


PR 2004/75A - Addendum - Income tax: New World 2020 Project

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Addendum

Product Ruling

Income tax: New World 2020 Project

This Addendum amends Product Ruling PR 2004/75 to reflect changes to the simplified tax system legislation from the 2005-06 income year onwards.

PR 2004/75 is amended as follows:

1. Paragraph 2

Insert dot point:

- Division 328 to 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 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 68

Omit the paragraph; substitute:

68. For the 2005 and prior income years, a Member who is an 'STS taxpayer' recognises ordinary income from carrying on the business of agriculture 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.

4. Paragraph 74**(a) Omit the paragraph; substitute:**

74. However, if for any reason, an amount shown or referred to in the Tables below is not fully paid in the year in which 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. 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.

(b) Omit Notes (ii) to (vi); substitute:

- (ii) The Initial Services Fee – Forest Lot is expenditure for 'seasonally dependent agronomic activities' (see paragraphs 107 to 111) and is deductible in the income year in which it is incurred (where the Member 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 Member 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);
- (iii) Although the Project Management Agreement requires the Initial Management Fee – Crop Lot, Management Fees – Forest Lot and the Management Fees – Crop Lot to be prepaid, for a Member who acquires the minimum allocation of 1 Unit, the amount of the prepaid Initial Services Fee – Crop Lot and Management Fees in respect to the Forest Lot and the Crop Lot are less than \$1,000. For the purposes of this Project, an amount of less than \$1,000 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 (where the Member 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 Member 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). (See Example 2 at paragraph 146);
- (iv) Where a Member acquires more than 1 Unit, the amount of the Member's prepaid Initial Services Fee – Crop Lot will be more than \$1,000. The Initial Services Fee – Crop Lot is **NOT** deductible in full in the year in which it is incurred (where the Member 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 Member 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 deduction for the Initial Services Fee – Crop Lot must be determined using the formula in subsection 82KZMF(1) (see paragraph 61 of this Ruling). The Responsible Entity will inform Members of the number of days in the 'eligible service period' in the first expenditure year. This figure is necessary to calculate the deduction allowable for the fees incurred. (See Example 3 at paragraph 147);

- (v) Where a Member acquires more than 5 Units, the amount of the Member's prepaid Management Fees – Forest Lot and prepaid Management Fees – Crop Lot will be more than \$1,000. The Management Fees in respect to the Forest Lot and the Crop Lot are **NOT** deductible in full in the year in which they are incurred (where the Member 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 they are paid (where the Member 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). Such Members **MUST** determine the deduction for the prepaid Management Fees using the formula in subsection 82KZMF(1) (see paragraph 61 of this Ruling); or
- (vi) Where a Member pays the Rent and the Variable Costs in the relevant income years shown in the Project Management Agreement, those fees are deductible in full in the year that they are incurred (where the Member 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 they are paid (where the Member 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 Member **chooses** to prepay fees for the doing of a thing (for example, the provision of 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 fee must be determined using the formula shown in paragraph 61 of this Ruling unless the expenditure is 'excluded expenditure'.

5. Paragraph 115

Omit the paragraph; substitute:

115. The prepaid Initial Services Fee – Crop Lot, the prepaid Management Fees – Forest Lot and the prepaid Management Fees – Crop Lot, being amounts of less than \$1,000 in each expenditure year, constitute ‘excluded expenditure’ as defined in subsection 82KZL(1). Under Exception 3 (subsection 82KZME(7)) ‘excluded expenditure’ is specifically excluded from the operation of section 82KZMF. 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 can, therefore, claim an immediate deduction for the Initial Services Fee – Crop Lot and the Management Fees in the income year in which they are paid. A Member who 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, can claim an immediate deduction for the Initial Services Fee – Crop Lot and the Management Fees in the income year in which they are incurred.

6. Paragraph 120

Omit the paragraph and substitute:

120. 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 can, therefore, claim an immediate deduction for each of the relevant fees in the income year in which the fee is paid. A Member who 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, can claim an immediate deduction for each of the relevant fees in the income year in which the fee is incurred.

This Addendum applies on and from 1 July 2005.

Commissioner of Taxation

28 June 2006

ATO references

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