JOINT MEDIA RELEASE

THE HON. PETER DUTTON MP

Australian Minister for Revenue and Assistant Treasurer

SENATOR THE HON. ERIC ABETZ

Australian Minister for Fisheries, Forestry and Conservation

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REVIEW OF THE TAXATION OF PLANTATION FORESTRY

Forestry and Conservation Minister, Senator Eric Abetz, and Minister for Revenue and Assistant Treasurer, Peter Dutton, today announced new arrangements for the taxation of investments in forestry managed investment schemes (MIS).

The Ministers pointed out that the new arrangements will provide greater certainty for investors.

They will ensure the continued expansion of our plantation forestry estate, so reducing our reliance on native forests and on overseas imports.

The new arrangements also recognise the critical role plantation forestry plays in sequestering greenhouse gases.

Additionally, the decision addresses concerns about the level of commissions charged.

The Government has decided that, with effect from 1 July 2007, investors in forestry MIS will be entitled to immediate upfront deductibility for all expenditure provided that at least 70 per cent of the expenditure is expenditure directly related to developing forestry ('direct forestry expenditure'). Direct forestry expenditure comprises:

(a) expenditures associated with planting, tending and harvesting of trees at any time over the life of the investment; and

(b) annual costs of the land used to develop forestry, whether that be effective rental costs or lease payments for land.

The deduction will be provided by way of a separate statutory provision. It will not be necessary for taxpayers to demonstrate that they are carrying on a business in order to access the statutory deduction.

The Government will not remove deductibility under the general deduction provision - section 8-1 of the *Income Tax Assessment Act 1997* (ITAA 1997) - for contributions to forestry MIS. However, under the general prohibition against double deductions (ITAA 1997 section 8-10), the forestry MIS investor will not be able to claim a deduction under both provisions.

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There will be an integrity rule requiring that arm's length prices be used in determining the value of expenditure directly related to forestry. The arm's length prices for purchased services would include the normal profit margin that an arm's length supplier would require.

The Australian Taxation Office (ATO) will issue administrative guidance to the effect that promoters wishing to receive a Product Ruling to market schemes under the new statutory provision must provide the ATO with sufficient information to enable the ATO to assess whether the expenditure directly related to forestry incurred under the relevant scheme will exceed (in present value terms) 70 per cent of the total cost charged to investors.

The Government will consult with industry over the development of this guidance.

Subject to further analysis, forestry investors who use the specific deduction will be treated as passive investors for GST purposes (i.e. persons who buy shares in companies or units in unit trusts) and will be removed from the GST net. Further consideration of GST treatment would occur in consultation with stakeholders and the States and Territories.

The Government agreed that the arrangements for providing tax deductibility for forestry MIS be reviewed within two years of commencement in the context of the development of a secondary market.

The Government will consider the issue of taxation arrangements for non-forestry agribusiness MIS in the New Year.

The Government is supportive in-principle of removing impediments to secondary markets for agribusiness MIS interests. The Treasury and the Department of Agriculture, Fisheries and Forestry will review this issue and report back to the Government within 3 months.

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