Taxation of Australian Carbon Credit Units (general)

Introduction

Specific tax rules apply to the 'holder' of an Australian Carbon Credit Unit (ACCU). The 'holder' is the person or entity to whose Australian National Register of Emissions Units (ANREU) account the ACCU is registered.

When a carbon abatement project is registered with the Clean Energy Regulator (CER), the 'project proponent' is the entity or person legally responsible for undertaking the project. ACCUs, in relation to the carbon project, are first issued to the project proponent's ANREU account and may be subsequently sold or transferred to other ANREU account-holders.

Multi-disciplinary carbon project developers are frequently the project proponents of carbon projects. Alternatively, owners of land on which carbon projects are undertaken can also be project proponents.

Income tax rules

The following rules apply to taxpayers generally. **Specific tax rules apply for individual primary producers, which are set out in our factsheet, *Taxation of Australian Carbon Credit Units (primary producers)*.**

- ACCUs are revenue assets – they are not eligible for capital gains tax concessions or discounts
- ACCUs issued to the project proponent are not immediately taxed
- The gross proceeds for ceasing to hold an ACCU is taxable in the year the ACCU ceases to be held
- The gross expenditure specifically relating to acquiring an ACCU is deductible (but the deduction is effectively deferred until the unit ceases to be held)
- The general deductibility provisions may allow project proponents to deduct the expenses incurred in undertaking a carbon project
- The difference between the value of registered emissions units held at the start and at the end of the income year is brought to account under the 'rolling balance mechanism'. This is done in such a way that:
  - Any increase in value is included in assessable income; and
  - Any decrease in value is a deduction.

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The following additional points should also be noted:

- If no proceeds are received for ceasing to hold an ACCU, no income arises – however, a taxable amount could arise under the rolling balance mechanism
- The rolling balance mechanism permits a choice of methods for determining the change in value, including first-in, first-out cost, or market value
- The death of the holder of an ACCU results in the value of the ACCU being included in the deceased's assessable income
- The tax laws are silent on how to establish the market value of an ACCU
- Deductions for acquiring ACCUs are reversed if there is a disposal outside of the ordinary course of business.

Goods and Services Tax (GST)

ACCUs are GST-free.

Closing comments

Tax is just one of the areas that should be considered when contemplating a carbon project to generate ACCUs. Land ownership, agreements, and permanence periods should also be considered.

The tax rules discussed above apply to ACCUs. Voluntary carbon units, such as Verra units, or the Gold Standard, or ISO-certified units, are not subject to these tax rules, and separate tax analysis needs to be undertaken in relation to such units.

Further information

More resources, including our series of carbon farming factsheets, can be found at www.bdo.com.au/carbonfarming.

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