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MINISTER FOR REVENUE AND
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**CONSULTATION ON PROPOSED TAXATION ARRANGEMENTS FOR
PLANTATION FORESTRY**

The Minister for Revenue and Assistant Treasurer, Peter Dutton, announced today that the Government is seeking the views of industry and other interested parties on proposed new taxation arrangements for investments in forestry managed investment schemes (MIS).

The proposals outlined in the attachment are in response to the Government's review of forestry arrangements. The Government would like to take the opportunity to thank all who provided submissions and comments to the review.

Interested parties are invited to provide written comments on the forestry taxation arrangements by 6 June 2006 to plantations@treasury.gov.au or to the following address:

Review of the Taxation of Plantation Forestry
C/- Department of the Treasury
Langton Crescent
PARKES ACT 2600

All comments will be treated as public and may be placed on the Treasury's website.

The Government intends to conduct further consultation with industry on the application of the new taxation arrangements to agricultural MIS other than forestry MIS.

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PROPOSED TAXATION ARRANGEMENTS FOR PLANTATION FORESTRY

In the 2005-06 Budget, the Government announced that it would be extending the operation of the 12 month prepayment rule for forestry MIS until 30 June 2008 and that it would undertake a review of the taxation treatment of plantation forestry.

The Government has now considered the findings of the review.

In consideration of the Government's support for the plantation forestry industry, the Government is disposed to the following arrangements which will form the basis for consultation. The arrangements are designed to remove the uncertainty surrounding whether MIS investments are deductible under the current law in respect of the requirement that investors be carrying on a business. In addition they will reduce the administrative and compliance burden on investors and MIS companies.

The proposed forestry taxation arrangements are as follows:

- the 12 month prepayment rule for forestry MIS investors and its associated requirement that investors be carrying on a business would be replaced with new rules in the income tax law governing the deductibility of investments in MIS;
- forestry MIS investors would be able to deduct the full cost of their investment, subject to a cap of \$6,500 per hectare in the year of expenditure with the balance (if any) of the investor's contribution deductible in the following year;
- the period within which planting must occur as a condition of deductibility would be extended from 12 months to 18 months;
- trading in forestry MIS investments acquired after 30 June 2008 would be allowed such that:
 - interests are required to be held by initial investors for a period of four years from the date of entering the arrangement for deductions to be maintained;
 - all returns to an investor treated as assessable income; and
 - the cost of acquiring a MIS interest on the secondary market to be deductible against income received at disposal or harvest.
- deductibility would also be conditional on the certification of the MIS company to ensure best practice in forestry, regional planning, land use and natural resource management, under arrangements to be developed by the Department of Agriculture, Fisheries and Forestry;
- in recognition that there are higher costs associated with boutique forestry schemes, such as sandalwood, an appropriate treatment for such schemes is to be considered in consultation; and
- the administration of the goods and services tax (GST) for MIS arrangements would be simplified, by ensuring that individual investors in a MIS are treated as passive

investors for GST purposes (thereby removing them from the GST system), subject to the agreement of the States and Territories.

The proposed taxation arrangements for forestry MIS investors would be fully reviewed in 2011 to examine the appropriateness of the arrangements in the context of the Government's forestry and broader policy objectives.