: primary production and forestry*** outlines the various deductions available to primary producers engaged in forest operations. The deductibility of these expenses is not altered by the fact that you also derive income from carbon sequestration activities carried on in conjunction with forestry activities.

A general deduction is not allowed for the costs of planting trees if the sole purpose is participating in carbon sequestration activities and those trees are not intended to be felled in a business of forestry. This is because the cost of planting in these circumstances is capital expenditure.

Capital expenditure for planting trees may receive other income tax treatment, depending on the context in which the expenditure is

incurred:

- For trees that are regarded as horticultural plants (that is, trees used for the sale of their products or parts), the costs of establishment are written off by reference to the effective life of the plant. Trees that are used solely for carbon credit arrangements are not cultivated or propagated for any of their products or parts and do not constitute horticultural plants for the purpose of applying the horticultural plant deduction under section 40-515 of the *Income Tax Assessment Act 1997*.
- For trees in a carbon sink forest, a deduction in certain circumstances is available for expenditure that you incur in planting or establishing trees primarily and principally for the purpose of carbon sequestration. For trees in a carbon sink forest established in the 2013 and later income years, you can claim a maximum capital write-off of 7% of the expenditure incurred in establishing the trees (conditions apply).
- For trees planted or established as a landcare operation (for example, to combat land degradation), an immediate deduction for establishment costs is available where the costs are incurred primarily and principally for such a landcare purpose.
- For trees and shrubs whose function is purely ornamental, capital expenditure may be deductible under the project pooling provisions, based on the project life.

The UCA provisions do not otherwise provide a deduction for capital expenditure for planting or establishing trees, or treat the trees as depreciating assets.

**See also:**

- Carbon sink forests
- [Landcare operations](#)
- Guide to depreciating assets 2021

**Continue to:**

- [Valuing livestock](#)

# Valuing livestock

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## Stock on hand

You are required to value your livestock at the end of each year as part of determining your net income from primary production.

You can choose to value livestock on hand at the end of the income year at cost, market selling value or replacement value. An additional option is available for certain horse breeding stock.

You may change the basis of valuation year by year and different valuation bases may be adopted for individual livestock. The value of your opening livestock on hand on 1 July 2020 should be the same as the value of your closing stock on 30 June 2020 that you used for your 2019–20 tax return.

## Small business entities

You do not have to value each item of trading stock (including livestock) on hand at the end of 2020–21 or account for changes in the value of your trading stock for 2019–20 if:

- you were a small business entity for 2020–21
- you choose to access the simplified trading stock rules, and
- the difference between the value of all trading stock on hand at the start of 2020–21 and the value you reasonably estimate of all your trading stock on hand at the end of 2020–21 is not more than \$5,000.

However, if you prefer, you can still conduct a stocktake and account for changes in the value of trading stock for 2020–21 even if the difference is not more than \$5,000.

## Oyster farmers

Oyster farmers are required to account for oysters on hand as trading stock. This includes oysters held on sticks, in trays or harvested and held ready for sale.

**See also:**

- Oyster farmers: calculating the value of trading stock

## Bees

Entities carrying on a business of beekeeping for the purpose of honey production are required to account for bees on hand as trading stock. You may be eligible to use a simplified practice of valuing a live hive rather than accounting for the individual bees.

**See also:**

- Beekeepers: calculating the value of trading stock

## Goods taken from stock for private use

If you take goods from stock for your own use, or for the use of your family members, you are required to account for the goods as if the stock had been disposed of at its cost.

This includes the situation where a grazier slaughters livestock for personal consumption or for rations for employees.

## Natural increase

The cost of an animal you hold as livestock that you acquired by natural increase is whichever of these you elect:

- actual cost of the animal, or
- cost prescribed by the regulations
  - cattle, horses and deer \$20
  - pigs \$12
  - emus \$8
  - goats and sheep \$4
  - poultry 35 cents.

If your business involves breeding exotic animals (for example, ostriches or alpacas) phone **13 28 66** to confirm the appropriate cost.

You must value a horse acquired by natural increase and included in livestock on hand at a cost not less than the insemination service fee attributable to acquiring the horse.

**Continue to:**

- [Abnormal receipts](#)

## Abnormal receipts

**In this section:**

- [Grants and subsidies](#)
- [Profit from forced disposal or death of livestock](#)
- [Insurance recoveries](#)
- [Double wool clips](#)

## Grants and subsidies

Generally, amounts received by way of grants or subsidies will be assessable either as ordinary income or statutory income. However, in certain circumstances, a specific grant or payment is considered to be exempt income or non-assessable non-exempt income.

**See also:**

- North Queensland flood recovery package
- Taxation Ruling TR 2006/3 *Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*

## Profit from forced disposal or death of livestock

You can elect to spread profit from the forced disposal or death of livestock over a period of five years. Alternatively, you can elect to defer the profit and use it to reduce the cost of replacement livestock in the disposal year or any of the next five income years. Any unused part of the profit is included in assessable income in the fifth income year.



An election to spread or defer profits can be made where you dispose of the stock, or they die, because:

- land is compulsorily acquired or resumed under an Act
- a state or territory leases land for a cattle tick eradication campaign
- pasture or fodder is destroyed by fire, drought or flood and you will use the proceeds of the disposal or death mainly to buy replacement stock or maintain breeding stock for the purpose of replacing the livestock
- they are compulsorily destroyed under an Australian law for the control of a disease (including bovine tuberculosis) or they die of such a disease, or
- you receive official notification under an Australian law dealing with contamination of property.

## **Insurance recoveries**

Where you have an assessable insurance recovery for loss of livestock or loss by fire of trees that were assets of a primary production business carried on in Australia, you can elect to include the amount in assessable income in equal instalments over five years.

## **Double wool clips**

Tax relief is available in relation to the proceeds of the sale of two wool clips arising in an income year because of an early shearing caused by drought, fire or flood.

A wool grower can elect to defer the profit on the sale of the clip from the advanced shearing to the next year.

**Continue to:**

- [Tax averaging](#)

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## **Tax averaging**

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Tax averaging evens out your income and tax payable over a maximum of five years to allow for fluctuations. This ensures that you do not pay more tax over a number of years than taxpayers on comparable but steady incomes. When your average income is less than your taxable income (excluding capital gains) you receive an averaging tax offset.

When your average income is more than your taxable income (excluding any capital gains) you must pay extra income tax. This is included in the tax assessed.

The amount of the averaging tax offset or extra income tax is calculated automatically and your notice of assessment will show you the averaging details. If you are unsure of this calculation, phone **13 28 66**.

If you wish, you may choose to withdraw from the averaging system for 10 income years and pay tax at ordinary rates. This means you will be taxed on the same basis as taxpayers not eligible for averaging provisions. Once you make this choice, it will affect all your assessments for 10 income years and cannot be revoked. After this period your income will again be subject to tax averaging.

**Continue to:**

- [Farm management deposits scheme](#)

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## Farm management deposits scheme

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The farm management deposits (FMD) scheme is designed to enable primary producers to deal with uneven income flows by making deposits during prosperous years and receiving repayments during less prosperous years.

**Farm management deposit accounts** are commercial products offered by financial institutions and coordinated by the Australian Government Department of Agriculture.

Subject to certain conditions, you can deduct FMDs in the year in which you make them. If any FMDs that you have previously claimed as a tax deduction are repaid, the repayments are treated as assessable income in the year in which they are made.

Amounts that are repaid within 12 months of deposit do not receive concessional treatment unless the repayment is due to a natural disaster or severe drought.

**See also:**

- Farm management deposits scheme
- [FMDs and natural disasters](#)
- [FMDs and severe drought](#)

The following repayments are not assessable:

- reinvested deposits, or extensions of the term of deposits, with the same FMD provider
- merged deposits, provided certain conditions are met
- transfers of the same deposit amount from one FMD provider to another, such as
  - electronic transfers from a liquidated authorised deposit-taking institution (ADI) to a new ADI
  - transfers by the Australian Prudential Regulatory Authority under the Financial Claims Scheme.

The basic rules of the FMD scheme for 2020–21 are:

- the deposit must be made with an FMD provider
- the owner of the deposit must be a primary producer when the deposit is made
- the deposit must be made on behalf of only one person (deposits by two or more persons jointly, or made on behalf of two or more persons, are not recognised as FMDs)

- deposits must be made by 30 June 2021 to qualify for a deduction in 2020–21
- the minimum deposit or repayment is \$1,000 and the total of all deposits held at any one time cannot exceed \$800,000
- interest on FMD is assessable in the income year in which it is paid
- the tax deduction allowed for FMD in any income year is limited to the taxable income derived from a business of primary production in that year
- the amount held in an FMD can be used in an interest offset arrangement (that is, used to reduce the interest payable) on a loan or other debt of the FMD owner relating to the owner's primary production business.

You can hold FMDs with more than one FMD provider. You will need to account for all of your deposits when completing your income tax return and ensure that they do not exceed the maximum \$800,000 (for all deposits).

You cannot claim a deduction for FMDs in 2020–21 if:

- your taxable non-primary production income for 2020–21 exceeded \$100,000
- you became bankrupt during 2020–21, or
- after you made the deposit in 2020–21, you stopped carrying on a primary production business and did not start such a business again within 120 days.

Where a deposit holder died in 2020–21, a deduction is not allowable for any deposits they made in 2020–21.

FMDs do not have to be 12-month fixed term deposits. They can be held in deposits of any term, provided no part of the amount is repaid within 12 months of the date of deposit.

You can withdraw part of a deposit within 12 months of making the deposit without losing the benefit of the tax deduction for the remaining amount. This remaining amount still qualifies for an FMD deduction, provided:

- it remains in the account for at least 12 months, and
- it does not fall below \$1,000.

A deduction is not allowable for the part of the deposit that is repaid.

If you claimed a deduction in 2019–20 for that part of the deposit that is repaid, you need to request an amendment of your assessment for 2019–20.

## **FMDs and natural disasters**

If you were affected by a natural disaster in 2020–21, you can access your FMDs within 12 months of making those deposits, without having to cancel your tax deduction. To be eligible in 2020–21, you must meet **all** of the following requirements. You must have:

- made a relevant deposit before the relevant natural disaster
- received Category C assistance under the Natural Disaster Relief and Recovery Arrangements in the form of a recovery grant for primary producers
- received the first allocation of the recovery grant during the 12 month period after the day in which the deposit was made
- withdrawn the funds from the FMD account after the recovery grant was first provided.


You must keep proof that you received the disaster assistance with your tax records.

## **FMDs and severe drought**

You can access your deposits early, without losing your concessional tax treatment, if you are eligible to claim the drought exception. You are able to claim this exemption if:

- for six consecutive months an area of your primary production property has been affected by rainfall that is within the lowest 5% of recorded rainfall for that area of your property
- publicly available rainfall records held by the Bureau of Meteorology confirm this low rainfall for the period of six months preceding the month in which the repayment is made, and
- for that six month period
  - you held the deposit

- you are not involved solely in primary production industries like fishing, pearling, tree felling or tree transporting.

You can determine if your primary production property meets the rainfall requirements at a particular time by using the [FMD rainfall analyser](#)  on the Department of Agriculture, Fisheries and Forestry website.

To obtain your concessional tax treatment you need to ensure that any repayment of your deposit occurs before the end of the month immediately following that six month drought period.

If you claim the exception you cannot claim a deduction for deposits you made in 2020–21 after the early repayment.

**Continue to:**

- [Worksheet](#)

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## Worksheet

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To help you work out your income from primary production, there is a **worksheet (PDF 132KB)** **This link will download a file.** If you use it, keep the completed worksheet with your other records.

*Business and professional items 2021* explains where amounts from the worksheet, labelled PP1–PP11, should be shown at **P8** on the *Business and professional items schedule 2021*.

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