

# ***IT 2302 - Income tax : assessability of government funded vine pull assistance***

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TAXATION RULING NO. IT 2302

INCOME TAX : ASSESSABILITY OF GOVERNMENT FUNDED VINE  
PULL ASSISTANCE

F.O.I. EMBARGO: May be released

REF

H.O. REF: 86/1107-6

DATE OF EFFECT:

B.O. REF:

DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

| REFERENCE NO: | SUBJECT REFS:          | LEGISLAT. REFS: |
|---------------|------------------------|-----------------|
| I 1137263     | ASSESSABLE INCOME      | 25(1)           |
|               | BOUNTIES AND SUBSIDIES | 26(g)           |

FACTS

Under a scheme entered into by the Commonwealth and State Governments to provide aid to the dried vine fruit industry, payments may be made to grape growers for vine pull assistance.

2. Vine pull assistance may be provided to any grower who is primarily dependent on grape growing for his income. Priority is given, however, to assisting growers whose operations are judged to be not economically viable.

3. In essence, the purpose of the vine pull assistance is to encourage uneconomic wine grape growers who wish to leave the industry to do so and, thereby, to reduce surplus grape production. Payment will be made to growers who undertake to pull out and destroy their vines and who do not use the cleared land to replant vines for at least five years.

4. To achieve the objective that cleared land will not be replanted with vines for at least five years and to ensure that other conditions of the scheme are met, vine pull assistance is initially provided as an interest bearing loan convertible to a grant when all conditions have been met. Interest is not payable until the end of the five year period. Thus, although the funds are intended from the outset to be provided as a grant, they are initially allocated as a loan with conversion being made some five years later.

RULING

5. Vine pull assistance offered by the Commonwealth/State Governments to grape growers does not attract any income tax liability. A loan of itself is not assessable income. In the event that a loan is converted into a grant, the grant would not be liable to income tax. It is not part of the proceeds of carrying on a business. Nor is it a bounty or subsidy received in, or in relation to, the carrying on of a business within the meaning of paragraph 26(g) of the Income Tax Assessment Act. It is a payment of a capital nature in the nature of compensation for closing down a business or a part of it.

6. In the event that a loan must be repaid because the purposes for which the loan was made were not carried out, the question may arise whether an income tax deduction is allowable for the interest paid on the loan. Bearing in mind the purposes for which the loan would have been originally granted, i.e. to cease a particular business operation, and the circumstances in which the interest was paid, i.e. the non-fulfilment of the purposes for which the loan was granted, it is considered that the interest paid would not be allowable as an income tax deduction.

COMMISSIONER OF TAXATION  
20 May 1986

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