Australian Government
Australian Taxation Office

Primary producers:

Tree farming (forestry operations) – income and expenses

If you're a primary producer, find out about the tax consequences of tree farming. These include deductions you can claim for the cost of acquiring, establishing or maintaining forest plantations.

Key points

- If you are carrying on a tree farming business as a primary producer, you may be entitled to primary production concessions.
- This information applies to primary producers who may also be engaged in other primary production activities on their land, such as dairy farming. It describes the basic rules that apply in most circumstances.
- It does not apply to:
  - trees planted for other purposes, such as to provide protection (shelterbelts), for carbon sequestration or horticulture
  - participants in forestry managed investment schemes.

Determine if you are carrying on a business

To be carrying on a tree farming business, you must intend to harvest the trees to sell at a profit. Your activities must be organised and run in a business-like way. This, amongst other things, requires you to actively maintain the trees.

If you are carrying on a business of tree farming as a primary producer, you may be entitled to primary production concessions. These include farm management deposits and primary production averaging for the income you make from your tree farming activities.

Find out more about farm management deposits at ato.gov.au/farmmanagementdeposits

Amounts that are assessable income

The following amounts are assessable:

- income from the sale of harvested timber
- income from the sale of standing timber
- royalties received from allowing others to harvest and remove timber
- insurance recoveries
- reforestation incentive grants or payments.

If your activities don't amount to the carrying on of a business, the following amounts are still considered assessable income (but not as primary production income):

- income from the sale of standing timber
- royalties received from allowing others to harvest and remove timber.

You may need to declare the market value of standing timber as assessable income. For example, if you sell the land on which the trees are growing, and the trees were planted and maintained with intention to sell them, the payment you receive is assessable income.

The market value is the arm's-length price an independent purchaser would be willing to pay. If you need to establish the market value of the trees before you sell the land, one way to do this is by engaging a valuer with relevant expertise in the value of standing timber.

If the market value of standing timber is included in your assessable income, the capital proceeds from the sale of land will be reduced accordingly for capital gains tax (CGT) purposes. You won't be taxed twice on the market value of the standing timber.

In most cases, CGT won't apply to profits from the sale of standing or harvested timber. This is because the profits will either be assessable as ordinary business income or income from an isolated commercial transaction that was entered into to make a profit.

Revenue and capital costs

Revenue costs are your normal business operating expenses that you can deduct under normal deduction arrangements (such as the cost of maintaining firebreaks).

Find out more about business tax deductions at ato.gov.au/businessdeductions

Capital costs are costs that provide a lasting benefit (such as the cost of business assets) and are otherwise not usually deductible, but for which you may be able to claim specific deductions.

Expenses you can claim

Immediate deductions

- If you are carrying on a tree farming business, **you can claim** a deduction for the following costs when you incur them:
  - establishing a plantation or forest
  - maintaining a plantation or forest
  - harvesting and transporting timber.
- Establishment and maintenance costs **you can claim** a deduction for include:
  - cost of seedlings and plants
  - expenses that relate to the planting process, such as deep ripping, mound ploughing, raking, levelling and weed control
  - watering and fertilising costs
  - capital costs of installing dams, sprinkler systems and fences (boundary or internal)
  - firebreak and track maintenance
  - costs of shooting or baiting feral animals
  - forest health surveys and consultant advice
  - harvesting and transport costs related to diseased trees or thinning operations.
- Initial expenditure on clearing or preparing the land for planting is a capital cost and not deductible. For example, **you can't claim** costs for the initial pushing out and windrowing of stumps and debris. You can deduct these types of expenses after the first harvest for future plantings on that land.

Depreciation deductions

- **You can claim** a depreciation (decline in value) deduction for capital items (e.g. specialised forestry equipment, tractors, vehicles) or construction costs of an access road.

  You may be able to claim an immediate deduction for these expenses. To find out if you're eligible and for more information, visit ato.gov.au/depreciation

Deferred deductions

When you harvest trees for sale (including via thinning) or when someone else harvests them and you receive a royalty, you can deduct an amount in relation to the following expenses:

- the proportion of the purchase price for your plantations
- value of existing trees introduced into a new business (for example, when there's a native forest already on your farmland and you later decide to maintain the trees for future harvesting and sale).

The amount you can deduct is the proportion of the purchase cost that reasonably relates to the actual trees harvested, not including the cost of the land.

For existing trees, you must apportion the market value of the trees from when you started carrying on the forestry business.

Example

You purchased a plantation for $100,000 which includes the value of the land.

The value of the trees on the land was $50,000. You later harvest half of the trees for sale.

You can deduct $25,000 at that time which is half of the value of the trees on the land ($50,000 ÷ 2).

You must be able to identify the part of the purchase price that relates only to the trees at the time you purchased the plantation or forest. You should obtain written evidence to support this, for example a valuation provided by the seller or having the amount specifically stated in the contract.

Even if your activities don't amount to carrying on a business, you can still claim a deferred deduction for the cost of the plantation or forest.

This is a general summary only.
For more information, visit ato.gov.au/primaryproducers and ato.gov.au/treefarming or speak to a registered tax professional.

NAT 75337-06.2022 DE-42796