


# ***PR 2004/47A2 - Addendum - Income tax: Palandri America Wine Business - 2004***

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## Addendum

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### Product Ruling

#### Income tax: Palandri America Wine Business – 2004

This Addendum amends Product Ruling PR 2004/47 to reflect changes to the simplified tax system legislation from the 2005-06 income year onwards.

#### **PR 2004/47 is amended as follows:**

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

Insert dot point:

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

##### **2. Paragraph 53**

After the paragraph insert:

53A. Changes to the STS rules apply from 1 July 2005. From that date, 'STS taxpayers' may use the accruals accounting method. For a Member participating in the Project, the recognition of income and the timing of tax deductions is different depending on whether the Member who was an 'STS taxpayer' prior to 1 July 2005 continues to use the cash accounting method (called the 'STS accounting method') – see section 328-120 and 328-125 of the *Income Tax (Transitional Provisions) Act 1997*.

##### **3. Paragraph 61**

Omit the paragraph; substitute:

61. For the 2005 and prior income years, a Member recognises ordinary income from carrying on the business of growing grapes and producing and marketing wine at the time the income is received (paragraph 328-105(1)(a)). For the 2005-06 and later income years, a Member who is an 'STS taxpayer' using the accruals accounting method will be assessable on this income in the income year in which the income is derived and a Member who is an 'STS taxpayer' using the cash accounting method will be assessable on this income in the income year in which the income is received.

**PR 2004/47****4. Paragraph 64**

(a) Omit the Tables; substitute:

**2004 Members**

<b>Fee Type</b>	<b>ITAA 1997 Sections</b>	<b>Year ended 30 June 2004</b>	<b>Year ended 30 June 2005</b>	<b>Year ended 30 June 2006</b>
<b>Management Fee</b>	8-1	\$11,000 See Notes (vii), (viii) & (ix)	\$5133.70 See Notes (vii), (viii) & (ix)	Minimum of \$4,400 See Notes (vii), (viii) (ix) & (xi)
<b>Rent</b>	8-1	Nil See Notes (vii), (viii) & (ix)	\$366.30 See Notes (vii), (viii) & (ix)	\$366.30 (indexed) See Notes (vii), (viii), (ix) & (xii)
<b>Interest</b>	8-1	When paid – See Notes (viii) and (x)	When paid – See Notes (viii) and (x)	See Notes (viii) and (x)

**2005 Members**

<b>Fee Type</b>	<b>ITAA 1997 Sections</b>	<b>Year ended 30 June 2005</b>	<b>Year ended 30 June 2006</b>
<b>Management Fee</b>	8-1	\$16,133.70 (\$11,000 + \$5133.70) – See Notes (vii), (viii) & (ix)	Minimum of \$4,400 See Notes (vii), (viii), (ix) & (xi)
<b>Rent</b>	8-1	\$61.04 See Notes (vii), (viii), (ix) & (xiii)	\$366.30 (indexed) See Notes (vii), (viii), (ix) & (xii)
<b>Interest</b>	8-1	When paid – See Notes (viii) and (x)	See Notes (viii) and (x)

(b) Omit Note (viii); substitute:

- (viii) If, for any reason, an expense referred to in the Tables above is not fully paid in the year in which it is incurred by a Member 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 Member (paragraph 328-105(1)(b)). For these taxpayers, any expense or part of an expense shown in the Tables above, which is not paid in the year in which it is incurred, will be deductible in the year in which it is actually paid;

(c) Omit Note (ix); substitute:

- (ix) Where a Member 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) pays the Management Fees and the Rent in the relevant income years shown in the Lease and Management Agreement, those fees are deductible in full in the year that they are paid. However, if a Member 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 same income year as the fees are incurred, the prepayment rules of the ITAA may apply to apportion those fees. In such cases, the tax deduction for the prepaid fee must be determined using the formula shown in paragraph 104, 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;

## **5. Paragraphs 88 to 90**

Omit the paragraphs; substitute:

88. In the absence of any application of the prepayment provisions, the timing of deductions for the Management Fees or the Rent will depend upon whether a Member is an 'STS taxpayer' for the 2005 and prior income years and on whether a Member is an 'STS taxpayer' using the cash accounting method or the accruals accounting method for the 2006 and later income years.

89. For the 2005 and prior income years, if the Member is not an 'STS taxpayer', the Management Fees and the Rent are deductible in the year in which they are incurred. For the 2006 and later income years, if the Member is not an 'STS taxpayer' or is an 'STS taxpayer' using the accruals accounting method, the Management Fees and the Rent are deductible in the year in which they are incurred.

90. For the 2005 and prior income years, if a member is an 'STS taxpayer' (or in the case of the 2006 and later income years is an 'STS taxpayer' using the cash accounting method), the Management Fees and Rent are deductible in the income year in which they are paid, or are paid for the Member. If any amount 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 Member.

## 6. Paragraphs 93 to 95

Omit the paragraphs; substitute:

93. As with the Management Fees and Rent, in the absence of any application of the prepayment provisions, the timing of deductions for interest will again depend upon whether a Member is an 'STS taxpayer' for the 2005 and prior income years and on whether a Member is an 'STS taxpayer' using the cash accounting method or the accruals accounting method for the 2006 and later income years.

94. For the 2005 and prior income years, if the Member 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 Member 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.

95. For the 2005 and prior income years, if the Member 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 Member. 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 Member.

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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