

Income and expenses from **tree farming/forestry operations**

What amounts are assessable? Can you claim a tax deduction? What you need to know.

This fact sheet explains the income tax consequences of engaging in forestry operations, including your entitlement to claim income tax deductions for the costs of acquiring, establishing or maintaining forest plantations. This is sometimes referred to in the industry as tree farming.

This fact sheet does not apply to trees planted for other purposes, such as to provide protection or for carbon sequestration or horticulture. It also does not apply to participants in forestry managed investment schemes.

This fact sheet applies to farmers who may also be engaged in other primary production activities on their land, such as dairy farming. It describes the basic rules that will apply in most circumstances. Your situation may be different.

Carrying on a business

The type of deductions you can claim will depend on whether your forestry activities amount to the carrying on of a business (in addition to any other primary production business you may carry on).

To be carrying on a business, you must intend to fell the trees in question for sale at a profit and your activities must be organised and run in a business-like way. This generally means that you actively tend and maintain the trees.

There are no set rules to determine whether you are carrying on a business. It depends on your individual circumstances. However, if you incur the type of expenses outlined under Immediate deductions below, it is likely that you will be carrying on a business. But there must also be a reasonable expectation that you will make a profit.

If you are carrying on a business, primary production concessions, such as farm management deposits and primary production averaging, will be available in relation to the income from your activities.

You may not be carrying on a business if you do not actively tend and maintain the trees – for example, if you purchase a plantation and you do not take any further action in relation to it. But you may still be able to claim a deduction for the purchase cost of the trees – see Deferred deductions below.

If you are unsure whether you are carrying on a business, contact the ATO or your registered tax advisor for advice.

What amounts are assessable?

The following amounts are assessable:

- proceeds from the sale of felled timber
- proceeds from the sale of standing timber
- royalties received from granting rights to others to fell and remove timber
- insurance recoveries
- re-forestation incentive grants or payments.

Even if your activities do not amount to the carrying on of a business, the following amounts are assessable (but not as primary production income):

- proceeds from the sale of standing timber
- royalties received from granting rights to others to fell and remove timber.

In some cases, the market value of standing timber may be assessable - for example, if you sell the land on which the trees are growing and they were planted and tended for the purpose of sale.

The market value is the price a typical arm's length purchaser would be willing to pay.

This means you may have to establish the market value of the trees before you sell the land – for example, from someone who has expertise in the value of standing timber.

If the market value of standing timber is assessable, capital gains tax may still apply to the remaining value of the land. But you won't be taxed twice on the standing value of the timber.

In most cases, capital gains tax will not apply to profits from the sale of standing or felled timber - because the profits will be assessable as either ordinary business income or income from an isolated commercial transaction that was entered into to make a profit.

You may need to contact the ATO or your registered tax advisor for advice before you sell a forest or plantation.

What kind of expenses can you claim?

Immediate deductions

If you are carrying on a business of forestry operations, you can deduct the following expenses when you incur them:

- costs of establishing a plantation or forest
- costs of tending a plantation or forest
- costs of felling and transporting timber.

Deductible establishment and tending costs include:

- cost of seedlings and plants
- expenses which 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, reticulation and fences (boundary or internal)
- firebreak and track maintenance
- costs of shooting or baiting feral animals
- forest health surveys and consultant advice
- felling and transport costs related to diseased trees or thinning operations.

Initial expenditure on clearing or preparing the land for planting is capital and not deductible (for example, costs incurred in the initial pushing out and windrowing of stumps and debris). These type of expenses are deductible after the first harvest for subsequent plantings on that land.

You can claim an immediate deduction for low value capital items that cost up to \$100 each (such as hand tools).

Otherwise, you can claim a decline in value (depreciation) deduction for capital items - such as specialised forestry equipment, tractors, vehicles or the cost of construction of an access road.

If you are a small business entity, you can claim an immediate deduction for these expenses if their individual cost is less than the instant asset write-off threshold (currently \$20,000).

Deferred deductions

You can deduct the following expenses when you **fell** the trees for sale (including via thinning) or when someone else fells them and you receive a royalty:

- purchase price paid to acquire a plantation or forest
- value of existing trees introduced into a new business (like when there is a native forest already on your farm land and you later decide to tend the trees for future felling and sale).

The amount deductible is the proportion of the purchase cost that reasonably relates to the actual trees felled (but not including the cost of the land). For existing trees, you apportion the market value of the trees when you started carrying on the forestry business.

Example

You purchased a plantation for \$100,000. The purchase price was arrived at based on the value of the trees being \$50,000. You later fell half the trees for sale. You can deduct \$25,000 at that time.

You must be able to identify the part of the purchase price that relates to the trees at the time you purchase the plantation or forest. You should obtain documentary 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 do not amount to the carrying on of a business, you can still claim a deferred deduction for the cost of the plantation or forest.

More information?

Search our Legal Database on ato.gov.au for:

- Taxation Ruling [TR 95/6](#) *Income tax: primary production and forestry*
- Taxation Ruling [TR 97/11](#) *Income tax: am I carrying on a business of primary production?*
- Taxation Determination [TD 96/8](#) *Income tax: how do you determine the market value of mature trees acquired and used for non-forest operations, but later ventured into a new business, as contemplated by paragraph 45 of Taxation Ruling TR 95/6?*



For a callback from an ATO officer, email TaxAdvice@ato.gov.au

If you wish to discuss your circumstances, call the ATO on 13 28 66.

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This publication was current at [June 2017](#).

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