Capital expenditure

Detailed information about primary producers and capital expenditure.

Landcare operations

Primary producers may be able to claim a deduction for capital expenditure on landcare operations.

Water facilities

Deductions for investing in water facilities can be claimed by primary producers and irrigation water providers.

Fencing and fodder storage assets

Primary producers can claim an immediate deduction for capital expenses on fencing and fodder storage assets.

QC 39652

Landcare operations

Primary producers may be able to claim a deduction for capital expenditure on landcare operations.

Last updated 20 June 2024

Overview

You can claim a deduction for capital expenses on a landcare operation for land in Australia if you're:

- a primary producer
- a business using rural land for a taxable purpose (except when mining or quarrying)
- an irrigation water provider (for expenditure incurred on or after 1 July 2004).

Your deduction will be reduced if you use the land for a non-taxable purpose, such as your home.

For more information on landcare, see:

- Landcare on the Department of Agriculture, Fisheries and Forestry website
- Landcare and riparian maintenance – expenses (PDF, 250KB) fact sheet.

Definitions

Landcare operations

A landcare operation is one of the following:

- Primarily and principally
  - eradicating or exterminating animal pests from the land
  - eradicating, exterminating or destroying plant growth detrimental to the land
  - preventing or combating land degradation (other than by using fences)
  - erecting fences to keep animals out of areas affected by land degradation to prevent or limit the extension or worsening of land degradation in the area and to help reclaim the area
  - constructing drainage works to control salinity or assist in drainage control.

- Erecting fences to separate different land classes in accordance with an approved land management plan.
- Constructing a levee or similar improvement.
- A structural improvement, or altering, adding, extending or repairing a structural improvement, that is reasonably incidental to the construction of a levee or drainage works (only for expenditure incurred on or after 1 July 2004).

Irrigation water provider

An irrigation water provider primarily and principally supplies water to primary producers or to businesses using rural land (except for a mining or quarrying business). Water suppliers who use motor vehicles (for example, water tankers) are not considered irrigation water providers.

Approved land management plan

An approved land management plan:

- shows the different classes within the land and the location of any fencing needed to separate any of the land classes to prevent land degradation
- describes the kind of fencing and how it will prevent land degradation
- has been prepared, and approved in writing, as a suitable plan by an
  - authorised officer of a State or Territory land conservation agency
  - approved farm consultant – contact the Department of Agriculture, Fisheries and Forestry for more information.

You can also find out more about landcare tax benefits.

Claiming deductions

Recouped expenditure

If you recoup any of the money that you have claimed a landcare operations deduction for, you must include it in your assessable income.

Expenditure on plant

You can only claim a deduction under the landcare provisions for capital expenditure on plant if it is on certain fences, dams or other structural improvements as defined in landcare operations.

If you can't claim a deduction under the landcare provisions, you can work out the decline in value using the general rules for **depreciating assets**.

Partnership expenditure

If the costs were incurred by a partnership, a partner can only claim the deduction for their share of the expenditure.

QC 17793

Water facilities

Deductions for investing in water facilities can be claimed by primary producers and irrigation water providers.

Last updated 8 November 2019

You may be entitled to claim a deduction for capital expenditure incurred on a water facility if you are:

- a primary producer
- an irrigation water provider.

Under the accelerated depreciation rules, from 12 May 2015, primary producers can immediately deduct the costs of water facilities. Prior to that, they could deduct the cost of the water facilities over a period of time.

Irrigation water providers can only claim deductions for expenditure incurred on or after 1 July 2004.

You must have incurred the expenditure primarily and principally for the purpose of conserving or conveying water for use in primary production.

Your deduction must be reduced to reflect any time when the facility was not wholly used for a taxable purpose.

Definitions

Irrigation water provider

An irrigation water provider primarily and principally supplies water to primary producers or to businesses using rural land (except for a mining or quarrying business). Water suppliers who use motor vehicles (for example, water tankers) are not considered irrigation water providers.

Water facility

A water facility is 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.

You can't claim a deduction for a swimming pool even though the water is available for emergency use, such as for fire-fighting or irrigation.

Water facilities include:

- dams, earth and underground tanks
- concrete, plastic and metal tanks and tank stands
- bores and wells
- irrigation channels and similar improvements
- pipes and pumps (including those used for fire-fighting)
- water towers and windmills
- extensions and improvements to any of these items.

On or after 1 July 2004, eligible expenditure on a water facility also includes:

- capital repairs to plant or structural improvements which are primarily for the purpose of conserving or conveying water
- a new structural improvement, or an alteration, addition, extension or capital repair to an existing structural improvement, that is reasonably incidental to conserving or conveying water. Examples include a
  - culvert
  - fence to prevent livestock entering an irrigation channel
  - bridge over an irrigation channel.

Claiming deductions

Find out about:

- Deduction amount you can claim
- Recouped expenditure
- Second-hand assets
- If you sell an asset

Deduction amount you can claim

If you incurred capital expenditure on a water facility:

- **after** 7.30pm AEST, 12 May 2015, deduct the **whole amount** in the income year in which the expenditure occurred. This is known as the accelerated depreciation for primary producers rule.
- **before** 7.30pm AEST, 12 May 2015, deduct **one-third** of the amount in the income year in which the expenditure occurred. Then deduct one-third in each of the following two years.

You must reduce your deduction if the water facility was not used only for a taxable purpose.

If the costs were incurred by a partnership, a partner can only claim the deduction for their share of the expenditure.

Recouped expense

Any expense you recoup is included in your assessable income.

If your expense on water facilities is deducted over three income years, special rules apply. These determine the amount of recoupment to include in your assessable income in the year of recoupment and in later income years.

Second-hand assets

If the water facility is a second-hand asset, special rules apply for:

- depreciation
- claiming a deduction under other provisions.

Depreciation

You can't claim a deduction for the depreciation of a second-hand water facility, unless you can prove that no one else has or can deduct an amount for the asset's depreciation.

Claiming under other provisions

Primary producers who are considered a small business entity may choose to use the **small business simplified depreciation rules** to claim a deduction for a second-hand asset.

If you aren't a small business entity and believe you are eligible to claim for second-hand items, including components in otherwise new items, you should apply for a **private ruling**.

If you aren't eligible to claim a deduction for the second-hand asset under either the primary production or small business rules, you can't claim a deduction for the asset.

See also:

- Work out if you are a **small business entity**

If you sell an asset

If you sell an asset for which you can claim a deduction, and the buyer uses the asset wholly to produce assessable income, you can continue to claim the deduction. This includes any deduction you would be entitled to claim in subsequent years.

However, if the buyer does not use the asset to produce assessable income you must apportion your deduction. Examples would include where the buyer used the asset on a hobby farm or for domestic purposes or if you sell it to a dealer.

Proceeds of the sale

If you sell an asset, you can claim a deduction for under the primary production accelerated depreciation rules. The proceeds of the sale are assessable as a capital gain.

You must exclude any amount claimed as a deduction from the cost base of the asset for capital gains tax purposes.

QC 17794

Fencing and fodder storage assets

Primary producers can claim an immediate deduction for capital expenses on fencing and fodder storage assets.

Last updated 8 November 2019

If you are a primary producer, you may be entitled to claim an immediate deduction for capital expenses incurred on fencing and fodder storage assets.

Definitions

Find out about:

- Fence and fencing asset
- Fodder and fodder storage asset

Fence and fencing asset

The term 'fence' has the ordinary meaning. It includes an enclosure or barrier, usually made of metal or wood, around or along a field or paddock.

A fencing asset extends to parts or components of a fence including:

- posts
- rails
- wire

- droppers
- gates
- fittings
- anchor assemblies.

A fencing asset includes a structural improvement, a repair of a capital nature, or an alteration, addition or extension, to a fence.

Fodder and fodder storage asset

A fodder storage asset is an asset that is primarily and principally for the purpose of storing fodder.

A fodder storage asset includes a structural improvement, a repair of a capital nature, or an alteration, addition or extension, to an asset or structural improvement, that is a fodder storage asset.

Fodder

Fodder refers to food for livestock, such as grain, hay or silage. It can include liquid feed and supplements, or any feed that could fit into the ordinary meaning of fodder.

'Primarily and principally' test

For a fodder storage asset to satisfy the 'primarily and principally for the purpose of' test, its main purpose must be to store fodder.

For example, if you built a shed for the purpose of storing hay but occasionally use it to store a neighbour's tractor, it would still meet the 'primarily and principally' test because its main purpose is to store fodder.

However, if you are a cotton farmer and you buy a silo to store seed for sowing, not for animal consumption, the silo does not meet the 'primarily and principally' test. This is because the main purpose of the silo is not to store fodder.

Similarly, if you are a grain farmer and you buy a silo to store a harvest that is designed for human consumption, the silo does not meet the 'primarily and principally' test. This is because the main purpose of the silo is not to store fodder. This is the case even if you end up using the whole harvest to feed your livestock. However, if you are a grain farmer and you grow feed grain and store it in a silo for sale to livestock producers, the silo meets the 'primarily and principally' test because the main purpose of the silo is to store fodder.

If you incur an expense for several purposes, you need to examine the primary and principal function of what is produced by incurring the expense.

For dual purpose assets with integrated, but separate, functions, the primary and principal purpose of the asset must be to store fodder. For example, if you use an asset for both storing fodder and feeding animals, the animal-feeding component must be merely incidental to the asset's primary and principal purpose of storing fodder. It will not meet the requirements of a fodder storage asset if its primary and principal purpose is for feeding animals.

Typical fodder storage assets

Typical examples of fodder storage assets include:

- silos
- liquid feed supplement storage tanks
- bins for storing dried grain
- hay sheds
- grain storage sheds
- above-ground bunkers.

Claiming deductions

Find out about:

- Deduction limits
- Who can't claim under these provisions
- Amounts you can deduct
- Recouped expense
- Second-hand assets
- If you sell an asset

Deduction limits

Your deduction is limited to the capital expenses you incur for:

- construction
- manufacture
- installation
- acquisition.

The expense must have been incurred primarily and principally for use in a primary production business conducted on land in Australia.

Who can't claim under these provisions

You can't claim a deduction for fencing and fodder storage assets under these provisions unless you're a **primary producer**. However, you can still claim deductions when you use fencing and fodder storage assets to produce income. You can claim a fence as capital works and fodder storage assets as either a capital work or depreciating asset.

See also:

- Capital works deductions
- Depreciation and capital expenses and allowances

Amounts you can deduct

Different rules apply for:

- Fencing assets
- Fodder storage assets
- Partnership expenses

Fencing assets

If you incurred a capital expense on a fencing asset:

- **on or after** 7.30pm AEST, 12 May 2015 – claim an immediate deduction in the income year in which you incurred the expense. This is known as the accelerated depreciation for primary producers rule. This **excludes** expenses related to a stockyard, pen or portable fence.
- **before** 7.30pm AEST, 12 May 2015 or the expense relates to a stockyard, pen or portable fence – deduct an amount for its decline in value based on its cost and **effective life**.

Fodder storage assets

How you can claim a deduction for a capital expense on a fodder storage asset depends on when the expense was incurred:

- If the expense was incurred on or after 19 August 2018, you can immediately deduct the cost in the income year you incurred it.
- If the expense was incurred before 19 August, but the asset was first used or installed ready for use on or after 19 August 2018, you can immediately deduct the cost in the income year you incurred it. If you already claimed a partial deduction in a previous income year but the asset was not first used or installed ready for use until on or after 19 August 2018, you will need to amend the previous year's tax return to claim a deduction for the full amount in the year you incurred the expense.
- If the expense was incurred between 7.30pm AEST, 12 May 2015 and 18 August 2018, you can 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
- If the expense was incurred before 7.30pm AEST, 12 May 2015, you can deduct an amount for its decline in value based on its cost and effective life.

Example: immediate deduction applies

Hamish is a beef cattle farmer. In July 2018, Hamish spent $30,000 on a new grain shed to store grain to feed his cattle. The grain shed was delivered and installed ready for use in September 2018.

As the shed was ready for use **after** 19 August 2018, Hamish will claim the full amount in his 2018–19 tax return.

Example: partial deduction already claimed

Peter has a sheep farm. In April 2017, he spent $48,000 on a new hay shed to store fodder for his sheep. The shed wasn't installed ready for use until September 2018.

> Peter claimed a $16,000 deduction in his 2017 tax return (one-third of the expense). He intended claiming a further $16,000 in his 2018 and 2019 tax returns.
>
> However, under the new law, Peter will need to amend his 2017 tax return to claim a deduction for the full cost of the hay shed in the 2017 income year.

Partnership expenses

These deductions are not available to a partnership. If the costs were incurred by a partnership, a partner can only claim the deduction for their share of the expenditure.

You must reduce your deduction if the asset was not wholly used to carry on a primary production business or for a taxable purpose.

Recouped expense

Any expense you recoup is included in your assessable income.

If your expense on fodder storage assets is deducted over three income years, special rules apply. These determine the amount of recoupment to include in your assessable income in the year of recoupment and in later income years.

Second-hand assets

If the asset is a second-hand asset, the following rules apply for:

- Depreciation
- Claiming under other provisions

Depreciation

You can't claim a deduction for the depreciation of a second-hand fencing or fodder storage asset under the primary production accelerated depreciation rules, unless you can prove that no one else has deducted (or can deduct) an amount for the asset under these rules.

See also:

- Accelerated depreciation for primary producers

Claiming under other provisions

Primary producers who are considered a small business entity may choose to use the small business simplified depreciation rules to claim a deduction for a second-hand fencing asset or fodder storage asset.

If you aren't a small business entity and believe you are eligible to claim for second-hand items, including components in otherwise new items, you should apply for a private ruling.

If you aren't eligible to claim a deduction for the second-hand asset under either the primary production or small business rules, you can't claim a deduction for the asset at all.

See also:

- Work out if you are a small business entity
- Small business simplified depreciation rules
- Private ruling

If you sell an asset

If you sell an asset, you can claim a deduction for under the primary production accelerated depreciation rules, and the buyer uses the asset wholly to produce assessable income, you can continue to claim the deduction. This includes any deduction you would be entitled to claim in subsequent years.

However, if the buyer does not use the asset to produce assessable income you must apportion your deduction. Examples would include where the buyer uses the asset on a hobby farm or for domestic purposes or if you sell it to a dealer.

Proceeds of the sale

If you sell an asset for which you have deducted (or can deduct) an amount under the primary production accelerated depreciation rules, the proceeds of the sale are assessable as a capital gain.

The cost base of the asset for capital gains tax purposes does not include any amount that you deducted (or can deduct) under those rules.

See also:

- Primary production accelerated depreciation rules

QC 47131

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