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# Carbon sink forests

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You may be able to claim a deduction for costs associated with establishing a carbon sink forest if you meet certain conditions.

The deduction encourages the establishment of carbon sink forests for the dedicated purpose of carbon sequestration, that is, the process by which trees absorb carbon dioxide from the atmosphere.

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## See also:

- [Environmental and Natural Resource Management Guidelines in relation to the establishment of trees for the purpose of carbon sequestration \(01/12/2008\) \(https://www.legislation.gov.au/Details/F2008L04546\)](#)

## Conditions

To be eligible to claim a deduction for costs associated with establishing a carbon sink forest you need to meet the following conditions:

- you are carrying on a business
- your primary and principal purpose for establishing the trees is carbon sequestration by the trees
- you did not incur the expenditure under a managed investment scheme (MIS) or a forestry MIS
- the trees in the carbon sink forest meet certain forest characteristics and adhere to certain environmental and natural resource management guidelines.

Only one business can claim a deduction for establishing a carbon sink forest on a piece of land.

## Establishment of trees

The establishment of the trees occurs when the plants are planted, grown from seed, or deliberately regenerated from natural seed sources – permanently in the ground.

## What you can claim

Costs that you may be able to claim include:

- the costs of acquiring the trees or seeds
- the costs of planting the trees or seeds
- the costs of pots and potting mixtures where the potted plants are being nurtured before being permanently planted in the ground
- the costs incurred in grafting trees and germinating seedlings
- the costs of allowing seeds to germinate (whether by broadcasting, deliberate regeneration or planting seeds directly)
- any costs incurred on preparing to plant for the purpose of establishing trees for carbon sequestration
- the costs of surveying the planted area.

## Expenses you can't claim

You are not eligible to claim deductions for the costs:

- incurred on other plants (for example, trees for felling or horticultural plants)
  - however if the trees or plants are used for associated purposes, such as
    - companion planting for the purpose of carbon sequestration, you *can* deduct the expenditure.

- incurred on assets separate from the trees, such as
  - fencing
  - water facilities for the trees of a carbon sink forest
  - roads within the carbon sink forest
  - fire breaks
  -
- incurred to drain swamps or low-lying land, or clearing land
- incurred on rights that allow you access to land to establish the carbon sink forest or for carbon credits to be traded in the future
- of purchasing land to be used for establishing the trees, and costs attributable to the land rather than to the establishment of the trees.

## Work out how much to deduct

From 1 July 2012, the expenditure incurred in establishing trees for a carbon sink forest is deducted over a period of 14 years and 105 days. This starts from the first day of the income year in which the trees are established.

The costs you can deduct is worked out using a formula.

For the first 14 years, you need to know the following:

- Establishment expenditure (for you to determine)
- Write-off rate is 7% per annum

The formula you should use is:

- **Establishment expenditure** multiplied by **write-off rate**.

For the 15th year, the 105 days, you deduct what's left over.

If you stop using the land for carbon sequestration before this time, you must apportion your deduction for the year based on the number of days during the year when it was used for carbon sequestration.

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### Example

Nativ established a carbon sink forest in September 2015. He determines his establishment expenditure is \$20,000. For the first year he can claim 7% of his establishment expenditure. That is, \$1,400. The first year he can claim a deduction is financial year 2015-16, and he can claim the same amount for the following 13 years (provided he continues to use the land for carbon sequestration). In the 15th year he can claim the residual amount, which is  $\$20,000 - (\$1400 \times 14 \text{ years}) = \$400$ .

## Claiming the deduction

To deduct expenditure for establishing the trees in a carbon sink forest you must complete the form *Notice of establishment of trees in a carbon sink forest* (NAT 72196) by whichever is earlier, either:

- when you lodge your income tax return
- five months after the end of the income year.

The notice that you provide to us needs to include all the information necessary to determine whether certain conditions are met. This may include, but not be limited to:

- the ABN of your business
- the latitude and longitude of a central point within the area occupied by the trees
- a description of the area occupied by the trees, including the size (in hectares) and the boundary compass points that give a general outline of the perimeter
- the species of trees established
- the estimated number of trees established per hectare of the area occupied by the trees
- the rationale for the probability of meeting the required forest characteristics
- the amount of expenditure incurred in establishing the trees.

### Next step:

- [Notice of establishment of trees in a carbon sink forest \(/Forms/Notice-of-establishment-of-trees-in-a-carbon-sink-forest/\)](#)

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We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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