


PR 2004/27A - Addendum - Income tax: TFS Gold Card Sandalwood Project 2003 (Supplementary Information Memorandum)

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Addendum

Product Ruling

Income tax: TFS Gold Card Sandalwood Project 2003 (Supplementary Information Memorandum)

This Addendum amends Product Ruling PR 2004/27 to reflect changes to the simplified tax system legislation from the 2005-06 income year onwards.

PR 2004/27 is amended as follows:

1. Paragraph 2

Insert dot point:

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

2. Paragraph 55

After the paragraph insert:

55A. 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 58

Omit the paragraph; substitute:

58. 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 59

Omit the paragraph; substitute:

59. 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 61

Omit the paragraph; substitute:

61. 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 62

(a) Omit the Table; substitute:

Fee Type	ITAA 1997 Section	Establishment Period	Year 1	Year 2
Management Fees	8-1	\$42,900 See Notes (i) & (ii)	\$13,200 See Notes (i) & (iii)	\$5,610 (indexed) See Notes (i) & (iii)
Rent, (where land is leased)	8-1	Nil	\$1,320 See Notes (i), (iii) & paragraph 64	\$1,320 (indexed) See Notes (i), (iii) & paragraph 64
Interest	8-1	See Notes (iii) and (iv)	See Notes (iii) and (iv)	See Notes (iii) and (iv)

- (b) Omit Note (ii); substitute:
- (ii) The Establishment Fee is payable on application in respect of services to be provided in the Establishment Period. The Establishment Fee is for services to be provided within the expenditure year and the prepayment provisions do not apply. Therefore for all Growers, the Establishment Fee 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).
- (c) Omit Note (iii); substitute:
- (iii) The annual Rent, the annual Management Fees for Year 1 and Year 2 and Interest 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). 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. In such cases, the tax deduction for the prepaid fees must be determined using the formula shown in paragraph 101 of this Ruling. The prepayment rules also apply to Interest (see Note (iv)).

PR 2004/27**7. Paragraph 63**

Omit the Table; substitute:

Fee Type	ITAA 1997 Section	Establishment Period	Year 1	Year 2
Management Fees	8-1	\$42,900 See Notes (i) & (ii)		
Prepaid Rent and Management Fees (land leased)	8-1 & 82KZMF of the ITAA 1936		\$6,600 See Note (v)	\$6,600 See Note (v)
Prepaid Management Fees (land purchased)	8-1 & 82KZMF of the ITAA 1936		\$4,950 See Note (v) and paragraph 64	\$4,950 See Note (v) and paragraph 64
Interest	8-1	See Notes (iii) & (iv)	See Notes (iii) & (iv)	See Notes (iii) & (iv)

8. Paragraph 106

Omit the paragraph; substitute:

106. On this basis, provided a Grower incurs this expenditure on the dates set out in the Management Agreement and the Lease Agreement (see paragraphs 30 to 36 of this Ruling), then the basic precondition in subsection 82KZME(2) of the ITAA 1936 is not satisfied and, in these circumstances, section 82KZMF of the ITAA 1936 will have no application. Deductions for these fees will be deductible in the year in which they are paid (where the Grower 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) or the year in which they are 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 later income years).

This Addendum applies on and from 1 July 2005.

Commissioner of Taxation

28 June 2006

ATO references

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