

IT 2301 - Income tax: primary production: prawn farming



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TAXATION RULING NO. IT 2301

INCOME TAX : PRIMARY PRODUCTION : PRAWN FARMING

F.O.I. EMBARGO: May be released

REF

H.O. REF: 86/2460-7 F9

DATE OF EFFECT:

B.O. REF:

DATE ORIG. MEMO ISSUED: 27.03.86

F.O.I. INDEX DETAIL

| REFERENCE NO: | SUBJECT REFS: | LEGISLAT. REFS: |
|---------------|----------------------|-----------------|
| I 1137258 | PRIMARY PRODUCTION | 6 |
| | PRAWN FARMING | 54 |
| | DEPRECIATION | 54 (2) (b) |
| | - PONDS | 55 |
| | RATE OF DEPRECIATION | 57AH |
| | WATER CONSERVATION | 57AL |
| | | 75B |

PREAMBLE

Primary production is defined in section 6 of the Income Tax Assessment Act to include, among other things, fishing operations. Fishing operations are, in turn, defined to mean:-

- (a) operations relating directly to the taking or catching of fish, turtles, dugong, crustacea or oysters or other shellfish; or
- (b) pearling operations,

and includes oyster farming but does not include whaling and also does not include operations conducted otherwise than for the purpose of a business.

2. The question has arisen whether prawn farming constitutes primary production for income tax purposes.

3. In the particular business of prawn farming the prawns are hatched in a hatchery consisting of a number of small ponds which are under cover and lined with fibreglass over concrete. At six weeks of age, when they are two or three centimetres in length, the prawns are transferred to growing ponds where they remain for a period of four months until they reach maturity and are ready for harvesting.

4. The growing ponds vary from 2 to 5 hectares in area and may be up to 2 metres in depth measured from the top of the surrounding banks which are constructed from the soil removed to make the ponds. The ponds are filled with diluted seawater pumped through channels from a nearby river.

5. While they are in the growing ponds the prawns are fed daily by means of a moving gantry-like machine floating on the water and supported by wheels resting on the banks. At harvest

time the ponds are emptied and the water returned to the river. Mature prawns carried by the out flowing water are caught in nets and sent for freezing and packing. The empty ponds are allowed to dry and are then covered by lime to clear them for the next intake of young prawns.

RULING

6. Prawn farming operations are accepted as primary production for income tax purposes where the operations constitute the carrying on of a business.

7. The hatchery and growing ponds, together with their attachments and fittings, qualify as plant within the ordinary meaning of that term in section 54 of the Act. An effective life for the ponds has been estimated as 20 years. On this basis, a rate of depreciation of 5% per annum on the prime cost basis or 7 1/2% per annum on the diminishing value method would be appropriate for the ponds and associated equipment. Notwithstanding that the ponds and associated equipment are accepted as plant within the ordinary meaning of that expression they are also structural improvements and for this reason they are excluded from the special depreciation allowances available to primary producers under section 57AH and the accelerated rates under section 57AL.

8. The expenditure incurred on the ponds and associated equipment does not represent qualifying expenditure for the purposes of section 75B of the Act. It is not expenditure incurred on the construction, acquisition or installation of plant or structural improvements primarily and principally for the purpose of conserving or conveying water for use in carrying on a business of primary production. The ponds are primarily used for the breeding and growing of prawns not for the purpose of conserving or conveying water.

COMMISSIONER OF TAXATION
20 May 1986

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