Tax implications for compensation under EADRA

Compensation paid to primary producers (those operating a primary production business), for livestock that have died or been destroyed as part of an official emergency animal disease response, is considered assessable primary production income.

A range of tax measures are available to assist primary producers whose taxable income is impacted by compensation payments including:

- **The forced disposal or death of livestock tax provision**, which allows a producer who makes a tax profit after receiving compensation, to either:
  - spread the profit earned over a period of five years; or
  - defer the profit and use it to reduce the cost of replacement livestock in the disposal year or any of the next five income years.
- **The Farm Management Deposits Scheme**, which can be used to set aside pre-tax income, which a producer can draw on in future years. Income deposited into a Farm Management Deposits account is tax deductible in the financial year the deposit is made and becomes taxable income in the financial year in which it is withdrawn. An individual may hold up to $800,000 in Farm Management Deposits
- **Income tax averaging provisions**, which allow producers to even out income tax liability from year to year, by averaging taxable income in the last five income years.

After professional advice, producers may be able to use one or more combinations of these tax treatments. See the Australian Taxation Office's **Managing varying income** for detailed information.

Example of actions taken by a producer whose taxable income is impacted by a compensation payment:

1. Defer the tax profit from the compensation received using forced livestock disposal provisions, and
2. deposit other remaining taxable primary production income into a Farm Management Deposit account and claim a deduction for the amount deposited, and
3. then apply income averaging as normal.

Note: the interplay between the various tax measures can be complicated, and farmers' individual circumstances can vary significantly. Primary producers are encouraged to seek professional advice to inform financial decisions.

Further tax information for primary producers:

- **Tax averaging**
- **Farm management deposits scheme**
- **Abnormal primary production income**

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