

Tax Information for Landholders Participating in the Vegetation Incentives Program (VIP)

<p><i>This document provides basic tax information on the VIP...</i></p> <p><i>...you should talk to your accountant about what this information means to your business.</i></p>	<p>Introduction</p> <p>Tax matters to all landholders and the impacts of tax should be considered as part of any business decision. The Vegetation Incentives Program (VIP) is no different. The purpose of this document is to provide some basic information to you and your accountant on the likely tax issues relating to your involvement in the VIP.</p> <p>While this information has been prepared based on professional information provided by a major business advisory firm, this document should not be relied on as formal tax advice. Because your business and tax structure is unique, you should talk to your accountant / business advisor about what this information means to your business. We realise that this advice may cost you money. Therefore you may wish to include the cost of this professional advice within the cost of your final bid under the VIP.</p> <p>It is most likely that your formal bid under the VIP will involve both payments to undertake management actions (such as fencing and eradication weeds) and an amount for entering into the covenant over the area to be managed under the VIP. To ensure greater certainty of the tax treatment of payments you receive from the VIP, your final contract should make this clear. This information is provided on the basis that you have done this.</p> <p>There are four key areas of tax information relevant to you as a landholder. They are:</p> <ul style="list-style-type: none"> ▪ the treatment of payments from the VIP for undertaking management actions. ▪ the potential for capital gains implications from entering into the covenant as part of your involvement in the VIP. ▪ the treatment of costs incurred in undertaking management actions under the VIP, and; ▪ any goods and services tax (GST) implications.
<p><i>Payments made to you under the VIP... are assessable income...</i></p> <p><i>...to reduce uncertainty of the tax treatment of your payments under the VIP, your bid and Management Agreement should clearly show what payments are for undertaking management actions and what payments are for entering into the covenant</i></p>	<p>Payments made to you under the VIP</p> <p>Payments made to you under the VIP for undertaking management actions are assessable income for you as a landholder. The rate of tax you pay will depend on your personal tax arrangements (e.g. for tax purposes are you an individual, partnership or a company?).</p> <p>The tax treatment of the payments will be different depending on whether the payments are for undertaking the management actions under your Management Agreement, whether the payments are for entering into the covenant on your land, or whether the payment is split between the two purposes. This information has no influence on the consideration of your “bid” under the VIP. However, to reduce uncertainty of the tax treatment of your payments under the VIP, your bid and the Management Agreement (Third Schedule) should clearly show what payments are for undertaking management actions and what payments are for entering into the covenant.</p>

	<p>Generally speaking, where the payment is made to you for entering into a covenant on your land, the proceeds will be regarded as capital in nature (assuming the land is held as a capital asset). On the other hand, where the purpose of the payment is wholly to cover your costs to undertake management actions under the Management Agreement and to compensate for loss of income streams (such as loss of business profits due to the loss of useable land) the proceeds will generally be on your revenue account. Where a payment represents a composite payment, it will be on your revenue account to the extent that a portion of the lump sum payment is identifiable or quantifiable as relating to a loss of an income stream. Where this dissection is not identifiable or quantifiable, the entire amount will be of a capital nature: <i>Allsop v FCT</i> (1965) 113 CLR 341; <i>Taxation Determination</i> TD 96/58.</p> <p>Where a payment made under the VIP is capital in nature, the payment may give rise to a net capital gain under the capital gains tax (CGT) provisions of tax law, which will be included in the taxpayer's assessable income. This is discussed further below.</p>
<p><i>Because CGT is such a complicated issue and very specific to your property, it is not possible to provide exhaustive capital gains tax information...</i></p> <p><i>The CGT event "D4" relates to entering into a conservation covenant.</i></p> <p><i>This is one area where it is strongly suggested that you talk to your accountant / business advisor.</i></p>	<p>Potential capital gains tax (CGT) implications</p> <p>If you purchased your property after 20 September 1985, there may be capital gains tax (CGT) implications of entering into the covenant under the VIP. Because CGT is such a complicated issue and very specific to your property, it is not possible to provide exhaustive capital gains tax information to landowners. This is one area where it is strongly suggested that you talk to your accountant / business advisor.</p> <p>There are several types of capital gains tax "events" which trigger either a capital gain or capital loss. The CGT event "D4" relates to entering into a conservation covenant. This situation involves calculating a cost base of the area under the covenant, and attributing this cost base against the capital proceeds and the market value of the land just after the covenant is entered into.</p> <p>Any capital gain arising would be included in your assessable income for the year you enter into the covenant under the VIP. This capital gain may be affected by the indexing method used to calculate the capital gain or depending on whether you are eligible for a small business concession. Any capital loss attributable to entering the VIP would be carried forward and offset against future capital gains for your land.</p>
<p><i>...costs incurred by you in undertaking activities under the VIP are allowable taxation deductions...</i></p>	<p>Tax deductions for costs incurred in undertaking management actions</p> <p>As with all business transactions, the costs incurred by you in undertaking activities to earn business income (such as payments under the VIP) will create allowable taxation deductions. These deductions will offset the income earned under the VIP, when you go to calculate your tax. Typical items you would get a deduction for would include fuel, chemicals, contract labour etc.</p> <p>You may incur expenses that would typically be of more of a capital nature such as the cost of building a fence. Typically, under taxation legislation, you would be required to depreciate such items over a number of years.</p>

<p><i>...outright deductions are available for expenditure on landcare operations...</i></p>	<p>However, under taxation legislation, outright deductions are available for expenditure on landcare operations such as:</p> <ul style="list-style-type: none"> ▪ eradicating or exterminating animal pests from the land; ▪ eradicating, exterminating or destroying plant growth detrimental to the land; ▪ preventing or combating land degradation other than by the use of fences; ▪ erecting fences to keep out animals 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 a levee or similar improvement, or; ▪ constructing drainage works - other than the draining of swamps or low-lying areas - to control salinity or assist in drainage control. <p>These operations must principally be undertaken for landcare purposes. More information is available from the Australian Taxation Office website at: http://www.ato.gov.au/businesses/content.asp?doc=/content/33531.htm</p>
<p><i>Generally, the treatment of the VIP for the purposes of GST will be the same as any grant program.</i></p> <p><i>You should ensure that the invoices that you provide the State for undertaking management actions under the VIP are correctly prepared to account for GST.</i></p>	<p>Goods and Services Tax (GST) and the VIP</p> <p>It is most likely you are already registered with the ATO for the purposes of GST administration. If so, payments made to you under the VIP will result in GST implications for you as a landholder. Generally, the treatment of the VIP for the purposes of GST will be the same as any grant program.</p> <p>If you are registered or required to be registered for GST, you have to pay GST where you enter into a binding agreement (essentially the Management Agreement under the VIP) to provide goods or services to in exchange for the payment. In effect you are making a taxable supply for the purposes of the GST. When you make a taxable supply, you have to pay GST equal to 1/11th of the payment you receive for that supply. You should ensure that the invoices that you provide the State for undertaking management actions under the VIP are correctly prepared to account for GST.</p> <p>The tax system allows you to claim an input tax credit for any GST included in the price you pay for goods and services you use in undertaking management actions under the VIP. These input tax credits provide a way of passing GST liability along the production or supply chain, so that the GST is included in the price paid by the final consumer of the goods and services. The final consumer cannot claim input tax credits.</p> <p>More information is available from the Australian Taxation Office website at: http://www.ato.gov.au/businesses/default.asp?menu=619</p>