

**Senator the Hon  
Nick Sherry**

Assistant Treasurer



**Senator the Hon  
Penny Wong**

Minister for Climate  
Change and Water

## **PRESS RELEASE**

### **CAPITAL GAINS TAX RELIEF WIDENED TO ASSIST IRRIGATORS AND OPERATORS**

The Assistant Treasurer, Senator Nick Sherry, and the Minister for Climate Change and Water, Senator Penny Wong, today announced that the Government will provide a capital gains tax (CGT) roll-over for water entitlements and water allocations.

The Government previously announced CGT relief for irrigators who transform their entitlement to water under an irrigation right into an individual water entitlement.

Now this CGT roll-over will apply more broadly to any capital gains or losses arising directly from the ending of an irrigator's water entitlement and the issuing to the irrigator of a replacement water entitlement. The roll-over will cover a broader range of transactions — including pre-transformation transactions. The roll-over will also be available when water entitlements are unbundled.

This roll-over will provide certainty for operators who are making changes to their arrangements with their member irrigators to ensure compliance with the Water Market Rules 2009.

“The Government has taken this decision after consulting widely with irrigators and operators and listening to their concerns,” the Assistant Treasurer said.

“The extension of this roll-over will mean that the tax system does not stand in the way of transformation and the efficient use of water for irrigators and operators,” the Assistant Treasurer said.

Senator Wong said the changes would remove obstacles to the new water trading regime, which promotes a fairer and more efficient water trade in the Murray-Darling Basin.

“The Rudd Government is committed to water market reform as part of our plan to put the Murray-Darling Basin back onto a sustainable footing,” Senator Wong said.

“A fair and efficient water market provides irrigators with more options in managing their enterprises, and ensures that their property rights to water are fully respected.”

This roll-over will apply to CGT events that happen after Royal Assent. Once the amending legislation receives Royal Assent, taxpayers will also have the option to apply the roll-over to CGT events that happen from the 2005-06 income year to the date of Royal Assent.

The Government intends to consult on draft legislation before introducing the amending legislation into Parliament.

CANBERRA

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## **Additional Information**

### **Elements of the proposed CGT roll-over for water entitlements and allocations**

The roll-over will be available for any capital gains or capital losses arising directly from the ending of one or more water entitlements or allocations and the issue of one or more replacement water entitlements or allocations to:

- the individual irrigator;
- the entity that issued the water entitlements (or allocations) to the individual irrigator (with any necessary cost base adjustments to that entity's relevant assets) and the entity that issues the replacement water entitlements (or allocations); and
- other individual irrigators whose water entitlements (or allocations) are affected by the ending or replacement of the individual irrigator's water entitlements (or allocations).

A water entitlement or allocation could take the form of a statutory licence relating to water, such as a water access entitlement. It could also take the form of a legal or equitable right against another entity, such as an operator, to receive water or have water delivered. This could include any rights relating to the conveyance of water.

The roll-over will apply irrespective of whether the replacement water entitlements or allocations were issued by the same entity that issued the original entitlements or allocations to the taxpayer or another entity.

The roll-over will apply to the extent that the relevant taxpayer receives one or more replacement water entitlements or allocations. In cases where the taxpayer also receives something else (such as cash) a partial roll-over will be available. This is similar to the existing CGT roll-over for statutory licences.

The roll-over will be available in situations when a taxpayer's ownership of one or more water entitlements end and, in substance, their remaining water entitlements become their replacement entitlements.

Where the individual irrigator holds the water entitlement or allocation in the form of a legal or equitable right against a third party in assets that carry additional rights (such as shares with voting rights), then the roll-over will extend to capital gains and capital losses arising from the ending and replacement of those assets.

### **Impact of this change on the original proposal**

There were two elements of the CGT relief announced by the Government on 27 February 2009.

- The proposal would provide a CGT roll-over for irrigators who transform their water entitlement from an irrigation right into an individually held water entitlement.
- The proposal would allow termination and exit fees to be included in the cost base of an asset. This would apply to all assets and not just those relating to irrigation.

This change extends only the first element of the earlier announcement — providing a CGT roll-over for transformation arrangements. The second element of the original announcement relating to termination and exit fees remains unchanged.