



Information for primary producers 2015

A primary producer is an individual, a trust or a company carrying on a business of primary production.

12 November 2015

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

This information is to help you claim deductions on your 2015 tax return.

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.

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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, 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:

- 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 entities

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Small business entities have access to a range of tax concessions. Broadly, you are a small business entity if you carry on a business and have an aggregated turnover of less than \$2 million.

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

See also:

- Small business entity concessions

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Eligibility

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You are a small business entity if you carry on a business and your business turnover ('aggregated turnover') is less than \$2 million. There are three ways you can satisfy the \$2 million aggregated turnover requirement for the current year. You can use:

1. your aggregated turnover for the previous income year
2. an estimate of your aggregated turnover for the current income year (worked out as at the first day of the income year), or
3. your actual aggregated turnover for the current income year (worked out as at the end of the current income year).

You can only use the second method to estimate your turnover if your aggregated turnover for one of the previous two income years was less than \$2 million.

Aggregated turnover is your annual turnover plus the annual turnovers of any entities that are connected with you or that are affiliates of yours at any time during the income year. For more information, see [What are the aggregation 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](#)).

Simplified depreciation rules

If you are an eligible small business entity, you may choose to calculate deductions for your depreciating assets using these rules.

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 description below under **Depreciating assets generally**), of most:

- depreciating assets costing less than \$20,000 each (excluding input tax credit entitlements), acquired from 7.30pm on 12 May 2015 and first used or installed ready for use between 7.30pm on 12 May 2015 and 30 June 2017, can be written off immediately
- other depreciating assets are pooled in a general small business pool and deducted at the rate of 30%
- newly acquired assets are deducted at 15% (half the pool rate) in the first year, regardless of when they were acquired during the year.

The balance of the general small business pool is also immediately deducted if the balance is less than \$20,000 at the end of an income year that ends on or after 12 May 2015 and on or before 30 June 2017.

If you cease to be a small business entity or choose to stop using the simplified depreciation rules, the rules continue to apply to assets in the general small business pool for the 2015 and later income years. 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 2015 (NAT 1996).

Prepaid expenses

Small business entities can also claim an immediate deduction for certain prepaid expenses.

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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.

Depreciating assets generally

There is a set of general rules for working out deductions for the decline in value of depreciating assets.

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 **Decline in value calculator** 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 2014/4 Income tax: effective life of depreciating assets (applicable from 1 July 2014)*. 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 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 and a horticultural plant). 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
- 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**.

These rules for working out the decline in value 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.

See also:

- **Guide to depreciating assets 2015.**

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 before 7.30pm (AEST), 12 May 2015 you can claim a deduction for the decline in value of a water facility in equal instalments over three income years. If you incurred the expenditure after this time, 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. As 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.

See also:

- [Guide to depreciating assets 2015](#).

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.

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.

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 from 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
- 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' takes its ordinary meaning and refers to food for livestock. It is usually dried like grain, hay or silage but can include liquid feed supplements. Examples of fodder storage assets include silos, tanks, bins, sheds and above ground bunkers used to store grain and other animal feed.

If you incurred the expenditure from 7.30pm (AEST), 12 May 2015 you can claim a deduction for the decline in value of a fodder storage asset in equal instalments over three income years. If you incurred the expenditure before this time, the previous UCA rules that apply to fodder storage assets continue to apply.

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
- 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 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

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
- the expense was incurred after 9 May 1995.

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 ATO, which is listed *Taxation Ruling 2014/4 Income tax: effective life of depreciating assets (applicable from 1 July 2014)*.

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

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 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 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.

Grapevines

The specific rules for working out the decline in value of grapevines only apply to grapevines that are planted and first used by you in a primary production business before 1 October 2004. If a grapevine is planted and first used by you in a primary production business on or after 1 October 2004, the decline in value of the grapevine is worked out under the provisions relating to horticultural plants; see Horticultural plants in the previous column.

Grapevines planted before 1 October 2004

The decline in value of grapevines is calculated at a specified rate of 25%, provided you either:

- own the grapevines

- established them on your leased Crown land that you use in a primary production business.

Capital expenditure is written off pro rata over a period of four years from the time you first use the grapevines in a primary production business to produce assessable income.

If you are not entitled to work out your deduction for the decline in value under the provisions relating to grapevines because these conditions are not met, a deduction may be available for the decline in value under the provisions relating to horticultural plants.

Grapevines planted on or after 1 October 2004

If a grapevine was planted and first used by you in a primary production business on or after 1 October 2004, the decline in value of the grapevine is worked out under the provisions relating to horticultural plants.

Under these provisions, deductions for the decline in value of a grapevine planted on or after 1 October 2004 can only be claimed from the income year in which the grapevine's first commercial season starts, not when it is first used in a primary production business.

The decline in value of a grapevine will not be worked out at an annual rate of 25%, but will be based on the effective life of the grapevine.

We have determined effective lives for grapevines as follows:

Horticultural plants	Effective life (years)
Grapevines: dried	15
Grapevines: table	15
Grapevines: wine	20

Alternatively, a taxpayer can estimate their own effective life for grapevines.

Common provisions relating to the establishment of grapevines

These provisions apply to grapevines planted and first used by you in a primary production business both before and after 1 October 2004.

Your deduction for the decline in value of grapevines is based on the capital expenditure incurred in establishing the grapevines (and horticultural plants). Capital expenditure incurred in establishing grapevines does not include the costs of:

- purchasing or leasing land
- draining swamps or low-lying land
- clearing land.

However, it would include, for example, the costs of:

- preparing the land (ploughing, contouring, fertilising, stone removal and topsoil enhancement)
- planting the vines, and
- the vines.

Where ownership of the grapevines changes, the new owner is entitled to continue claiming the balance of the capital expenditure incurred in establishing the grapevines on the same basis, while they use the grapevines in a primary production business.

If a grapevine 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).

Any recoupment of the expenditure is 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 later income years.

If you are a primary producer and a small business entity, you must use the UCA rules to work out your deductions for grapevines.

These deductions for primary production depreciating assets 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 for their share of the expenditure.

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.

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. For more information, see **Guide to depreciating assets 2015**.

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 either:

- connecting mains electricity to land on which a business is carried on for a taxable purpose or upgrading an existing connection to that land
- 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 more information, see **carbon sink forests**.

- 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 (see [Landcare operations](#)).
- For trees and shrubs whose function is purely ornamental, capital expenditure may be deductible under the project pooling provisions, based on the project life. For more information, see **Guide to depreciating assets 2015**.

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

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Valuing livestock

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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 for individual livestock. The value of your opening livestock on hand at 1 July 2014 should be the same as the value of your closing stock at 30 June 2014 that you used for your 2013–14 tax return.

Small business entities

You do not have to value each item of trading stock (including livestock) on hand at the end of the 2015 income year or account for changes in the value of your trading stock for the 2015 income year if:

- you are an eligible small business entity for the 2015 income year
- you choose to access the simplified trading stock rules

- the difference between the value of all trading stock on hand at the start of the income year and the value you reasonably estimate of all your trading stock on hand at the end of the income year is not more than \$5,000

You can, if you prefer, still conduct a stocktake and account for changes in the value of trading stock for the 2015 income year 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 or 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.

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.

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
- 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.

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Abnormal receipts

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Grants and subsidies

Generally, amounts received by way of grants or subsidies will be assessable either as ordinary income or statutory income.

For information on grants and subsidies, see *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.

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Tax averaging

12 November 2015

Tax averaging enables you to even 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 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.

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Farm management deposits scheme

12 November 2015

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.

Subject to certain conditions, deposits are deductible in the year in which they are made. If any deposits 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 (see below).

The following repayments are not assessable:

- reinvested deposits, or extensions of the term of deposits with the same provider
- merged deposits, provided certain conditions are met
- transfers of the same deposit amount from one FMD provider to another, examples of which include

- 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 scheme 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 to qualify for a deduction in that income year.
- The minimum deposit or repayment is \$1,000 and the total of all deposits held at any one time cannot exceed \$400,000.
- 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.

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 you do not exceed the maximum \$400,000 deposit cap (for all deposits).

- You cannot claim a deduction for FMD if in the income year
 - your taxable non-primary production income for the financial year exceeds \$100,000
 - you become bankrupt during the year, or
 - before the end of the year you cease to carry on a primary production business for 120 days or more.
- Where a deposit holder dies in the income year, a deduction is not allowable for any deposits they made in that income year.

- FMDs do not have to be 12-month fixed term deposits but 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 repay part of a deposit within 12 months of making the deposit without losing the benefit of the tax deduction for the remaining amount. This residual amount still qualifies for an FMD deduction, provided it remains in the account for at least 12 months and does not fall below \$1,000. A deduction is not allowable for the part of the deposit that is repaid. Where this affects a deduction you claimed in the prior year, you need to request an amendment of your assessment for that income year.

FMDs and natural disasters

[Eligible primary producers](#)  affected by natural disasters can withdraw their FMDs within the first 12 months of deposit without losing their taxation benefits if they are currently accessing, or have accessed, the Category C recovery assistance under the Natural Disaster Relief and Recovery Arrangements.

To be eligible, primary producers must:


- be affected by certain natural disasters, and on or after 1 July 2010, have received Category C assistance under the Natural Disaster Relief and Recovery Arrangements in the form of a recovery grant for primary producers
- have received the first allocation of the recovery grant during the 12 month period after the day in which the deposit was made
- have withdrawn the funds from the FMD account after the recovery grant was first provided.

In the above circumstances, eligible primary producers remain entitled to an FMD deduction for the amount that they deposited then subsequently withdrew, within 12 months of making the deposit. The amount of that withdrawal becomes part of the primary producer's taxable income in the financial year that they withdraw the FMD.

If a primary producer withdraws their FMDs early in the circumstances described above, any later deposits made in the income year in which the withdrawals were made are not FMDs.

If you access your FMD in the year after you claimed the deduction, you do not need to lodge an amendment but should include the repayment as assessable income in the current year.

You will need to retain proof that you received the relevant disaster assistance as part of your tax records.

For information on early access to FMDs as a result of natural disaster, including eligibility requirements, see the [Department of Agriculture](#) 


For more information about how to complete your tax return, go to **ato.gov.au** and search for 'Farm Management Deposits'.

Farm management deposit accounts are commercial products offered by financial institutions but coordinated by the Australian Government Department of Agriculture. For more information on the taxation requirements for the FMD scheme, go to [Farm management deposits scheme](#).

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Worksheet

12 November 2015

To help you work out your income from primary production, there is a [worksheet \(PDF, 49kb\)](#) . If you use it, keep the completed worksheet with your other records.

Business and professional items 2015 (NAT 2543) explains where amounts from the worksheet, labelled PP1–PP11, should be shown at **P8** on the *Business and professional items schedule for individuals 2015* (NAT 2816).

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More information

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Internet

For general tax information and up-to-date and comprehensive information about deductions, go to **ato.gov.au**

Publications

Publications referred to in this guide are:

- Capital gains tax concessions for small business - overview
- Farm management deposits scheme
- Guide to depreciating assets 2015 (NAT 1996)
- Oyster farmers: calculating the value of trading stock (NAT 7359)
- Private ruling application form (not for tax professionals) (NAT 13742)
- Taxation Ruling TR 95/6 – *Income tax: primary production and forestry*
- 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*
- Taxation Ruling TR 2006/3 – *Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*
- Taxation Ruling TR 2007/6 – *Income tax: non-commercial business losses: Commissioner's discretion*
- Taxation Ruling TR 2014/4 – *Income tax: effective life of depreciating assets (applicable from 1 July 2014).*

The following publications have additional information for primary producers. If they are relevant to your circumstances, use them in conjunction with this guide.

- Business and professional items 2015 (NAT 2543)
- Company tax return instructions 2015 (NAT 0669)
- Partnership tax return instructions 2015 (NAT 73750)

- Trust tax return instructions 2015 (NAT 73751)
- Individual tax return instructions 2015 (NAT 71050).

To get publications referred to in this guide:

- go to ato.gov.au/publications
- phone **1300 720 092**

Not all shopfronts stock printed publications. See our range of services, opening hours and addresses or phone **13 28 61**.

Phone

We can offer a more personalised service if you provide your tax file number (TFN).

Individual 13 28 61

Individual income tax and general personal tax enquiries, including capital gains tax.

Business 13 28 66

Information about business income tax, fringe benefits tax (FBT), fuel tax credits, goods and services tax (GST), pay as you go (PAYG) and activity statements, including lodgment and payment, accounts and business registration (including Australian business number and tax file number), and interest, dividend and royalty withholding tax

Superannuation 13 10 20

Other services

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service (TIS) on **13 14 50** for help with your call.

People who are deaf or have a hearing or speech impairment can contact us through the National Relay Service (NRS). There are two easy steps:

- select your preferred NRS access point
- provide the ATO number you need to call.

TTY users can also contact us via our direct TTY line **13 36 77**.

For ATO 1800 free-call numbers, phone **1800 555 727**.

For more information see [National Relay Service](#) 

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Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

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