

PR 2003/1A2 - Addendum - Income tax: Rewards Group Tropical Fruits Project 2

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Addendum

Product Ruling

Income tax: Rewards Group Tropical Fruits Project 2

This Addendum amends Product Ruling PR 2003/1 to reflect changes to simplified tax system legislation from 1 July 2005.

PR 2003/1 is amended as follows:

1. Paragraph 53

Replace the paragraph with:

53. To be an 'STS taxpayer' a Grower must be eligible to be an 'STS taxpayer' and must elect to be an 'STS taxpayer'. Changes to the STS rules apply from 1 July 2005. From that date, STS taxpayers may use the accruals accounting method. For a Grower participating in the Project, the recognition of income and the timing of tax deductions is different under the STS where the Grower uses the cash accounting method.

2. Paragraph 60

Omit the subheading:

**Tax outcomes for Growers who are
'STS taxpayers'**

and substitute:

**Tax outcomes for Growers who are
'STS Taxpayers' using the cash accounting
method**

3. Paragraph 64

After the paragraph insert:

Tax outcomes for Growers who are 'STS Taxpayers' using the accruals accounting method

Assessable income

Section 6-5

64A. For the 2005-06 income year and later years, a Grower who is an 'STS taxpayer' using the accruals accounting method will be assessable on ordinary income from carrying on their business of horticulture when the income is derived.

Treatment of Trading Stock

Section 328-285

64B. For the 2005-06 income year and later years, a Grower who is an 'STS taxpayer' using the accruals accounting method may in some years, hold fruit that will constitute trading stock on hand. Where in an income year, the value of trading stock on hand at the end of an income year exceeds the value of trading stock on hand at the start of an income year a Grower must include the amount of that excess in assessable income. Refer to paragraph 62 and 63.

Deductions for Management Fees, Rent and Interest

Section 8-1

64C. For the 2005-06 income year, a Grower who is an 'STS taxpayer' using the accruals accounting method may claim tax deductions for the following revenue expenses:

2003 Growers

Fee Type	ITAA 1997 Section	Year 4 deduction Year ended 30 June 2006
Management Fee	8-1	\$624 – See Notes (a) & (b)
Rent	8-1	\$137 – See Notes (a) & (b)
Interest (Terms Payment Options only)	8-1	As incurred – See Note (c)

Notes:

- (a) If the Grower is registered or required to be registered for GST, amounts of outgoing would need to be adjusted as relevant for GST (for example input tax credits): Division 27. See Example 1 at paragraph 128.
- (b) The management fees and the rent shown in the Management Agreement and the Sub-Lease are deductible in full in the year that they are incurred. However, if a Grower **chooses** to prepay fees for the doing of a thing (for example, the provision of management services or the leasing of land) that will not be wholly done in the income year the fees are incurred, the prepayment rules of the ITAA 1936 may apply to apportion those fees (see paragraphs 95 to 102). In such cases, the tax deduction for the prepaid fee must be determined using the formula shown in paragraph 101 unless the expenditure is 'excluded expenditure'. 'Excluded expenditure' is an 'exception' to the prepayment rules and is deductible in full in the year in which it is incurred. For the purpose of this Ruling 'excluded expenditure' refers to an amount of expenditure of less than \$1,000.
- (c) Interest payable under either the 2 Year Terms Payment Option or 5 Year Terms Payment Option will be deductible when incurred.

4. Paragraph 68

Insert additional bullet point:

- for the 2005-06 income year and later years, a Grower who is an 'STS taxpayer' using the accruals accounting method, the Commissioner will decide under paragraph 35-55(1)(b) that, for the income years ending 30 June 2006 to 30 June 2007, the rule in section 35-10 does not apply to this business activity.

This Addendum applies on and from 1 July 2005.

Commissioner of Taxation

15 March 2006

ATO references

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