


***TD 97/D8 - Income tax: where a horticulture business buys plants from a nursery and has the nursery maintain them prior to delivery, can the costs of buying and maintaining the plants be deductible under Division 10F of Part III of the Income Tax Assessment Act 1936?***

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This document has been finalised by TD 98/3.

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.

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## Draft Taxation Determination

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**Income tax: where a horticulture business buys plants from a nursery and has the nursery maintain them prior to delivery, can the costs of buying and maintaining the plants be deductible under Division 10F of Part III of the *Income Tax Assessment Act 1936*?**

1. Yes. The costs - both purchase and maintenance - form 'establishment expenditure' under section 124ZZJ and may be deductible under Division 10F.
2. Establishment expenditure is either deductible in full under section 124ZZF (for plants with an effective life of less than 3 years) or over a period under section 124ZZG (for plants with a longer effective life).
3. However, where the plants merely replace those from an existing plantation due to disease or death, the costs will be deductible under section 8-1 of the *Income Tax Assessment Act 1997*: see Taxation Determination TD 97/D7.

### *Example*

4. *Jill carries on a business from her orchard. To expand her orchard she contracts with a local nursery to buy 2,000 seedlings. The total price will be \$10,000. This is allocated by the contract as \$2,000 for seedlings and \$8,000 for care and maintenance over four months. The nursery is to deliver the seedlings at the end of the four months.*
5. *The full cost of \$10,000 is establishment expenditure. The amount of the deduction each year will depend on the effective lives of the plants and when the plants begin what is expected to be their first commercial season.*

### **Your comments**

6. If you wish to comment on this draft Determination, please send your comments by **24 October 1997** to:

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**Commissioner of Taxation**

24 September 1997

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FOI INDEX DETAIL: [Reference No.](#)

[Related Determinations:](#) TD 97/D7

[Related Rulings:](#)

[Subject Ref:](#) capital expenditure; horticulture; primary production; revenue deduction

[Legislative Ref:](#) ITAA97 8-1; ITAA36 Part III Div 10F; ITAA36 124ZZF; ITAA36 124ZZG; ITAA36 124ZZJ

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