


TD 93/D238 - Income tax: whether a fruit grower is entitled to a tax deduction under section 75B or 75D for the cost of changing to a different watering system which has a secondary purpose of preventing or combating land degradation?

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This document has been finalised by TD 94/9.

Draft Taxation Determinations (TDs) represent the preliminary, though considered, views of the ATO. Draft TDs may not be relied on; only final TDs are authoritative statements of the ATO.

Draft Taxation Determination

Income tax: whether a fruit grower is entitled to a tax deduction under section 75B or 75D for the cost of changing to a different watering system which has a secondary purpose of preventing or combating land degradation?

1. The cost of construction, acquisition or installation of a watering system undertaken 'primarily and principally' for the purpose of conveying water, is deductible over three (3) years under section 75B.
2. The main test of eligibility under section 75B and 75D is whether the expenditure has been incurred '**primarily and principally**' for the relevant purpose. Under section 75B the expenditure must be for the relevant purpose of conserving or conveying water and under section 75D for the relevant purpose of preventing or combating land degradation or related measures.
3. The 'primarily and principally' test does not require a consideration of the subjective or objective purpose or motives of the taxpayer in incurring the expenditure. The test requires an examination of the **primary and principal function or purpose of the result produced** by incurring the expenditure.
4. The construction, acquisition or installation of the watering system is undertaken 'primarily and principally' for the purpose of conveying water for use on the land. The primary and principal function or purpose of the watering system is to water the orchard. Preventing or combating salinity or soil erosion may be important considerations which will influence a taxpayer's choice of a watering system. However, this is a secondary, subsidiary or subordinate function or purpose and does not detract from the fact that the primary and principal purpose of the watering system is to convey water.

Example: *Purchasing a low level sprinkler system and a long lasting trickle irrigation system to replace a flood irrigation system and high level sprinklers*

Farmer Mirco, is a fruit grower carrying on a business of primary production. The topography of Mirco's property is such that irrigating the orchard by flood irrigation or high level sprinklers is resulting in salinity problems and causing the water table to rise in the lower portions of the property. Leaf analysis studies have been conducted on various trees throughout the orchard. The results of these studies indicate that the level of salt throughout the orchard varies according to the degree of exposure to water. Too high a salt level will eventually kill the orchard trees in the immediate vicinity.

Mirco decides to solve the salinity problem by altering the means of irrigation whereby water control can be regulated to the various sections of the orchard. Mirco therefore purchases a low level sprinkler system as well as a long lasting trickle irrigation system. The cost of the low level sprinkler system and the long lasting trickle irrigation system is respectively \$40,000 and \$20,000.

The primary and principal function or purpose of the new sprinkler system is to water the orchard. The secondary, subsidiary or subordinate function or purpose of the new sprinkler system is to prevent or combat salinity. The expenditure of \$40,000 and \$20,000 respectively on the low level sprinkler system and the long lasting trickle irrigation system, is capital or of a capital nature. As this expenditure is not incurred primarily and principally to prevent or combat land degradation, it is not deductible outright under section 75D. Instead, the \$60,000 is deductible over three (3) years under section 75B.

Commissioner of Taxation

16/9/93

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Related Rulings:

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