Information for primary producers

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Who is a primary producer?

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 of:

- cultivating or propagating plants, fungi or their products or parts—including seeds, spores, bulbs and similar things—in any physical environment
- maintaining animals for the purpose of selling them or their bodily produce—including natural increase
- manufacturing dairy produce from raw material that you produced
- conducting operations relating directly to taking or catching fish, turtles, dugong, bêche-de-mer, crustaceans or aquatic molluscs
- conducting operations relating directly to taking or culturing pearls or pearl shell
- planting or tending trees in a plantation or forest that are intended to be felled
- felling trees in a plantation or forest, or
- transporting trees or parts of trees that you felled in a plantation or forest to the place:
  - where they are first to be milled or processed, or
  - from which they are to be transported to the place where they are first to be milled or processed.

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. To find out how to get this publication, see page 7.

Primary production losses

Deferral of non-commercial business losses

From 1 July 2000, new laws apply to individuals with losses from carrying on non-commercial business activities (either alone or in partnership with others). These new laws do not apply if you operate a primary production business and your assessable income (except any net capital gain) from sources that do not relate to that business is less than $40 000. The new laws will also not apply where:

- the individual's business activity satisfies one of 4 tests or
- the Commissioner of Taxation exercises his discretion to allow the loss to be claimed.

Where the new laws do apply, the loss cannot be claimed in the year in which it arises. Instead, it is deferred to the next year in which the business activity is carried on and the loss is offset against any income from the activity in that year. Whether any remaining loss can be offset against other income will depend on the operation of the new laws in that year.

NOTE For further information, see *Taxation Ruling TR 2001/14—Income tax: Division 35—non-commercial business losses* or visit the Australian Taxation Office (ATO) website at <**www.taxreform.ato.gov.au**>.

The Simplified Tax System

The Simplified Tax System (STS) commenced on 1 July 2001 and applies to assessments for income years starting on or after that date.

The STS is an alternative method of determining taxable income for eligible small businesses with straightforward financial affairs. To be eligible to be an STS taxpayer for an income year, you must satisfy 3 requirements. You must:

- carry on a business in that year
- have an STS average turnover for that year of less than $1 million (including the turnover of any entities that are grouped with you)
- together with any grouped entities, hold depreciating assets with a total adjustable value at the end of the year of less than $3 million.

'Grouping rules' operate to prevent ineligible businesses from structuring or restructuring their affairs to take advantage of the STS.

Participation in the STS is optional. If you are eligible and decide to enter the STS in an income year, you make an election on your income tax return for that year. You must review your eligibility each year. The STS has 3 elements:

- a **cash accounting method** that recognises most business income and expenses only when they are received and paid
- **simplified trading stock rules** where businesses only need to conduct stocktakes and account for changes in the value of trading stock in limited circumstances
- **simplified depreciation rules** where depreciating assets costing less than $1000 each (excluding input tax credit entitlements) are written off immediately. Most other depreciating assets are pooled and deducted at a rate of 30 per cent for the general STS pool or 5 per cent for the long-life STS pool for depreciating assets with an effective life of 25 years or more.

NOTE There are special rules under the uniform capital allowance system (UCA) for working out the decline in value of certain depreciating assets used by a taxpayer in the course of carrying on a business of primary production, such as those applying to landcare operations, water facilities, electricity connections and telephone lines. For these assets, you can choose whether to use the STS provisions or the UCA provisions. However, the cost of horticultural plants (including grapevines) cannot be deducted under STS depreciation rules.

STS taxpayers can also claim an immediate deduction for certain prepaid expenses.

Deductions for the decline in value of depreciating assets

DEFINITIONS

A depreciating asset is an asset with a limited effective life which declines in value over that life.

Decline in value (previously 'depreciation') is the value that an asset loses over its effective life.

From 1 July 2001, the UCA applies to most depreciating assets, including those acquired before that date. The UCA consolidates a range of former capital allowance provisions, including those relating to plant and equipment. It does this by providing a set of general rules that applies across a variety of depreciating assets and certain other capital expenditure.

You now calculate deductions for the decline in value of depreciating assets using these rules. You can deduct an amount equal to the decline in value for the period that you hold a depreciating asset during the year of income. However, your deduction is reduced to the extent you use the asset, or have it installed ready for use, for other than a taxable purpose. A taxable purpose includes the purpose of producing assessable income.

You work out the decline in value of a depreciating asset using either the prime cost or diminishing value method. Both methods are based on the effective life of an asset. For most depreciating assets, you choose whether to self-assess the effective life or to use the Commissioner's determination which can be found in *Taxation Ruling TR 2000/18—Income tax: depreciation effective life*.

Under the UCA, you can allocate low-cost assets and low-value assets you hold to a low-value pool. A **low-cost asset** is a depreciating asset whose cost as at the end of the year in which you start to use it is less than $1000 (excluding input tax credit entitlements). A **low-value asset** is a depreciating asset that is not a low-cost asset but which has an opening adjustable value of less than $1000, and for which you have calculated any available deductions for decline in value for a previous income year under the diminishing value method.

Adjustable value of a depreciating asset is its cost less its decline in value since you first used it or installed it ready for use for any purpose, including a private purpose.

For more information, see the publication *Guide to depreciating assets* (to find out how to get this publication, see page 7) or fact sheets dealing with business tax reform and capital allowances from the ATO website at <**www.taxreform.ato.gov.au/general/pubs.htm**>.

Landcare operations

Landcare operations cover what were previously known as land degradation measures. You can claim a deduction in the year you incur capital expenditure on a landcare operation for land in Australia.

The deduction is available where the land is used wholly for either:

- a primary production business or
- a business for the purpose of producing assessable income from the use of rural land—except a business of mining or quarrying

and is reduced to the extent it is not.

A landcare operation is one of the following operations:

- 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 the use of fences
- erecting fences to keep out animals from areas affected by land degradation to prevent or limit further damage and assist in reclaiming the areas
- erecting fences to separate different land classes in accordance with an approved land management plan
- constructing a levee or similar improvement
- constructing drainage works—other than the draining of swamps or low-lying areas—to control salinity or assist in drainage control.

No deduction is available if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements.

In each case, apart from the construction of a levee, the operation must be carried out primarily and principally for the purpose stated. This is to ensure that the deduction for expenditure on landcare operations and the 3-year write-off for water facilities cannot both be claimed for the same item of expenditure. Where a levee is constructed primarily and principally for water conservation, it is a **water facility** (refer below).

If you are carrying on a primary production business on the land, you may claim the deduction even if you are only a lessee of the land.

Any recoupment of the expenditure would be 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.

Water facilities

A water facility is plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water. The expenditure must be incurred primarily and principally for conserving or conveying water for use in a primary production business on land in Australia.

You can claim a deduction for the decline in value of a water facility in equal instalments over 3 years.

Items in relation to which deductions are available include dams, earth tanks, underground tanks, concrete or metal tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, windmills and extensions or improvements to any of these items.

If you are carrying on a primary production business on the land, you may claim the deduction even if you are only a lessee of the land.

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

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

Any recoupment of the expenditure would be assessable income. As the expenditure on water facilities is deductible over 3 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.

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 in respect of their share of the expenditure.

Landcare and water facility tax offset

The landcare and water facility tax offset is not available for expenditure incurred after the end of the 2000–01 income year.

However, the water facility tax offset of 30 cents in the dollar may be available in 2001–02 for one-third of the eligible expenditure you incurred in 1999–2000 or 2000–01 on facilities to conserve or convey water. The water facility tax offset is available only if you chose to claim a tax offset over 3 years instead of a deduction for that expenditure. The tax offset is based on one-third of the eligible expenditure and is available in the year the expenditure is incurred and in each of the next 2 years.

The water facility tax offset could only be chosen instead of a deduction for up to $5000 of eligible expenditure on facilities to conserve or convey water.

To have been entitled to choose this tax offset, your taxable income in the year the expenditure was incurred must have been:

- $20 700 or less, if that year was 1999–2000; or
- $20 000 or less, if that year was 2000–01,

after notionally deducting the amount that you would have claimed for eligible expenditure if you had not chosen the tax offset. Also the expenditure must have been incurred to conserve or convey water for use in a primary production business you conduct on land in Australia.

NOTE The landcare and water facility tax offset is a carry-forward, non-refundable tax offset. This means you can carry forward indefinitely any excess tax offset, after tax liabilities are met, to use against future income tax liabilities. Before the tax offset can be applied in a later income year, it must be successively reduced by any unused net exempt income derived in the year the tax offset arose and any subsequent income year—providing you had a taxable income in that year. The tax offset is reduced by 34 cents for each dollar of net exempt income.

Certain other capital expenditure

You can claim a deduction in equal instalments over 10 years for capital expenditure incurred in connecting:

- mains electricity to land on which a business is carried on or in upgrading an existing connection to that land, or
- a telephone line to land being used to carry on a primary production business.

Any recoupment of the deductible expenditure would be 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 for mains electricity supply or telephone lines are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

Drought investment allowance

NOTE The drought investment allowance is not available where the expenditure was incurred or construction commenced after 30 June 2000.

The drought investment allowance provided a one-off deduction of 10 per cent of capital expenditure incurred in buying or building new items of drought mitigation property to be used wholly and exclusively in Australia for producing assessable primary production income. The expenditure on each item must have been at least $3000 and it must have been incurred or the construction commenced after 23 March 1995 and before 1 July 2000. The deductions, which are limited to $5000 for any one year, are allowable for the income year when the item is first used or installed ready for use and this must have been before 1 July 2001. In many cases the deduction is available in addition to other deductions allowable in respect of the expenditure.

The deduction can be lost or reduced if, within 12 months:

- the item is used outside Australia or for a purpose other than producing assessable primary production income

- the item or an interest in it is disposed of
- the item is lost or destroyed, or
- the right to use the item is transferred to another entity.

The deduction can also be lost where the item is disposed of, or the right to use it is transferred, after 12 months and it was bought or built with the intention of disposing of it or transferring the right to use it.

An amount may be assessable to a partner if that partner disposes of an interest in the partnership or in the item within 12 months, or if there is a later disposal and at the time the item was bought or built there was an intention to dispose of the interest.

Drought mitigation property is:

- a fodder storage facility—a building or other structure used exclusively to store grain, hay or fodder
- a water storage facility—a dam, earth tank, underground tank or above-ground tank or a base, stand or cover for such a tank or any other structure or improvement used under an approved water conservation plan in relation to land to store water predominantly for livestock
- a water transport facility—a bore or well, a pump or windmill, a pipe, a water tower or header tank, or any other structure or improvement used under an approved water conservation plan in relation to land to transport water
- minimum tillage equipment—for example, trash tillage implements, boom sprays and markers, zero and reduced tillage planters, trash seeders, deep ploughs and seed drills—used in planting and cultivation that involves no tillage of the soil or in which the tillage does not seriously affect soil structure and retains a high degree of organic matter or surface cover.

Any recoupment of the expenditure would be assessable income. In working out the assessable recoupment, you are treated as having received only 10 per cent of the amount recouped where the drought investment allowance is the only deduction available for the expenditure.

Leasing companies that lease drought mitigation property to primary producers could qualify for drought investment allowance. Amongst other requirements, the lessee must use the drought mitigation property only in Australia to produce assessable primary production income and the lease term must be for at least 4 years. The leasing company deduction is limited to $5000 per item. The leasing company could transfer its deduction for drought mitigation property to a primary producer lessee provided certain criteria are met.

Establishment costs of grapevines

The decline in value of grapevines is calculated at a specified rate of 25 per cent, provided you own the land to which the grapevines are affixed, or the grapevines are established on Crown land held under lease. If you are not entitled to calculate your deduction for decline in value under the provisions relating to grapevines because these conditions are not met, a deduction may be available for decline in value under the provisions relating to **horticultural plants** (refer below).

Capital expenditure incurred in establishing grapevines does not include expenditure in draining swamps or low-lying land or in clearing land but it would include—for example, the cost of:

- preparing the land—ploughing and topsoil enhancement
- planting the vine itself
- the vine.

Capital expenditure is written off pro rata over a period of 4 years from the time the grapevines are established by the entity that owns them and uses them in a primary production business to produce assessable income. If ownership of the grapevines changes, the remaining deduction is available to the new owner while the grapevines are used in a primary production business. If a grapevine is destroyed before the end of the write-off period, you are allowed a deduction in that year for the remaining unclaimed expenses less any proceeds—for example, insurance.

Any recoupment of the expenditure would be 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 in establishing grapevines are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

Establishment costs of horticultural plants

You are allowed a deduction for capital expenditure on establishing 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 them in a business of horticulture to produce assessable income
- you incurred the expense after 9 May 1995.

The deduction does not include expenditure on the initial clearing of the land. It may 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 are not allowed this deduction if you claimed the establishment expenses under any other deduction provisions. 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 or you can

use the effective life determined by the Commissioner, which applies from 1 January 2001 and is shown in *Taxation Ruling TR 2000/18—Income tax: depreciation effective life*.

If the effective life of the plants is less than 3 years, you can claim the establishment costs in full in the year you first used the plants to produce assessable income.

If the effective life of the plants is 3 or more years, you can write off the establishment costs over the maximum write-off period from the date the plants were first used for producing assessable income. If the plants are destroyed before the end of their 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 3 or more years

	Annual write-off rate	Maximum write-off period
3 to less than 5 years	40%	2 years 183 days
5 to less than 6 $^{2}/_{3}$ years	27%	3 years 257 days
6 $^{2}/_{3}$ 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 these expenses on the same basis.

Any recoupment of the expenditure would be assessable income. Where 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 in establishing horticultural plants are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

Valuing livestock

Stock on hand

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 in respect of individual items of livestock. At 1 July 2001, the value of livestock on hand should be the same as the assessed value at 30 June 2001.

Stock killed for rations or exchanged for goods and services

In these circumstances, you are treated as if you had disposed of the stock at its cost.

Natural increase

Natural increases of stock during the year can be valued at cost, market selling value or replacement value.

Cost is whichever of the following 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—ring the ATO 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.

If you are eligible and elect to enter the STS, you only need to account for changes in the value of your trading stock (including livestock) if the value of all your stock on hand at the start of the income year and a reasonable estimate of the value of all your stock on hand at the end of the income year varies by more than $5000.

Abnormal receipts

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 5 years (or 10 years if the forced disposal was in relation to the control of bovine tuberculosis). Alternatively, you can elect to defer the profit and to use it to reduce the cost of replacement livestock in the disposal year or any of the next 5 income years, any unused part of the profit being included in assessable income in the 5th income year.

An election to spread or defer profits can be made where:

- 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 the proceeds of the disposal or death will be used mainly to buy replacement stock or to maintain breeding stock for the purpose of replacing the livestock
- livestock are compulsorily destroyed under an Australian law for the control of a disease (including bovine tuberculosis) or they die of such a disease, or
- official notification is received under an Australian law dealing with contamination of property.

Insurance recoveries

Insurance recoveries for loss of livestock or for loss by fire of trees that were assets of a primary production business carried on in Australia may, following an election, be included in assessable income in equal instalments over 5 years.

Double wool clips

Tax relief is available in relation to the proceeds of the sale of 2 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 wool clip from the advanced shearing to the succeeding year.

Tax averaging

Tax averaging enables you to even out your income and tax payable over a maximum of 5 years to allow for good and bad years. 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 a complementary amount of tax which is included in the tax assessed. The amount of the averaging tax offset or complementary tax is calculated automatically and your notice of assessment will show you the averaging details. If you are unsure of this calculation, ring the ATO.

If you wish, you may choose to withdraw permanently from the averaging system and pay tax at ordinary rates. However, once you have made this choice, it will affect all your assessments for subsequent years and cannot be revoked. This means you will be taxed on the same basis as taxpayers not eligible for averaging provisions.

Farm Management Deposits Scheme

The scheme is designed to reduce fluctuations in primary producers' incomes. Income can be deposited during prosperous years and withdrawn during less prosperous years. Farm management deposits (FMDs) are deductible in the year in which they are made. If you withdraw FMDs for which you have previously claimed a tax deduction, the withdrawals are treated as assessable income in the year in which they are made. To retain the tax benefits of an FMD, no part of the deposit can be withdrawn in the first 12 months after it is deposited.

The basic rules of the scheme are:

- The owner of the deposit must be a primary producer when the deposit is made.
- The deposit must be made by a singular person. Deposits by 2 or more persons jointly or made on behalf of 2 or more persons will not be recognised as an FMD.
- FMDs must be made by 30 June to qualify for a deduction in that income year.
- The minimum deposit or withdrawal is $1000; the total of all deposits held at any one time cannot exceed $300 000.
- Interest on FMDs is assessable in the income year in which it is paid.
- The tax deduction allowed for FMDs—including interest reinvested—in any income year is limited to the taxable income derived from a business of primary production in that year.
- You cannot claim a deduction for an FMD if your other non-primary production income is greater than $50 000.

FMDs are a commercial product offered by suitable financial institutions but coordinated by the Commonwealth Department of Agriculture, Fisheries and Forestry—Australia (AFFA). If you require more information or advice, contact your financial adviser or ring AFFA on freecall **1800 808 869** or log onto the AFFA FMD homepage at <**www.affa.gov.au/fmds/australia**>.

Additional information

The *Partnership and trust tax returns instructions*, *Company tax return instructions* and *TaxPack 2002* have additional information for primary producers. If they are relevant to your circumstances, use them with this publication. To find out how to get these publications, see below.

Publications

To get any publication referred to in this booklet:

- visit the ATO website at <**www.ato.gov.au**>
- ring our Publications Distribution Service on **1300 720 092** for the cost of a local call or
- visit the ATO.

Publications referred to in this booklet include:

- *Taxation Ruling TR 97/11—Income tax: am I carrying on a business of primary production?*
- *Taxation Ruling TR 2001/14—Income tax: Division 35—non-commercial business losses*
- *Guide to depreciating assets* (NAT 1996—6.2002)
- *Taxation Ruling TR 2000/18—Income tax: depreciation effective life*
- *Partnership and trust tax returns instructions* (NAT 2297—6.2002)
- *Company tax return instructions* (NAT 0669—6.2002)
- *TaxPack 2002* (NAT 0976—6.2002)
- *Business and professional items* (NAT 2543—6.2002).

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Gross income from primary production—worksheet for 2001–02

Note: Labels **P1**, **P2**, **P6**, **P7** and **P10** in the right hand margin are referred to in the publication *Business and professional items*. They identify amounts to be used in your calculations or transferred to your tax return.

Livestock account

Livestock account	Sheep		Cattle		Pigs		Other livestock Type:		TOTALS	
Selected value for natural increase	$		$		$		$			
Section 1	Number	Value $	Number	Value $	Number	Value $	Number	Value $	Value $	
Gross sales										
Killed for rations or exchanged for other goods or services										
Stock on hand 30 June 2002 at cost/replacement/market/other value (Strike out what does not apply.)										**P1**
Losses by death										
Total of section 1 Total numbers should agree with total numbers in section 2										
Section 2										
Stock on hand 1 July 2001 at cost/replacement/market/other value (Strike out what does not apply.)										**P2**
Purchases—at cost										
Natural increase—selected value to be shown above										
Total of section 2 Total numbers should agree with total numbers in section 1										
Gross profit or loss										
Deduct total value of section 2 from total value of section 1										**P3**

Produce account

For produce other than wool or wheat, write the nature of the produce here	Wool $	Wheat $	Other produce $	TOTALS	
Gross sales—include the sale of skins and hides under **Other produce**					**P4**
Value of produce exchanged for other goods or services or taken from business for private use or for use by employees					**P5**
Value of produce on hand at 30 June 2002—include the value of skins and hides under **Other produce**					**P6**
Subtotal					
Less value of produce on hand at 1 July 2001					**P7**
Gross profit or loss					**P8**

Other primary production income

		$	TOTAL Other primary production income Add (a) to (e) $	
Net profit from share-farming—keep details	(a)			
Bounties, subsidies, drought relief grants etc.	(b)			
Income from—for example, pearling, fishing and forest operations, including value of produce from such operations exchanged for other goods or services, or taken from business for private use or for use by employees	(c)			
Insurance amounts received for loss of livestock, produce or profits	(d)			
Income from discounts, rebates, sundry credits and bad debts recovered	(e)			**P9**

Gross income or loss from primary production—add items **P3**, **P8** and **P9** **P10**

DO NOT ATTACH THIS PAGE TO YOUR TAX RETURN—KEEP IT AS YOUR RECORD