



## EVERSOL'S weekly law

Contributed by Angus Tainsh

# NO MORE HOBBY FARMS, FOR SOME

It is not uncommon in regional areas for individuals to earn an income from one source and also operate a farm. Apart from the enjoyment or satisfaction they may get from being a "hobby farmer", there may be some tax advantages in doing so. If the farm operates at a loss, and certain conditions are met, hobby farmers can deduct the losses they make operating the farm from their other income. For example, a doctor earning \$300,000 a year as a doctor running a hobby farm that made a loss of \$50,000 that year could reduce their taxable income to \$250,000, as long as certain conditions were met.

To be able to deduct the losses from operating the hobby farm from other income in a particular income year, one of the following conditions needs to be met:

- assessable income from the farm exceeds \$20,000 for that year,
- the farm has made a profit in three out of the last five income years,
- the real property used in the farm business exceeds \$500,000 in value, or
- other assets used in the farm business exceeds \$100,000 in value.

It is possible to apply to the ATO for an exemption either because the farm is affected by circumstances such as drought, flood or bushfire, or because the farm is just starting out and is not yet profitable, but it will be within a commercially viable period.

For some hobby farmers, however, from next income year the only way they will be able to deduct their farming losses from other income is by applying to the ATO for this exemption. The Government has just passed a law that prevents anyone with income from other sources in excess of \$250,000 from deducting losses from activities such as hobby farms from their other income. So, the doctor in our example would not be able to reduce his taxable income from being a doctor using his farming losses, unless the ATO grants an exemption.

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