

# ***PR 2003/25A - Addendum - Income tax: TFS Sandalwood Project 2003***

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# Addendum

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## Product Ruling

### Income tax: TFS Sandalwood Project 2003

This Addendum amends Product Ruling PR 2003/25 to reflect changes to the simplified tax system legislation from the 2005-06 income year onwards.

#### **PR 2003/25 is amended as follows:**

##### **1. Paragraph 2**

Insert dot point:

- Division 328 of the *Income Tax (Transitional Provisions) Act 1997*;

##### **2. Paragraph 57**

After the paragraph insert:

57A. 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 depending on whether the Grower who was an 'STS taxpayer' prior to 1 July 2005 continues to use the cash accounting method (called the 'STS accounting method') – see sections 328-120 and 328-125 of the *Income Tax (Transitional Provisions) Act 1997*.

##### **3. Paragraph 60**

Omit the paragraph; substitute:

60. A Grower who is not an 'STS taxpayer' for the 2005 and prior income years or is an 'STS taxpayer' using the accruals method of accounting for the 2006 and later income years, recognises ordinary income from carrying on the business of afforestation at the time that income is derived.

**4. Paragraph 61**

Omit the paragraph; substitute:

61. A Grower who is an 'STS taxpayer' for the 2005 and prior income years or is an 'STS taxpayer' using the cash method of accounting for the 2006 and later income years, recognises ordinary income from carrying on the business of afforestation at the time that income is received.

**5. Paragraph 63**

Omit the paragraph; substitute:

63. However, if for any reason, an amount shown or referred to in the Tables below is not fully paid in the year in which it is incurred by a Grower who is an 'STS taxpayer' for the 2005 and prior income years or is an 'STS taxpayer' using the cash accounting method for the 2006 and later income years, then the amount is only deductible to the extent to which it has been paid, or has been paid for the Grower. Any amount or part of an amount shown in the Tables below which is not paid in the year in which it is incurred, will be deductible in the year in which it is actually paid.

**6. Paragraph 65**

(a) Omit the row in the Table titled 'Interest'; substitute:

<b>Interest</b>	See Notes (iii) and (iv)	See Notes (iii) and (iv)	See Notes (iii) and (iv)
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(b) Omit Note (ii); substitute:

(ii) The Establishment Fee is payable on application for services to be provided in the Establishment Period. The Establishment Fee is expenditure for 'seasonally dependent agronomic activities' (see paragraphs 97 to 101 of this Ruling) and is deductible in the year in which it is incurred (where the Grower is not an 'STS taxpayer' in the 2005 and prior income years or is an 'STS taxpayer' using the accruals accounting method for the 2006 and later income years) or the year in which it is paid (where the Grower is an 'STS taxpayer' in the 2005 and prior income years or is an 'STS taxpayer' using the cash accounting method for the 2006 and later income years). The amount that is incurred will depend upon the number of Timber Lots held by the Grower. These amounts are set out in the Table in paragraph 32 of this Ruling.

(c) Omit Note (iii); substitute:

- (iii) The Rent, the First Period Fee, Annual Fee and Interest incurred by a Grower are deductible in the year in which they are incurred (where the Grower is not an 'STS taxpayer' in the 2005 and prior income years or is an 'STS taxpayer' using the accruals accounting method for the 2006 and later income years) or the year in which it is paid (where the Grower is an 'STS taxpayer' in the 2005 and prior income years or is an 'STS taxpayer' using the cash accounting method for the 2006 and later income years). The amount that is incurred for the First Period Fee and the Annual Fee will depend upon the number of Timber Lots held by the Grower. These amounts are set out in the Tables in paragraphs 34 and 35 of this Ruling.

## **7. Paragraph 66**

(a) Omit the row in the Table titled 'Interest'; substitute:

<b>Interest</b>	See Notes (iii) and (iv)	See Notes (iii) and (iv)	See Notes (iii) and (iv)
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(b) Omit Note (v); substitute:

- (v) The prepaid Rent and management fees described in paragraph 38 of this Ruling are NOT deductible in full in the year incurred (where the Grower is not an 'STS taxpayer' for the 2005 and prior income years or is an 'STS taxpayer' using the accruals accounting method for the 2006 and subsequent income years) or the year in which they are paid by, or on behalf of an 'STS taxpayer' being an 'STS taxpayer' for the 2005 and prior income years or an 'STS taxpayer using the cash accounting method for the 2006 and later income years). The deduction for each year's fees must be determined using the formula in subsection 82KZMF(1) of the ITAA 1936 (see paragraphs 89 to 96 of this Ruling). This section operates to apportion expenditure over the eligible service period or ten years, whichever is the lesser.

## 8. Paragraph 112 and 113

Omit the paragraphs; substitute:

112. For the 2005 and prior income years, if the Grower is not an 'STS taxpayer', interest is deductible in the year in which it is incurred. For the 2006 and later income years, if the Grower is not an 'STS taxpayer' or is an 'STS taxpayer' using the accruals accounting method, interest is deductible in the year in which it is incurred.

113. For the 2005 and prior income years, if a Grower is an 'STS taxpayer' (or in the case of the 2006 and later income years is an 'STS taxpayer' using the cash accounting method), interest is deductible in the income year in which it is paid, or is paid for the Grower. If interest that is properly incurred in an income year remains unpaid at the end of the income year, the unpaid amount is deductible in the income year in which it is actually paid or is paid for the Grower.

This Addendum applies on and from 1 July 2005.

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**Commissioner of Taxation**

28 June 2006

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ATO references

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