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| **EXPOSURE DRAFT (10/02/2023)** |

Inserts for

Treasury Laws Amendment (Measures for Future Bills) Bill 2023: Tax accounting for primary producer registered emissions units

| Commencement information |
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| Column 1 | Column 2 | Column 3 |
| Provisions | Commencement | Date/Details |
| 1. Schedule # | The first 1 January, 1 April, 1 July or 1 October to occur after the day this Act receives the Royal Assent. |  |
| 2.  |  |  |
| 3.  |  |  |

Schedule #—Tax accounting for primary producer registered emissions units

Income Tax Assessment Act 1997

1 Subsection 392‑45(2)

Repeal the subsection, substitute:

 (2) Your ***basic assessable income*** for an income year is your assessable income for the income year, less:

 (a) any amount included in your assessable income under section 82‑65, 82‑70 or 302‑145 (certain employment termination payments and superannuation benefits); and

 (b) any \*net capital gain included in your assessable income under Division 102.

2 Subsections 392‑80(2) and (3)

Repeal the subsections, substitute:

Assessable primary production income

 (2) Your ***assessable primary production income*** for the \*current year is the sum of:

 (a) any amount of your \*basic assessable income for the current year that was \*derived from, or resulted from, your carrying on a \*primary production business; and

 (b) any amount included in your assessable income under section 420‑25 for the current year because you cease to \*hold a \*primary producer registered emissions unit; and

 (c) any amount of your basic assessable income for the current year that resulted from an amount included in a trust’s assessable income under section 420‑25 because the trust ceases to hold a primary producer registered emissions unit; and

 (d) any amount of your basic assessable income for the current year that was derived from, or resulted from, an \*arrangement with an entity to the extent that:

 (i) the arrangement relates to the entity starting to hold, holding or ceasing to hold an \*Australian carbon credit unit; and

 (ii) the unit would have been a primary producer registered emissions unit if you were starting to hold, holding or ceasing to hold the unit (as applicable) instead of the entity; and

 (iii) the amount does not relate to a \*quasi‑ownership right over land.

Primary production deductions

 (3) Your ***primary production deductions*** for the \*current year are:

 (a) all amounts you can deduct that relate exclusively to the amount referred to in paragraph (2)(a); and

 (b) so much of any other amounts you can deduct (other than \*apportionable deductions) to the extent that they reasonably relate to the amount referred to in paragraph (2)(a); and

 (c) so much of any other amounts you can deduct for the current year in relation to expenditure you incur in:

 (i) starting to \*hold a \*primary producer registered emissions unit; or

 (ii) ceasing to hold such a unit; and

 (d) so much of any other amounts you can deduct for the current year in relation to expenditure you incur under an \*arrangement with an entity to the extent that:

 (i) the arrangement relates to the entity starting to hold, holding or ceasing to hold an \*Australian carbon credit unit; and

 (ii) the unit would have been a primary producer registered emissions unit if you were starting to hold, holding or ceasing to hold the unit (as applicable) instead of the entity; and

 (iii) the expenditure does not relate to a \*quasi‑ownership right over land.

Note 1: For the expenditure covered by subparagraph (c)(i), see subsections 420‑15(1) and (4) and 420‑65(4).

Note 2: For the expenditure covered by subparagraph (c)(ii), see subsection 420‑42(1).

3 At the end of Subdivision 420‑A

Add:

420‑13 Meaning of *primary producer registered emissions unit*

 A \*registered emissions unit you start to \*hold, hold or cease to hold is a ***primary producer registered emissions unit*** if:

 (a) the unit is an \*Australian carbon credit unit; and

 (b) you are an individual or a trust; and

 (c) your holding of the unit starts:

 (i) on or after 1 July 2022; and

 (ii) because the unit is issued to you under the *Carbon Credits (Carbon Farming Initiative) Act 2011* in relation to an eligible offsets project (within the meaning of that Act); and

 (d) at all times while the project is carried on, a \*primary production business is carried on:

 (i) in the same area as the project; or

 (ii) in an area connected to an area in which the project is carried on; and

 (e) if you are an individual—at all times while the project is carried on, you are:

 (i) carrying on a primary production business covered by paragraph (d); or

 (ii) a beneficiary of a trust that is carrying on a primary production business covered by paragraph (d); or

 (iii) a partner in a partnership that is carrying on a primary production business covered by paragraph (d); and

 (f) if you are a trust—at all times while the project is carried on, you are carrying on a primary production business covered by paragraph (d).

Note 1: If you cease to hold the registered emissions unit, the unit is not a primary producer registered emissions unit for any new holder of the unit (see paragraph (c)).

Note 2: A consequence of paragraph (c) is that the unit will not be a primary producer registered emissions unit for you for a subsequent holding of it. That is, if after disposing of the unit you later reacquire it.

Note 3: Different subparagraphs of paragraph (e) may apply to you at different times.

4 At the end of Subdivision 420‑D

Add:

420‑62 Primary producer registered emissions units

 This Subdivision (other than section 420‑60) does not apply to you in relation to a \*primary producer registered emissions unit.

5 At the end of section 420‑65

Add:

Primary producer registered emissions units

 (7) Subsections (1), (2) and (6) do not affect the application of:

 (a) Division 392 (long‑term averaging of primary producers’ tax liability); or

 (b) Division 393 (farm management deposits);

to expenditure to the extent that you incur it in becoming the \*holder of, or ceasing to hold, a \*primary producer registered emissions unit.

6 After subsection 420‑70(2)

Insert:

 (3) Subsections (1) and (4) do not affect the application of:

 (a) Division 392 (long‑term averaging of primary producers’ tax liability); or

 (b) Division 393 (farm management deposits);

to an amount that you are entitled to receive because you ceased to \*hold a \*primary producer registered emissions unit.

7 Subsection 995‑1(1)

Insert:

***primary producer registered emissions unit*** has the meaning given by section 420‑13.

8 Application of amendments

The amendments made by this Schedule apply to assessments for the income year that includes 1 July 2022 and later income years.