INFORMATION FOR PRIMARY PRODUCERS

2000–01

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TAXPACK REFERRED PUBLICATION

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Who is a primary producer?

A primary producer is an individual, trust or company carrying on a primary production business alone or in partnership. You are a primary producer if you carry on a business of:

- cultivating or propagating plants, fungi or their products or parts—including seeds, spores, bulbs and similar things—in any physical environment
- maintaining animals for the purpose of selling them or their bodily produce—including natural increase
- manufacturing dairy produce from raw material that you produced
- conducting operations relating directly to taking or catching fish, turtles, dugong, bêche-de-mer, crustaceans or aquatic molluscs
- conducting operations relating directly to taking or culturing pearls or pearl shell
- planting or tending trees in a plantation or forest that are intended to be felled
- felling trees in a plantation or forest, or
- transporting trees or parts of trees that you felled in a plantation or forest to the place:
  - where they are first to be milled or processed, or
  - from which they are to be transported to the place where they are first to be milled or processed.

You need to consider various indicators before you decide if an activity is a business of primary production. *Taxation Ruling TR 97/11—Income tax: am I carrying on a business of primary production?* gives a comprehensive explanation of the relevant indicators together with examples of the application of the indicators. To find out how to get this publication, see page 7.

Primary production losses

Tax losses from carrying on a primary production business can be carried forward subject to general restrictions (for example, change of ownership of a company).

Deferral of non-commercial business losses

From 1 July 2000 new laws apply to individuals with losses from carrying on certain business activities (either alone or in partnership with others). These new laws do not apply if you operate a primary production business and your assessable income (except any net capital gain) from sources that do not relate to that business is less than $40 000. The new laws will also not apply where:

- the individual's business activity satisfies one of 4 tests or
- the Commissioner of Taxation exercises his discretion to allow the loss to be claimed.

Where the new laws do apply the loss cannot be claimed in the year in which it arises. Instead, it is deferred to the next year in which the business activity is carried on and the loss is offset against any income from the activity in that year. Whether any remaining loss can be offset against other income will depend on the operation of the new laws in that year.

Note: For further information, visit the Australian Taxation Office (ATO) Internet site: **www.taxreform.ato.gov.au**

Depreciation (capital allowances)

You can claim deductions for depreciation of plant—including fences, dams and certain structural improvements on land used for or in some primary production activities. Structural improvements used for domestic or residential purposes do not qualify unless they are provided for the accommodation of employees, tenants or sharefarmers engaged in some activities.

As part of its Business Tax Reform, the Government has introduced changes to depreciation and proposes to introduce others. These changes are summarised as follows:

Changes operating from 11.45 a.m. [by legal time in the Australian Capital Territory (ACT)] on 21 September 1999:

- end of accelerated depreciation for plant that is commenced to be constructed or acquired under a contract entered into after that time—except for small business taxpayers who meet certain conditions
- provision for elective reassessment of effective lives of plant acquired after that time
- removal of the balancing charge offset—except for small business taxpayers or involuntary disposals
- disregarding of any capital gain or loss from disposals of plant, gains and losses now being calculated under the depreciation provisions and treated as assessable income or deductions.

Changes operating from 1 July 2000:

- end of immediate deductions for plant costing $300 or less; this concession continues to apply to small business taxpayers until 1 July 2001, the date proposed for the introduction of the Simplified Tax System (see page 3)

- replacement of the immediate deduction with an option to depreciate certain plant through a low-value pool, except for small business taxpayers.

Note: Under proposed legislation contained in an Exposure Draft Bill, New Business Tax System (Capital Allowances) Bill 2000, the immediate deduction for plant costing $300 or less will be reinstated from 1 July 2000 for certain taxpayers who use the plant predominantly to produce assessable income that is not derived from carrying on a business.

Change operating from 1 July 2001:

- A uniform capital allowances system will be introduced under proposed legislation contained in the Exposure Draft Bill, New Business Tax System (Capital Allowances) Bill 2000. The system will allow you to calculate deductions for the decline in value of most depreciating assets you hold using a standard set of rules. The new law will maintain the existing deductions for capital expenditure peculiar to primary producers and rural businesses.

For more information, see the publication *Guide to depreciation* (to find out how to get this publication, see page 7) or fact sheets dealing with business tax reform and capital allowances at our Internet site: **www.taxreform.ato.gov.au/general/pubs.htm**.

The Simplified Tax System

The New Business Tax System (Simplified Tax System) Bill 2000 contains a proposal for a Simplified Tax System (STS) to apply to assessments for income years commencing on or after 1 July 2001. The STS is optional for small business taxpayers who must meet eligibility criteria each year, which include their business (and related businesses) having an STS average annual turnover of less than $1m for the income year and holding depreciating assets (excluding land and buildings) valued at less than $3m at the end of the income year. The STS contains three elements:

- a cash accounting system
- a simplified trading stock approach and
- a simplified depreciation system.

Pending the introduction of the system, small business taxpayers retain access to:

- accelerated depreciation—provided certain conditions are met
- the immediate deduction for plant which costs $300 or less
- the balancing charge offset and
- the 13 month prepayment rule—except in the case of tax shelter arrangements.

Landcare operations

Landcare operations cover what were previously known as land degradation measures. You can claim a deduction in the year you incur capital expenditure on landcare measures for land in Australia provided you incur it in any one of the following operations:

- eradicating or exterminating animal or plant pests from the land
- destroying weed or plant growth detrimental to the land
- preventing or combating land degradation other than by the use of fences
- erecting fences to keep out livestock or vermin from areas affected by land degradation, to prevent or limit further damage and assist in reclaiming the areas
- erecting fences to separate different land classes in accordance with an approved land management plan
- constructing levee banks or similar improvements
- constructing surface or sub-surface drainage works—other than the draining of swamps or low-lying areas—to control salinity or assist in drainage control. In each case, apart from the construction of levee banks, the operation must be carried out primarily and principally for the purpose stated. This is to ensure that the outright deduction for landcare measures and the 3-year write-off for facilities to conserve or convey water cannot both be claimed for the same item of expenditure. Where levee banks are constructed primarily and principally for water conservation, the cost is an allowable deduction under the water conservation provisions—see **Water conservation and conveyance** on page 4.

If you are carrying on a primary production business on the land, you may claim the deduction even if you are a lessee. The deduction for landcare operation expenses is reduced when the land is not used wholly for either:

- a primary production business or
- a business for the purpose of producing assessable income from the use of rural land—except a business of mining or quarrying.

A recoupment of the deductible expenditure is assessable under Subdivision 20–A of the *Income Tax Assessment Act 1997* (ITAA 1997). This subdivision does not apply if the recoupment is assessable under another provision of the income tax law. For further information, ring the landcare hotline on **1800 060 425**.

These deductions are not available to a partnership. Landcare operation expenses incurred by a partnership are allocated to each partner and deducted from the partner's income.

Water conservation and conveyance

Capital expenditure incurred on water storage and farm reticulation systems is deductible if incurred primarily and principally in carrying on a primary production business on land in Australia. The deduction can be claimed in equal instalments over 3 years. Items include dams, earth tanks, underground tanks, concrete or metal tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, windmills and extensions or improvements to any of these items. The cost of constructing a power line from an existing mains electricity connection to any plant used for conserving or conveying water is also included.

If you are carrying on a business of primary production on the land you may claim the deduction even if you are a lessee.

The deduction for facilities to conserve or convey water is reduced where the facility is not used wholly for either:

- carrying on a primary production business on land in Australia or
- for the purpose of producing assessable income.

A recoupment of the deductible expenditure is assessable under Subdivision 20–A of ITAA 1997. As the expenditure on water facilities is deductible over 3 income years, special rules apply to determine the amount of any recoupment to be included in assessable income. If the recoupment is assessable under another provision of the income tax law, Subdivision 20–A does not apply. For further information, ring the landcare hotline on **1800 060 425**.

These deductions are not available to a partnership. Costs incurred by a partnership for facilities to conserve or convey water are allocated to each partner and deducted from the partner's income.

Landcare and water facility tax offset

The landcare and water facility tax offset is a 30 cents in the dollar tax offset. It can be claimed instead of a deduction for up to $5000 of eligible expenditure on landcare operations and for up to $5000 of eligible expenditure on facilities to conserve or convey water. Expenditure on landcare can be claimed as a tax offset in the year incurred. Expenditure on facilities to conserve or convey water can be claimed as a tax offset over 3 years.

To be entitled to claim this tax offset you must:

- be a primary producer or
- for the purposes of the landcare operations part of the tax offset be carrying on a business using rural land—other than a business of mining or quarrying—and
- have taxable income of $20 000 or less after you notionally deduct the amount that you would have claimed for eligible expenditure if you had chosen to claim the deduction instead of the tax offset. Only primary producers are entitled to claim the water facility part of this tax offset.

Note: The tax offset is available for expenditure incurred between 1 July 1997 and 30 June 2001. The tax offset is a carry-forward, non-refundable tax offset. This means you can carry forward indefinitely any excess tax offset, after tax liabilities are met, to use against future income tax liabilities.

Certain other capital expenditure

You can claim a deduction over 10 years for certain other capital expenditure. The deduction is allowable in equal instalments over 10 years if it was incurred in:

- connecting mains electricity to land on which a business is carried on
- upgrading an existing connection to that land
- connecting a telephone line to land being used to carry on a primary production business.

These deductions are not available to a partnership. Costs incurred by a partnership for mains electricity supply or telephone lines are allocated to each partner and deducted from the partner's income.

Drought investment allowance

The drought investment allowance provides for a deduction of 10 per cent of capital expenditure incurred on buying or building new items of drought mitigation property to be used wholly and exclusively in Australia for producing assessable primary production income. The expenditure on each item must be at least $3000 and it must have been incurred or the construction commenced after 23 March 1995 and before 1 July 2000. The deductions, which are limited to $5000 for any one year, are allowable for the income year when the item is first used or installed ready for use and this must be before 1 July 2001. The deduction is, generally, available in addition to other deductions allowable in respect of the expenditure. It can be lost or reduced

- if the item or an interest in it is disposed of
- if the item is lost or destroyed or
- if the right to use it is transferred to another entity.

Drought mitigation property is:

- a fodder storage facility—a building or other structure used exclusively to store grain, hay or fodder

- a water storage facility—a dam, earth tank, underground tank or above-ground tank or a base, stand or cover for such a tank or any other structure or improvement used under an approved water conservation plan in relation to land to store water predominantly for livestock.
- a water transport facility—a bore or well, a pump or windmill, a pipe, a water tower or header tank or any other structure or improvement used under an approved water conservation plan in relation to land to transport water
- minimum tillage equipment—for example, trash tillage implements, boom sprays and markers, zero and reduced tillage planters, trash seeders, deep ploughs and seed drills—used in planting and cultivation that involves no tillage of the soil or the tillage does not seriously affect soil structure and retains a high degree of organic matter or surface cover.

If the capital expenditure is recouped, as provided in Subdivision 20–A of ITAA 1997, an amount limited by the amount of the deduction is assessable. If the recoupment amount is assessable under another provision of the income tax law, Subdivision 20–A does not apply.

Leasing companies that lease drought mitigation property to primary producers may qualify for drought investment allowance. Amongst other requirements, the lessee must use the drought mitigation property only in Australia to produce assessable primary production income and the lease term must be for at least 4 years. The leasing company deduction is limited to $5000 per item. The leasing company can transfer its deduction for drought mitigation property to a primary producer lessee provided certain criteria are met.

Establishment costs of grapevines

Capital expenditure incurred in establishing grapevines in Australia is deductible. The expenditure does not include expenditure in draining swamps or low-lying land or in clearing land but it would include, for example:

- the cost of preparing the land—ploughing and topsoil enhancement
- the cost of planting the vine itself
- the cost of the vine.

It is written off pro rata over a period of 4 years from the time the grapevines are established by the entity that owns them and uses them in a primary production business to produce assessable income. If ownership of the grapevines changes, the deduction is available to the new owner while the grapevines are used in a primary production business. If a grapevine is destroyed before the end of the write-off period, a balancing deduction is available. (Expenditure on grapevines established on Crown land held under lease can be eligible for deduction.) If any part of the expenditure is recouped, the amount may be included in assessable income.

Establishment costs of horticultural plants

You are allowed a deduction for capital expenditure on establishing horticultural plants, provided:

- you own the plants—lessees and licensees of land are treated as if they own the horticultural plants on that land
- you use them in a business of horticulture to produce assessable income and
- you incurred the expense after 9 May 1995.

The deduction does not include expenditure on the initial clearing of the land. It may include, for example, the costs of acquiring and planting the seeds, part of the cost of ploughing, contouring, fertilising, stone removal and topsoil enhancement relating to the planting. For further information, ring the ATO. You are not allowed this deduction if you claimed the establishment expenses under any other deduction provisions. You must include recoupment of deductible expenditure in your assessable income. You cannot claim this deduction for forestry plants.

The period over which you can deduct the expenditure depends on the effective life of the horticultural plant. You can choose to work out the effective life or you can use the effective life determined by the Commissioner which applies from 1 January 2001 and is shown in *Taxation Ruling TR 2000/18 —Income tax: depreciation effective life*.

If the effective life of the plants is less than 3 years, you can claim the establishment costs in full in the year you first used the plants to produce assessable income.

If the effective life of the plants is 3 or more years, you can write off the establishment costs over the maximum write-off period from the date the plants were first used for producing assessable income. If the plants are destroyed before the end of their effective life, you are allowed a deduction in that year for the remaining unclaimed expenses less any proceeds—for example, insurance.

Plants with effective life of 3 or more years

	Annual write-off rate	Maximum write-off period
3 to less than 5 years	40%	2 years 183 days
5 to less than 6 $^2/_3$ years	27%	3 years 257 days
6 $^2/_3$ to less than 10 years	20%	5 years
10 to less than 13 years	17%	5 years 323 days
13 to less than 30 years	13%	7 years 253 days
30 years or more	7%	14 years 105 days

Where ownership of the horticultural plants changes, the new owner is entitled to continue claiming the balance of these expenses on the same basis.

Valuing livestock

Stock on hand

You can choose to value livestock on hand at the end of the income year at either cost, market selling or replacement value. An additional option is available for certain horse breeding stock. You may change the basis of valuation year by year and different valuation bases may be adopted in respect of individual items of livestock. At 1 July 2000 the value of livestock on hand should be the same as the assessed value at 30 June 2000.

Stock killed for rations or exchanged for goods and services

In these circumstances, you are treated as if you had disposed of the stock at its cost.

Natural increase

Natural increases of stock during the year can be valued at cost, market selling value or replacement value.

Cost is whichever of the following you elect:

- actual cost of the animal or
- the cost prescribed by the regulations (cattle, horses and deer $20; pigs $12; emus $8; goats and sheep $4; poultry 35 cents).

If your business involves breeding exotic animals—for example, ostriches or alpacas—ring the ATO to confirm the appropriate cost. You must value a horse acquired by natural increase and included in livestock on hand at a cost not less than the insemination service fee attributable to acquiring the horse.

Abnormal receipts

Profit from forced disposal or death of livestock

You can elect to spread profit from the forced disposal or death of livestock over a period of 5 years (or 10 years if the forced disposal was in relation to the control of bovine tuberculosis). Alternatively, you can elect to defer the profit and to use it to reduce the cost of replacement livestock in the disposal year or any of the next 5 income years, any unused part of the profit being included in assessable income in the fifth income year.

An election to spread or defer profits can be made where:

- land is compulsorily acquired or resumed under an Act
- a State or Territory leases land for a cattle tick eradication campaign
- pasture or fodder is destroyed by fire, drought or flood and the proceeds of the disposal or death will be used mainly to buy replacement stock or to maintain breeding stock for the purpose of replacing the livestock
- livestock are compulsorily destroyed under an Australian law for the control of a disease (including bovine tuberculosis) or they die of such a disease, or
- official notification is received under an Australian law dealing with contamination of property.

Insurance recoveries

Insurance recoveries for loss of livestock, or for a loss by fire of trees, that were assets of a primary production business carried on in Australia may, following an election, be included in assessable income in equal instalments over 5 years.

Double wool clips

Tax relief is available in relation to the proceeds of the sale of 2 wool clips arising in an income year because of an early shearing caused by drought, fire or flood. A wool grower can elect to defer the profit on the sale of the wool clip from the advanced shearing to the succeeding year.

Tax averaging

Tax averaging enables you to even out your income and tax payable over a maximum of 5 years to allow for good and bad years. This ensures that you do not pay more tax over a number of years than taxpayers on comparable but steady incomes. When your average income is less than your taxable income—excluding capital gains—you receive an averaging tax offset. When your average income is more than your taxable income—excluding any capital gains—you must pay a complementary amount of tax which is included in the tax assessed. The amount of the averaging tax offset or complementary tax is calculated automatically and your notice of assessment will show you the averaging details. If you are unsure of this calculation, ring the ATO.

If you wish, you may choose to withdraw permanently from the averaging system and pay tax at ordinary rates. However, once you have made this choice, it will affect all your assessments for subsequent years and cannot be revoked. This means you will be taxed on the same basis as taxpayers not eligible for averaging provisions.

Farm Management Deposits scheme

The scheme is designed to reduce fluctuations in primary producers' incomes. Income can be deposited during prosperous years and withdrawn during less prosperous years. Farm management deposits (FMDs) are deductible in the year in which they are made. If you withdraw FMDs for which you have previously claimed a tax deduction, the withdrawals are treated as assessable income in the year in which they are made.

The basic rules of the scheme are:

- FMDs must be in multiples of $1000 and must be made by 30 June to qualify for a deduction in that income year
- the minimum deposit or withdrawal is $1000; the total of all deposits held at any one time cannot exceed $300 000
- interest on FMDs is assessable in the financial year in which it is paid
- the tax deduction allowed for FMDs—including interest reinvested—in any income year is limited to the taxable income derived from a business of primary production in that year
- you cannot claim a deduction for an FMD if your other non-primary production income is greater than $50 000.

FMDs are a commercial product offered by suitable financial institutions but coordinated by the Commonwealth Department of Agriculture, Forestry and Fisheries—Australia (AFFA). If you require more information or advice contact your financial adviser or ring AFFA on freecall **1800 808 869**.

Additional information

The *Partnership tax return 2001 instructions*, *Trust tax return 2001 instructions*, *Company tax return 2001 instructions* and *TaxPack 2001* have additional information for primary producers. If they are relevant to your circumstances use them with this publication. To find out how to get these publications, see below.

Copies of publications

To get a copy of any publication referred to in this booklet:

- visit our Internet site at **www.ato.gov.au**
- ring our Publications Distribution Service on **1300 720 092** for the cost of a local call or
- visit the ATO.

Publications referred to in this booklet include

- *Taxation Ruling TR 97/11—Income tax: am I carrying on a business of primary production?*
- *Guide to depreciation* (NAT 1996—6.2001)
- *Taxation Ruling TR 2000/18—Income tax: depreciation effective life*
- *Partnership tax return 2001 instructions* (NAT 2297—3.2001)
- *Trust tax return 2001 instructions* (NAT 4095—3.2001)
- *Company tax return 2001 instructions* (NAT 0669—3.2001)
- *TaxPack 2001* (NAT 0976—6.2001)
- *Business and professional items 2000–01* (NAT 2543—6.2001)

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Gross income from primary production—worksheet for 2000–01

Note: Labels P1, P2, P6, P7 and P10 in the right hand margin are referred to in the instruction booklet *Business and professional items 2000–01*. They identify amounts to be used in your calculations or transferred to your tax return.

Livestock account

Livestock account	Sheep		Cattle		Pigs		Other livestock Type: ____		TOTALS	
Selected value for natural increase	$		$		$		$			
Section 1	**Number**	**Value $**	**Number**	**Value $**	**Number**	**Value $**	**Number**	**Value $**	**Value $**	
Gross sales										
Killed for rations or exchanged for other goods or services										
Stock on hand 30 June 2001 at cost/replacement/market/other value (Strike out what does not apply.)										P1
Losses by death										
Total of section 1 Total numbers should agree with total numbers in section 2										
Section 2										
Stock on hand 1 July 2000 at cost/replacement/market/other value (Strike out what does not apply.)										P2
Purchases—at cost										
Natural increase—selected value to be shown above										
Total of section 2 Total numbers should agree with total numbers in section 1										
Gross profit or loss										
Deduct total value of section 2 from total value of section 1										P3

Produce account

For produce other than wool or wheat, write the nature of the produce here	Wool $	Wheat $	Other produce $	TOTALS	
Gross sales—include the sale of skins and hides under **Other produce**					P4
Value of produce exchanged for other goods or services or taken from business for private use or for use by employees					P5
Value of produce on hand at 30 June 2001—include the value of skins and hides under **Other produce**					P6
Subtotal					
Less value of produce on hand at 1 July 2000					P7
Gross profit or loss					P8

Other primary production income

		$	TOTAL Other primary production income Add (a)–(e) $	
Net profit from share-farming—keep details	(a)			
Bounties, subsidies, drought relief grants, etc.	(b)			
Income from—for example, pearling, fishing and forest operations, including value of produce from such operations exchanged for other goods or services or taken from business for private use or for use by employees	(c)			
Insurance amounts received for loss of livestock, produce or profits	(d)			
Income from discounts, tax offsets, sundry credits and bad debts recovered	(e)			P9

Gross income or loss from primary production—add items **P3, P8** and **P9** ____ **P10**

DO NOT ATTACH THIS PAGE TO YOUR TAX RETURN—KEEP IT AS YOUR RECORD