

PR 2003/66A - Addendum - Income tax: Forest Rewards Premium Vineyard Project 1

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Addendum

Product Ruling

Income tax: Forest Rewards Premium Vineyard Project 1

This Addendum amends Product Ruling PR 2003/66 to reflect changes to simplified tax system legislation from 1 July 2005.

PR 2003/66 is amended as follows:

1. Paragraph 51

Omit the paragraph and substitute:

51. 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 59

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 66

After the paragraph insert:

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

Assessable income

Section 6-5

66A. 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 viticulture when the income is derived.

Trading Stock

Section 70-35

66B. 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 grapes 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 55 and 56.

Deductions for Management Fees, Rent and Interest

Section 8-1

66C. 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 when incurred:

Fee Type	ITAA 1997 Section	Year 4 deduction Year ended 30 June 2006
Management Fee	8-1	\$6,255 (indexed) – See Notes (a) & (b)
Rent	8-1	\$1,540 (indexed) – 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 136.
- (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 103 to 110). In such cases, the tax deduction for the prepaid fee must be determined using the formula shown in paragraph 109 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.

Deductions for capital expenditure***Division 40***

66D. For the 2005-06 income year a Grower who is an 'STS taxpayer' using the accruals accounting method will be entitled to tax deductions relating to trellising, water facilities (for example, irrigation), a 'landcare operation' and grapevines. All deductions shown in the following Table are determined under Division 40.

Fee Type	ITAA 1997 Section	Year 4 Year ended 30 June 2006
Trellising	40-25	Must be calculated – See Notes (d) and (e)
Establishment of horticultural plants (grapevines)	40-515	Must be calculated – See Notes (d) & (f)

Notes:

- (d) If the Grower is registered or required to be registered for GST, amounts of capital expenditure would need to be adjusted as relevant for GST (for example, input tax credits): Division 27. See example at paragraph 136.
- (e) Trellising is a 'depreciating asset'. Each Grower's interest in the trellising is a 'depreciating asset'. The 'cost' of the asset is the amount paid by each Grower. The decline in value of the asset is calculated using the formula in either subsection 40-70(1) ('diminishing value method') or subsection 40-75(1) ('prime cost method'). Both formulas rely on the 'effective life' of the trellising. Growers can either self-assess the 'effective life' (section 40-105) or use the Commissioner's determination of 'effective life' (section 40-100). The Commissioner has determined that trellising has an 'effective life' of 20 years. Trellising will be installed and first used during the year ended 30 June 2003. The Responsible Entity will advise Growers when that occurs to enable Growers to calculate the deduction for the decline in value.
- (f) As grapevines are affixed to land which the Grower does not own, they are not owned by the Grower, the conditions in subsection 40-525(3) cannot be met, and the grapevines are not eligible for the 4 year write-off under section 40-550. However, grapevines are a 'horticultural plant' as defined in subsection 40-525(2). As Growers hold the land under a sub-lease, one of the conditions in subsection 40-525(2) is met and a deduction for 'horticultural plants' is available under paragraph 40-515(1)(b) for their decline in value. The deduction for the grapevines is determined using the formula in section 40-545 and is based on the capital expenditure incurred by the Grower that is attributable to their establishment. If the grapevines have an 'effective life' of greater than 13 but fewer than 30 years for the purposes of section 40-545, this results in a straight-line write-off at a rate of 13%. The deduction is allowable when the grapevines enter their first commercial season (section 40-530, item 2). The Responsible Entity will inform Growers of when the grapevines enter their first commercial season.

4. Paragraph 102

After the paragraph insert:

102A. If a Grower is an 'STS Taxpayer' using the accruals accounting method, the management fees and rent are deductible in the year in which they are incurred.

This Addendum applies on and from 1 July 2005.

Commissioner of Taxation

15 March 2006

ATO references

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