INDIVIDUALS	PRIMARY PRODUCERS	GUIDE	NAT 1712–6.2005
SEGMENT	AUDIENCE	FORMAT	PRODUCT ID

Australian Government
Australian Taxation Office

Information for primary producers 2005

To help you complete your tax return for 1 July 2004–30 June 2005

Covers how to claim deductions if you are a primary producer.

OUR COMMITMENT TO YOU

The information in this publication is current at May 2005.

In the taxpayers' charter we commit to giving you information and advice you can rely on.

If you try to follow the information contained in our written general advice and publications, and in doing so you make an honest mistake, you won't be subject to a penalty. However, as well as the underpaid tax, we may ask you to pay an interest charge.

We make every effort to ensure that this information and advice is accurate. If you follow our advice, which subsequently turns out to be incorrect, or our advice is misleading and you make a mistake as a result, you won't be subject to a penalty or an interest charge although you'll be required to pay any underpaid tax.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a recognised tax adviser. Since we regularly revise our publications to take account of any changes to the law, you should make sure this edition is the latest. The easiest way to do this is by checking for a more recent version on our website at **www.ato.gov.au**

YOUR RIGHTS

It is important that you are aware of your rights and obligations when dealing with the Tax Office.

When we make a decision about your tax affairs, we will tell you about your rights and obligations in relation to that decision. We will also give you contact details in case you have any queries or need more information.

There is information under 'Your rights' on the Tax Office website at **www.ato.gov.au** To get a printed copy of the *Taxpayers' charter – what you need to know* (NAT 2548), phone our distribution service on **1300 720 092**.

HOW SELF-ASSESSMENT AFFECTS YOU

Self-assessment means the Tax Office uses the information you give on your tax return to work out your refund or tax debt. You are required by law to make sure you have shown all your assessable income and claimed only the deductions and tax offsets to which you are entitled. The Tax Office does not take any responsibility for checking the accuracy of the details you provide in your tax return. However, at a later date the Tax Office may examine the details contained in your tax return more thoroughly by reviewing specific parts, or by conducting an audit on your tax affairs.

What are your responsibilities?

It is your responsibility to lodge a tax return that is signed, complete and correct. Even if someone else – including a tax agent – helps you to prepare your tax return, you are still legally responsible for the accuracy of your information.

What if you lodge an incorrect tax return?

Our audit programs are designed to continually check for missing, inaccurate or incomplete information. If you become aware that your tax return is incorrect, you must contact us straight away.

Initiatives to complement self-assessment

There are a number of initiatives administered by the Tax Office which complement self-assessment. Examples include:

- if you take reasonable care with your tax affairs, you will not receive a penalty for honest mistakes – but please note that an interest charge on omitted income or over-claimed deductions and tax offsets could still be payable
- the process for applying for private rulings
- your entitlement to interest on early payment or over-payment of a tax debt, or the process for applying for an amendment if you find you have left something out of your tax return.

Do you need to ask for a private ruling?

If you are concerned about the way a tax law applies to your personal tax affairs, you can ask for a private ruling by completing an *Application for a private ruling for individuals* (NAT 4106–3.2001). You should lodge your tax return by the due date, even if you are waiting for the reply to your application. You may need to request an amendment to your tax return once you have received the private ruling.

We publish all private rulings on our website. What we publish will not contain anything that could identify you. For more information on private rulings, including application forms, visit the Tax Office website at **www.ato.gov.au**

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ISBN 0 642 30949 3

PUBLISHED BY

Australian Taxation Office
Canberra
May 2005

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 10.

PRIMARY PRODUCTION LOSSES

Non-commercial business losses

Since 1 July 2000, individuals with losses from carrying on non-commercial business activities (either alone or in partnership with others) may be required to defer those losses under the non-commercial business losses (NCL) measures. The NCL measures do not apply if:

- you operate a primary production business and your assessable income from other sources is less than $40,000, excluding any net capital gain
- your business activity satisfies one of four tests, or
- the Commissioner of Taxation exercises discretion to allow the loss to be claimed.

If the NCL measures do apply, the loss cannot be claimed in the year it arises. Instead, it is deferred to the next year in which you carry on the business activity or one of a similar kind. The deferred loss is offset against any profit from the activity in that future year. Whether any remaining loss can be offset against other income for that future year will depend on the operation of the NCL measures in that year.

> **NOTE**
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> For further information, see *Taxation Ruling TR2001/14 – Income tax: Division 35 – non-commercial business losses*. To get this publication, see page 10.

THE SIMPLIFIED TAX SYSTEM (STS)

The STS is an alternative method of determining taxable income for eligible small businesses with straightforward financial affairs. It can apply to income years starting on or after 1 July 2001. You are eligible to be an STS taxpayer for an income year if:

- you carry on a business at any time in that year
- you have an STS average turnover of less than $1 million in that year (including the turnover of any entities that are grouped with you), and
- you, together with any grouped entities, hold depreciating assets with a total adjustable value of less than $3 million at the end of the year.

Grouping rules prevent ineligible businesses from structuring or restructuring to take advantage of the STS.

Participation in the STS is optional. If you are eligible and decide to enter the STS in an income year, you make an election on your income tax return for that year. You must review your eligibility each year.

The STS has three main elements:

- a cash accounting method that recognises most business income and expenses only when they are received and paid
- simplified trading stock rules where businesses only need to conduct stocktakes and account for changes in the value of trading stock in limited circumstances
- simplified depreciation rules where most depreciating assets costing less than $1,000 each (excluding input tax credit entitlements) are written off immediately.

Most other depreciating assets are pooled and deducted at a diminishing value rate of 30% for the general STS pool or 5% for the long-life STS pool for depreciating assets with an effective life of 25 years or more.

Certain depreciating assets used by a taxpayer in the course of carrying on a business of primary production attract specific uniform capital allowance (UCA) provisions, such as those applying to landcare operations, water facilities, electricity connections and telephone lines. For each of these assets, the taxpayer can choose whether to use the STS provisions or the UCA provisions.

For horticultural plants (including grapevines) you must use the UCA provisions.

STS taxpayers can also claim an immediate deduction for certain prepaid expenses.

For more information, see the publication *The simplified tax system – a guide for tax agents and small businesses* (NAT 6459). To get this publication, see page 10.

DEDUCTIONS FOR THE DECLINE IN VALUE OF DEPRECIATING ASSETS AND CERTAIN OTHER CAPITAL EXPENDITURE

> DEFINITION
>
> **Depreciating asset** – an asset with a limited effective life which can reasonably be expected to decline in value over the time it is used. Some assets are specifically excluded from the definition.

There is a set of general rules for working out deductions for the decline in value of depreciating assets.

Generally, you work out the decline in value of a depreciating asset using either the prime cost or diminishing value method. Both methods are based on the effective life of an asset. The decline in value calculator on our website will help you with the choice and the calculations. For most depreciating assets, you choose whether to self-assess the effective life or use the Commissioner's determination which is in *Taxation Ruling TR 2000/18 – Income tax: effective life of depreciating assets*. To get this publication, see page 10.

Your deduction for decline in value is reduced by the extent you use the asset, or have it installed ready for use, for other than a taxable purpose. A taxable purpose includes the purpose of producing assessable income.

You can allocate low-cost assets and low-value assets you hold to a low-value pool and work out the decline in value of all the assets in the pool in a single calculation.

A low-cost asset is a depreciating asset (except a horticultural plant) whose cost at the end of the year in which you start to use it is less than $1,000 (excluding input tax credit entitlements). A low-value asset is a depreciating asset (except a horticultural plant) that is not a low-cost asset but which has an opening adjustable value of less than $1,000, and for which you have worked out any available deductions for decline in value for a previous income year under the diminishing value method.

The adjustable value of a depreciating asset is its cost (excluding any input tax credit entitlements) less its decline in value since you first used it or installed it ready for use for any purpose, including a private purpose.

These rules for working out decline in value apply to most depreciating assets used in primary production. However, there are special rules for working out deductions for the decline in value of some primary production depreciating assets and certain other capital expenditure.

For more information about the general rules for working out decline in value, see the *Guide to depreciating assets 2005* (NAT 1996–6.2005). To get this publication, see page 10.

Landcare operations

You can claim a deduction for capital expenditure you incur on a landcare operation for land in Australia in the year it is incurred.

The deduction is available to the extent you use the land for either:

- a primary production business, or
- in the case of rural land, a business for the purpose of producing assessable income from the use of that rural land – except a business of mining or quarrying.

You may claim the deduction even if you are only a lessee of the land.

A landcare operation is one of the following operations:

- erecting fences to separate different land classes in accordance with an approved land management plan
- erecting fences primarily and principally to keep out animals from areas affected by land degradation in order to prevent or limit further damage and assist in reclaiming the areas
- constructing a levee or similar improvement
- constructing drainage works – other than the draining of swamps or low-lying land – primarily and principally to control salinity or assist in drainage control
- an operation primarily and principally for eradicating or exterminating animal pests from the land
- an operation primarily and principally for eradicating, exterminating or destroying plant growth detrimental to the land
- an operation primarily and principally for preventing or combating land degradation other than by the use of fences
- an extension, alteration or addition to any of the assets described in the first four dot points or an extension to an operation described in the fifth to seventh dot points.

The meaning of landcare operation has been extended to apply to expenditure incurred on or after 1 July 2004 on:

- a repair of a capital nature to an asset which is deductible under a landcare operation
- constructing a structural improvement that is reasonably incidental to levees or drainage works deductible under a landcare operation
- a repair of a capital nature, or an alteration, addition or extension to a structural improvement that is reasonably incidental to levees (or similar improvements) or drainage works deductible under a landcare operation.

An example of a structural improvement that may be reasonably incidental to drainage works is a fence constructed to prevent livestock entering a drain that was constructed to control salinity.

No deduction is available for capital expenditure on plant, except for plant comprising certain fences, dams or other structural improvements. If the decline in value of plant is not deductible under the landcare provisions, you work out the plant's decline in value using the general rules for working out decline in value.

Where a levee is constructed primarily and principally for water conservation, it is a water facility and no deduction would be allowable under these rules. Its decline in value would need to be worked out under the rules for water facilities (see the next page).

Any recoupment of the expenditure may be included in your assessable income.

These deductions are not available to a partnership. Expenses for landcare operations incurred by a partnership are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

The deduction for landcare operations was extended to rural land irrigation water providers for certain expenditure they incur on or after 1 July 2004. A rural land irrigation water provider is an entity whose business is primarily and principally supplying water to entities for use in primary production businesses on land in Australia or businesses on land in Australia or businesses (except mining or quarrying businesses) using rural land in Australia. For more information, see the *Guide to depreciating assets 2005*. To get this publication, see page 10.

Water facilities

A water facility includes plant or a structural improvement, or an alteration, addition or extension to plant or a structural improvement, that is primarily or principally for the purpose of conserving or conveying water. The expenditure must be incurred by you primarily and principally for conserving or conveying water for use in your primary production business on land in Australia.

You may claim the deduction even if you are only a lessee of the land.

You can claim a deduction for the decline in value of a water facility in equal instalments over three income years. Examples of a water facility are dams, tanks, tank stands, bores, wells, irrigation channels, pipes, pumps, water towers and windmills.

The meaning of water facility has been extended to include certain other expenditure incurred on or after 1 July 2004:

- a repair of a capital nature to plant or a structural improvement that is primarily and principally for the purpose of conserving or conveying water – for example, if you purchase a pump that needs substantial work done to it before it can be used in your business, the cost of repairing the pump may be treated as a water facility
- a structural improvement, or an alteration, addition or extension, to a structural improvement, that is reasonably incidental to conserving or conveying water
- a repair of a capital nature to a structural improvement that is reasonably incidental to conserving or conveying water.

Examples of structural improvements that are reasonably incidental to conserving or conveying water include a bridge over an irrigation channel, a culvert (a length of pipe or multiple pipes that are laid under a road to allow the flow of water in a channel to pass under the road), or a fence preventing livestock entering an irrigation channel.

Your deduction is reduced where the water facility is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose – for example, producing assessable income.

Any recoupment of the expenditure may be included in your assessable income. As the expenditure on water facilities is deductible over three income years, special rules apply to determine the amount of any recoupment to be included in assessable income in the year of recoupment and in later income years.

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 who can then claim the relevant deduction in respect of their share of the expenditure.

The deduction for water facilities was extended to irrigation water providers for expenditure incurred on or after 1 July 2004. An irrigation water provider is an entity whose business is primarily and principally the supply of water to entities for use in primary production businesses on land in Australia. For more information, see the *Guide to depreciating assets 2005*. To get this publication, see page 10.

Tradeable water rights

The states and territories have enacted legislation to enable the trading of water rights. Generally, there are capital gains tax and/or general taxation consequences from the sale, transfer or ending of water licences, allocations, quotas or entitlements.

Water rights, such as licences and water allocations are CGT assets. The permanent trade of a water right constitutes the disposal of a CGT asset. A temporary trade of these rights also constitutes a CGT event – exactly which CGT event will depend on the facts of each case and the rules governing the trade. Whether there are general income tax consequences as a result of a water trade also depends on your particular circumstances. If you are uncertain, write to the Tax Office and request a private ruling on how the tax laws apply to your situation.

Carbon sequestration rights

Farmers and other landowners may manage or plant forests to participate in carbon sequestration activities. The carbon sequestration activities which contribute to greenhouse gas abatement are enabled by state legislation. Rules governing how these activities are carried out are provided for by the relevant state legislation, related regulations and operating rules.

There are capital gains tax consequences of trading in carbon sequestration rights. A carbon sequestration right is a CGT asset. The exact CGT consequences will depend on the facts and the manner by which your trade is carried out. For example, selling a carbon sequestration right to another entity before the end of a contract will trigger a

CGT event as this will result in a change of ownership. A carbon sequestration right, as defined in the NSW legislation, is considered to be inherently connected with a primary producer's land and can be an active asset. Therefore, any capital gain made by a primary producer from the granting of that right may qualify for the small business concessions if the conditions for those concessions are satisfied.

You are not a primary producer if you plant, manage or establish trees for the sole purpose of carbon sequestration activities and those trees are not intended to be felled in a business of forestry operations (see **Who is a primary producer** on page 3).

Where you plant and maintain forests in the ordinary course of forestry activities, you may be entitled to a general deduction for the costs of planting and maintaining the forests. You are a primary producer for income tax purposes if you are engaged in 'forest operations' and those activities constitute the carrying on of a business. Taxation Ruling TR 95/6 outlines the various deductions available to primary producers engaged in forest operations. The deductibility of these expenses is not altered by the fact that you also derive income from carbon sequestration activities that are carried on in conjunction with forestry activities.

Where you plant trees with the sole purpose of participating in carbon sequestration activities and those trees are not intended to be felled in a business of forestry, a general deduction is not allowed for these costs. This is because the cost of planting in these circumstances is capital expenditure. Capital expenditure for planting trees may receive other income tax treatment, depending on the context in which the expenditure is incurred:

- For trees that are regarded as horticultural plants (that is, trees used for the sale of their products or parts), the costs of establishment are written off by reference to the effective life of the plant.
- Trees which are used solely for carbon credit arrangements are not cultivated or propagated for any of their products or parts and do not constitute horticultural plants for the purpose of applying the horticultural plant deduction under section 40-515 of the *Income Tax Assessment Act 1997*.
- For trees planted or established as a landcare operation (for example, to combat land degradation) an immediate deduction for establishment costs is available where the costs are incurred primarily and principally for such a landcare purpose.
- For trees and shrubs whose function is purely ornamental, capital expenditure may be deductible under the project pooling provisions based on the project life.

The uniform capital allowance provisions do not otherwise provide a deduction for capital expenditure for planting or establishing trees or have regard to the trees as depreciating assets.

Electricity connections and telephone lines

You can claim a deduction in equal instalments over 10 years for capital expenditure incurred in connecting:

- mains electricity to land on which a business is carried on or in upgrading an existing connection to such land, or
- a telephone line brought on or extending to land being used to carry on a primary production business.

Any recoupment of the deductible expenditure may be included in your assessable income. As the expenditure is deductible over more than one income year, special rules apply to determine the amount of any recoupment to be included in assessable income in the year of recoupment and in later income years.

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 who can then claim the relevant deduction in respect of their share of the expenditure.

Grapevines

The specific rules for working out the decline in value of grapevines only apply to grapevines that were planted and first used by you in a primary production business before 1 October 2004. **Legislation removing this accelerated income tax write-off for grapevines came into effect from 1 October 2004**. Any grapevine planted and used in a primary production business prior to 1 October 2004 will continue to use the specific rules for grapevines. If a grapevine was planted and first used by you in a primary production business on or after 1 October 2004, the decline in value of the grapevine is worked out under the provisions relating to horticultural plants (see **Horticultural plants** on the next page).

The decline in value of grapevines is worked out at a rate of 25%, provided you own the land to which the grapevines are affixed, or the grapevines are established on Crown land you hold under lease which is used in a primary production business.

If you are not entitled to work out your deduction for decline in value under the provisions relating to grapevines because these conditions are not met, a deduction may be available for decline in value under the provisions relating to horticultural plants (see the next page).

Your deduction for the decline in value of grapevines is based on the capital expenditure incurred on establishing the grapevines. Capital expenditure incurred on establishing grapevines does not include the cost of purchasing or leasing land, expenditure in draining swamps or low-lying land, or expenditure in clearing land. However, it would include, for example, the cost of:

- preparing the land – ploughing and topsoil enhancement
- planting the vine itself, and
- the vine.

You start to deduct the decline in value of grapevines from the time you first use the grapevines in a primary production business to produce assessable income. If ownership of the grapevines changes, the remaining deduction is available to the new owner while they use the grapevines in a primary production business. If a grapevine is destroyed before the end of the write-off period, you are allowed a deduction in that year for the remaining unclaimed expenses less any proceeds – for example, insurance.

Any recoupment of the expenditure may be assessable income. As the expenditure is deductible over more than one income year, special rules apply to determine the amount of any recoupment to be included in assessable income in the year of recoupment and in later income years.

These deductions are not available to a partnership. Costs incurred by a partnership in establishing grapevines are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

Horticultural plants

You are allowed a deduction for the decline in value of 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
- the expense was incurred after 9 May 1995.

Your deduction for the decline in value of horticultural plants is based on the capital expenditure incurred on establishing the plants. This does not include expenditure on the initial clearing of the land. It may include, for example:

- the costs of acquiring and planting the seeds, and
- part of the cost of ploughing, contouring, fertilising, stone removal and topsoil enhancement relating to the planting.

You cannot claim this deduction for forestry plants.

The period over which you can deduct the decline in value depends on the effective life of the horticultural plant. You can choose to work out the effective life yourself or you can use the effective life determined by the Commissioner which is listed in *Taxation Ruling TR 2000/18 – Income tax: effective life of depreciating assets*.

If the effective life of the plant is less than three years, you can claim the establishment costs in full in the year in which the products or parts of the plant are first able to be harvested and sold commercially. If the effective life of the plant is three or more years, you can write off the establishment costs over the maximum write-off period which generally commences at the start of what is expected to be the plant's first commercial season. If the plant is destroyed before the end of its 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 three or more years

Effective life	Annual write-off rate	Maximum write-off period
3 to less than 5 years	40%	2 years 183 days
5 to less than 6 ⅔ years	27%	3 years 257 days
6 ⅔ 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 the capital expenditure incurred establishing the plants on the same basis.

Grapevines installed after 1 October 2004 are now dealt with under these provisions. The main changes are:

- Deductions for the decline in value of a grapevine can only be claimed from the income year in which the grapevine's first commercial season starts, not when it is first used in a primary production business.
- The decline in value of a grapevine will not be worked out at an annual rate of 25% but will be based on the effective life of the grapevine.

The Commissioner has determined effective lives for grapevines as follows:

Horticultural plants	Effective life (years)
Grapevines, dried	15
Grapevines, table	15
Grapevines, wine	20

Alternatively, a taxpayer can estimate their own effective life for grapevines.

Any recoupment of the expenditure is assessable income. Where the expenditure is deductible over more than one income year, special rules apply to determine the amount of any recoupment to be included in assessable income in the year of recoupment and later income years.

These deductions are not available to a partnership. Costs incurred by a partnership in establishing horticultural plants are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

VALUING LIVESTOCK

Stock on hand

You can choose to value livestock on hand at the end of the income year at cost, market selling value 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 for individual livestock. At 1 July 2004, the value of livestock on hand should be the same as the value of your closing stock at 30 June 2004 that you used for your 2003–04 tax return.

Oyster farmers

Oyster farmers are required to account for oysters on hand as trading stock. This includes oysters held on sticks or in trays, or harvested and held ready for sale.

If you are farming oysters for human consumption using the traditional stick farming method and have not previously accounted for your stock on hand, you may be eligible for a trading stock concession for 2001–02 only. This concession allows you to value your stock on hand at the beginning of 2001–02 based on the number of sticks you used to capture stock – $1.00 for wooden sticks or two-metre plastic slats, and $0.50 for one-metre plastic slats. This concession applies to your stock on hand that had not been harvested at the beginning of 2001–02. For more information, see the fact sheet *Oyster farmers – stock on hand* on our website.

If you are eligible for this concession but did not use it in your 2001–02 tax return, you may request an amendment of your 2001–02 assessment. The normal trading stock rules apply for 2002–03 and later income years.

Goods taken from stock for private use

If you take goods from stock for your own use, or for the use of your family members, you are required to account for the goods as if the stock had been disposed of at its cost.

Natural increase

The cost of an animal you hold as livestock that you acquired by natural increase is whichever of these you elect:

- actual cost of the animal, or
- 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 – phone the Business Infoline on **13 28 66** 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.

If you are eligible and elect to enter the STS, you only need to value each item of trading stock on hand and account for changes in the value of your trading stock (including livestock) if the value of all your stock on hand at the start of the income year and a reasonable estimate of the value of all your stock on hand at the end of the income year varies by more than $5,000.

ABNORMAL RECEIPTS

Grants and subsidies

Generally, amounts received by way of grants or subsidies will either be assessable as income under ordinary concepts or as a capital receipt.

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 five years. 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 five income years. Any unused part of the profit is included in assessable income in the fifth income year.

An election to spread or defer profits can be made where you dispose of the stock, or they die, because:

- 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 you will use the proceeds of the disposal or death mainly to buy replacement stock or to maintain breeding stock for the purpose of replacing the livestock
- they are compulsorily destroyed under an Australian law for the control of a disease (including bovine tuberculosis) or they die of such a disease, or
- you receive official notification under an Australian law dealing with contamination of property.

Insurance recoveries

Where you have an assessable insurance recovery for loss of livestock or for loss by fire of trees that were assets of a primary production business carried on in Australia, you can elect to include the amount in assessable income in equal instalments over five years.

Double wool clips

Tax relief is available in relation to the proceeds of the sale of two 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 clip from the advanced shearing to the next year.

TAX AVERAGING

Tax averaging enables you to even out your income and tax payable over a maximum of five years to allow for fluctuations. 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 extra income tax which is included in the tax assessed.

The amount of the averaging tax offset or extra income tax is calculated automatically and your notice of assessment will show you the averaging details. If you are unsure of this calculation, phone the Business Infoline on **13 28 66**.

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 farm management deposits (FMD) scheme is designed to enable primary producers to make provision for fluctuation in earnings by allowing income to be deposited during prosperous years and withdrawn during less prosperous years.

Subject to certain conditions, deposits are deductible in the year in which they are made. If you withdraw any deposits that you have previously claimed as a tax deduction, the withdrawals are treated as assessable income in the year in which they are made. Apart from exceptional circumstance declarations, amounts which are deposited and withdrawn within 12 months will not receive concessional treatment.

The basic rules of the scheme are:

- The deposit must be made with an approved financial institution such as a bank, building society or credit union.
- The owner of the deposit must be a primary producer when the deposit is made.
- The deposit must be made on behalf of only one person. (Deposits by two or more persons jointly or made on behalf of two or more persons will not be recognised as FMD.)
- Deposits must be made by 30 June to qualify for a deduction in that income year.
- The minimum deposit or withdrawal is $1,000; the total of all deposits held at any one time cannot exceed $300,000.
- Interest on FMD is assessable in the income year in which it is paid.
- The tax deduction allowed for FMD – 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 FMD if, in the income year:
  - your taxable income from non-primary production activities is greater than $50,000
  - you became bankrupt, or
  - you ceased to be a primary producer for at least 120 days – the 120-day period does not have to fall entirely in the one income year.
- Where a deposit holder dies in the income year, a deduction is not allowable for any deposits they made in that income year.
- FMD do not have to be 12-month fixed term deposits but can be held in deposits of any term, provided no part of the amount is withdrawn within 12 months of the date of deposit.
- From 1 July 2002, you can withdraw part of a deposit within 12 months of making the deposit without losing the benefit of the tax deduction for the remaining amount. This residual amount still qualifies for an FMD deduction, provided it remains in the account for at least 12 months and does not fall below $1,000. A deduction is not allowable for the part of the deposit that is withdrawn. Where this affects a deduction you claimed in the prior year, you need to request an amendment of your assessment for that income year.
- From 1 July 2002, certain FMD holders can withdraw deposits early and still retain the tax deduction in the income year in which the deposit was made. This concession applies if, at the time of the withdrawal, you operate your primary production business in an area covered by an exceptional circumstances (EC) declaration made by the Minister for Agriculture, Fisheries and Forestry, and the deposit was made when the area was not under an EC declaration. To confirm your EC status, you have until three months after the end of the income year in which the withdrawal is made to obtain an EC certificate from the relevant state authority.
- This is to ensure that primary producers will be able to take advantage of the EC concession prior to the certificate being issued. The amount of the withdrawal is assessable in the income year in which the withdrawal is made, and you cannot claim a deduction for any subsequent deposits made in the same income year.

For more information, see the fact sheet *Farm management deposits scheme* on our website.

Farm management deposit accounts are commercial products offered by financial institutions but coordinated by the Australian Department of Agriculture, Fisheries and Forestry. If you require more information on the taxation requirements for the farm management deposits scheme, contact the Business Infoline on **13 28 66**.

WORKSHEET

To help you work out your income from primary production, we have provided a worksheet at the back of this publication. If you use it, keep the completed worksheet with your other records.

The *Business and professional items instructions 2005* explains where amounts from the worksheet, labelled PP1–PP11, should be shown at P8 on the *Business and professional items schedule for individuals 2005*.

MORE INFORMATION

INTERNET

- For up-to-date and comprehensive information about deductions and to download publications, rulings and general tax information, visit **www.ato.gov.au**

INFOLINES

- **Personal tax** **13 28 61**
  Individual income tax and general personal tax enquiries, including capital gains tax
- **Business tax** **13 28 66**
  General business tax enquiries including capital gains tax, GST rulings, Australian business number (ABN), pay as you go (PAYG) instalments, business deductions, activity statements (including lodgment and payment), accounts and business registration (including Australian business number and tax file number), dividend and royalty withholding tax
- **Superannuation** **13 10 20**
- **Fax** **13 28 60**
  To get information about business, tax reform, superannuation, excise duty, fuel schemes, not for profit or personal tax sent to your fax machine, phone **13 28 60** and follow the instructions.

OTHER SERVICES

- **Translating and Interpreting Service** **13 14 50**
  If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service for help with your call.
- If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**
  If you do not have access to TTY or modem equipment, phone the
  Speech to Speech Relay Service **1300 555 727**

PUBLICATIONS

Publications referred to in this guide are:

- *Farm management deposits scheme* (available only at **www.ato.gov.au**)
- *Guide to depreciating assets 2005* (NAT 1996–6.2005)
- *Oyster farmers – stock on hand* (available only at **www.ato.gov.au**)
- *The simplified tax system – a guide for tax agents and small businesses* (NAT 6459)
- *Taxation Ruling TR 97/11 – Income tax: am I carrying on a business of primary production?*
- *Taxation Ruling TR 2000/18 – Income tax: effective life of depreciating assets*
- *Taxation Ruling TR 2001/14 – Income tax: Division 35 – non-commercial business losses*.

The following publications have additional information for primary producers. If they are relevant to your circumstances, use them in conjunction with this guide.

- *Business and professional items 2005* (NAT 2543–6.2005)
- *Company tax return instructions 2005* (NAT 0669–6.2005)
- *Partnership and trust tax returns instructions 2005* (NAT 2297–6.2005)
- *TaxPack 2005* (NAT 0976–6.2005).

To get any publication referred to in this guide:

- visit our website at **www.ato.gov.au/publications** for publications, taxation rulings, practice statements and forms
- phone our Publications Distribution Service on **1300 720 092**, or
- visit one of our shopfronts.

LODGE ONLINE WITH E-TAX

Looking for an easy and convenient way to do your tax return? Try e-tax – available free from the Tax Office website at **www.ato.gov.au**

You can use e-tax to:

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- calculate items such as your net capital gain
- work out your tax refund or tax debt.

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FEEDBACK

Reader feedback helps us to improve the information we provide. If you have any feedback about this publication, please write to:

Personal Tax Editor
Marketing and Education – Paper Publishing
Australian Taxation Office
PO Box 900
CIVIC SQUARE ACT 2608

As this is a publications area only, any tax matters will be passed on to a technical area; alternatively, you can phone our Personal Tax Infoline on **13 28 61** for help.

GROSS INCOME FROM PRIMARY PRODUCTION – WORKSHEET FOR 2004–05

NOTE
Labels in the right hand margin (PP1–PP11) identify amounts to be used in the completion of your calculations for your *Business and professional items schedule for individuals 2005*

WORKSHEET: Gross income from primary production for 2004–05

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		$		$		$		$	$	**PP1**
Killed for rations or exchanged for other goods or services		$		$		$		$	$	**PP2**
Stock on hand 30 June 2005 at cost/replacement/market/other value (strike out what does not apply)		$		$		$		$	$	**PP3**
Losses by death										
Total of section 1 Total numbers should agree with total numbers in section 2		$		$		$		$	$	
Section 2										
Stock on hand 1 July 2004 at cost/replacement/market/other value (strike out what does not apply)		$		$		$		$	$	**PP4**
Purchases – at cost		$		$		$		$	$	**PP5**
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 (Livestock account) Deduct total of section 2 from total of section 1		$		$		$		$	$	

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**	$	$	$	$	**PP6**
Value of produce exchanged for other goods or services or taken from business for private use or for use by employees	$	$	$	$	**PP7**
Value of produce on hand at 30 June 2005 – include the value of skins and hides under **Other produce**	$	$	$	$	**PP8**
Subtotal	$	$	$	$	
Less value of produce on hand at 1 July 2004	$	$	$	$	**PP9**
Gross profit or loss (Produce account)	$	$	$	$	

OTHER PRIMARY PRODUCTION INCOME

Item		Amount	
Net profit from share-farming – keep details	(a)	$	
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	(b)	$	
Insurance amounts received for loss of livestock, produce or profits	(c)	$	
Income from discounts, rebates, sundry credits and bad debts recovered	(d)	$	
TOTAL Other primary production income – add (a + b + c+ d)		$	**PP10**
Grants, subsidies, drought relief grants etc.		$	**PP11**

STOP

Do not attach this worksheet to your tax return – keep it as your record