

# PYRENEES PLANTATIONS

## SUBMISSION TO THE

### REVIEW OF TAXATION TREATMENT OF PLANTATION FORESTRY

#### 1) Overview

Pyrenees Plantations is a sole proprietor business ABN 64 227 188 075 with Heather Waring as its principal. The business currently manages 120 hectares of hardwood plantations on 320 hectares of land; spread over three locations in the vicinity of Avoca just north of The Great Dividing Range in Victoria. The intention of the business is to produce high quality pruned sawlogs over a 30—35 year rotation with the first commercial thinning to firewood and fence posts at about year 15. The species under cultivation include sugar gum, iron bark, yellow box and red stringy bark. The land chosen for these plantations is high up in the catchment, low value farmland with severe erosion and high salinity levels. These land characteristics made these blocks ideal for establishment of eucalypt plantations, with the many additional environmental benefits as by products being easily achieved. There has never been any doubt that the business development would be profitable given the quality of the product and the ever decreasing supply due to the mothballing of native forest for logging on environmental grounds, coupled with the importation of inferior timber from around the world. This business is not primarily a tax shelter; I call it an active investment where the single aim is to produce a valuable product for sale on maturity. An investment, which the family has total control over, and can participate in its management and maintenance for the life of the plantation.

If I were looking for a tax shelter I would either buy a negatively geared investment property, or salary sacrifice my wages to a super scheme.

#### 2) Terms of Reference

Whilst the terms of reference appear to be quite definitive there is no reference to whether or not the current level of plantation forestry development is falling short of or running ahead of the “Govts. Broader plantation and natural resource management policies.” This gives me no knowledge as to whether the Govt. is intending to stimulate the industry, or to wind it back.

Another disappointment is that it seems as though we are prepared to regulate plantations uniformly without discrimination between

1) Location, eg lush high rainfall land such as Gippsland and southwestern Vic. And the eroded salinity recharge hills of central Vic.

2) Rotation eg 10 year rotation for woodchips, 30year saw log rotation.

3) Net Community benefit eg Will plantation development help build dwindling local communities by boosting employment, or will it tear them down by loss of population.

Cars, tractors, lawn mowers, and sewing machines are all machinery, but do we tax them the same, sometimes it depends on the title the person assumes as to how the item is taxed

3) Under the Plantations for Greenhouse program in Vic. Land was assessed for other Values, the grants offered had a range \$300 to \$700 /HA depending on the extent of those additional values, the greater net community benefit ,the larger the grant offered.

- 4) I will assume that the aim of this review is to increase plantation development to ensure that the long-term balance of payments is not further disadvantaged by increasing timber imports.

Therefore, I will attempt to give you a snapshot of the costings which I have experienced in plantation establishment, and the reasons why the Non Commercial Loss Provisions of the Business Tax Reforms of 2000 adversely effect development to the point that Pyrenees Plantations has ceased all new plantings indefinitely.

Land purchase aprox \$1250/HA

Stamp duty \$3000

Town planning permit \$530

Council rates \$500 per annum

None of these costs are deductible TR95/6 clause 47 page 10

Establishment \$1500per HA

Management and maintenance, including high pruning, fertilising, weed control, fire prevention, vermin control and fencing maintenance. \$100/ha/year.

These expenses are deductible, but will be indefinitely quarantined until you are able to pass one of the four tests.

This means that our expenses for a 51ha eucalypt saw log plantation were

Year 1 Land 58ha	\$72500
Stampduty on purchase	3000 ( aprox)
Establishment costs 51ha	\$76500
Council rates	500
Management and maintenance	5100
Town plan. Permit	530
Total exp yr 1	\$158130

Total non-deductible expenses \$76530

Total deductible expenses quarantined \$81600

With a total expenditure of over \$ 160000 considering that this property is 200KMS from where I live, how on earth can this investment be justified?

The only reason it proceeded was a grant from the Victorian Govt. under the Plantations for Greenhouse Program of \$25500, which enabled the business to pass the \$20000 income test and therefore release the \$81600 from quarantine, and allow the deduction to be allowed in that year.

For those who wish to misinterpret these figures the value of the total crop after 30 Years on today's prices is estimated to be \$700,000

Less orig.estab costs \$160,000

30yrs Maint. Costs \$153,000

Total cost \$313,00

Total TAXABLE INCOME \$700,000 \*\*if no costs are quarantined\*\*

\*\*\*\*These figures are not entirely accurate as they are actually spread over the two planting years of 02/03 and therefore two financial years because of the drought.

For the Tax mans benefit if CPI of 3% were applied to the \$700,000 the value of the Final crop exceeds \$1.2 million.

In 2004 Pyrenees Plantations established another plantation of 58 hectares using another grant from the Victorian Govt. in order to avoid the quarantining of the major expenditures of establishment for decades to come.

Since then the Vic, Govt have cancelled its program while a review of their plantation investment strategy takes place.

Therefore Pyrenees Plantations has also postponed its future plantation development despite still having 50ha available to plant, and the ability to purchase more land.

I endorse and support the Tax reforms of 2000, that clearly knocked on the head tax rorts by so called primary producers living on hobby farms claiming to be farmers. However the four tests clearly impact adversely on forestry businesses such as mine which is obviously not a hobby farm, there is no house or dwelling of any kind on any of the three forestry blocks, they are entirely used for primary production aimed at earning a taxable income. I believe I make a solid case for an exemption to the \$20000 income test for plantation forestry businesses given that I have under cultivation 180,000 trees planted on 799 acres of farmland, with a total investment of about \$ 420,000 and I am still treated like a hobby farmer stealing candy from the corner store.

I believe that a more appropriate test for plantation forestry would be an area assessment of about 100acres which is 40 hectares

Even more frustrating is the test that you can pass by owning land to the value of \$500,000, I have purposely sought out land as cheaply as possible, having the minimum requirements for growing my preferred trees to ensure that I maximise the profit at harvest. A wealthy person can immediately pass this test by purchasing 200 acres of land at \$3000/ acre. Indeed I could have done this, but that would have put the profitability of the project at risk and possibly the legitimacy of the business ever being able to make a profit.

I also would contend that the \$100,000 minimum value of machinery would never be achievable by smaller businesses, this is specialised machinery and only the very large have their own, Its more cost effective to use contractors particularly when there is no storage provision for security which would be required when not in use.

There is also a provision where by a business would not have to satisfy one of the four tests if the individual had a taxable income of less than \$40,000 per annum. Only you people would know how ridiculous that provision is given the huge expenditures involved in plantation management. I ask you how many individuals have been able to take advantage of this. It stands to reason that if someone is running a plantation forestry business and only has a taxable income of less than \$40,000 then the likelihood is that they are not declaring all of their income. Pyrenees Plantations must be one of the smallest legitimate businesses in plantation forestry and an annual cost of \$15,000 management would be reasonable, and that doesn't leave much bread on the table.

I also need to address the commissioner's discretion in relation to how that impacts on me. Firstly I do intend to apply this year in order that the management costs associated with the plantations under my control may be deductible this financial year. I have no idea how successful that will be, however if is not successful then I will have to wear it. But I will never develop a new plantation and spend all that money without certainty of being able to claim the deduction in the year of expenditure. As I said earlier, a negatively geared investment property would be a better alternative, not my preference, however.

Also, the requirement to apply for this discretion annually gives no certainty to long term planning of the business

The Non Commercial Loss Provisions as they effect Plantation Forestry must be the biggest disincentive to the development of new plantation businesses, and the biggest problem is the long lead time to return a profit, whilst the quarantined tax deductions are deflating in value every year, the end product is inflating yearly with CPI to render the deduction almost worthless.

Another disparity affecting a legitimate plantation operator is the ability of a farmer running a mixed farm say grazing and cropping and being able to incorporate a forestry or plantation business into his mixed farm business and not suffer the perils of the non-commercial loss provisions. This is no different to me using my earnings from investment property located elsewhere to fund the plantation investment. In effect the farmer is just using his bumper wool cheque to establish a plantation to avoid paying the higher tax in his bumper year, he automatically gets the deduction on his tax form as soon as he signs it but “HELLO” as the Prime Minister would say, that’s not on. And if you think about it, I have already paid tax on the money required to fund the upfront investment in the first place. This is just a joke and should be changed. I ask you. What is the difference between him funding his plantation from his wool cheque, and me funding mine from my investment property earnings?

I have demonstrated that the potential profits from my kind of plantation forestry (that is hardwood eucalypt sawlogs with thinnings to firewood and fence posts) is profitable and therefore the tax office will receive a windfall in tax receipts from this single tax payer starting with the first commercial thinning in 12 yrs time, even if I cease further development now.

And this will only be due to the opportunities created by the Vic. Govts. Plantations For Greenhouse Programme providing the opportunity to pass the income requirement for Non Commercial Loss provisions.

#### RECOMMENDATIONS

These recommendations are not intended to be supported in block, but to be considered individually as the adoption of one or two may negate the others.

- 1) Remove the \$20,000 income test, and replace it with a more equitable qualification like the suggested 40-hectare or similar area, remember this size plantation would normally have 40,000 trees planted.
- 2) Remove the \$500,000 land asset value test, as this does not necessarily have any bearing on how many trees are planted in a plantation, you can pay \$75,000 a hectare on the Mornington Peninsula in Victoria, which would only allow you to plant 7,000 trees on 7 hectares. That’s how ridiculous this test is, a real hobby farm.
- 3) The \$100,000 machinery test would only be satisfied by the very large plantation companies, and as I understand it, wouldn’t be relevant to companies.
- 4) Sign up to The Kyoto Protocol now and give Plantation Foresters the opportunity to earn an annual income from the development of a carbon trading market. This is too big an issue to go into detail on now, however it would negate some of the problems in dealing with the long crop rotation pertaining to Non Commercial Losses for plantation foresters.
- 5) Increase the \$40,000 threshold on taxable income to \$100,000 for the purposes of the requirement to satisfy one of the four Non Commercial loss tests.
- 6) Immediately allow as deductible, Local Govt. rates and Town Planning costs as well Stamp Duty on land purchase.
- 7) Allow as deductible the interest on borrowed money inversely proportional to the capitalisation of the business. ie. land value \$100, borrow \$20, allow as deductible 80% of interest paid. Or land value \$100, borrow \$90, allow as deductible 10% of interest paid.

## CONCLUSIONS

- 1) Every Service or Enterprise whether Public or Private is governed by controls either directly sanctioned by the Govt of the day, or sanctioned on the recommendation of a body usually appointed by the Govt. of the day. When Private Health Insurance patrons dwindle, the Govt comes up with a 30% Rebate, When the economy needs stimulating, the Reserve Bank lowers interest rates, and the reverse applies of course. When the housing boom of the eighties got too hot, the Govt. removed negative gearing, then rental properties dried up, the Govt. bought it back.

Plantation Forestry is no different, If the Govt. wants to encourage it or a particular branch of it (pardon the pun) such as woodchipping or something else, then it is in its hands. If development has not matched its policy intention then it has the power to provide incentives to do so, and the reverse of course also applies.

In the last 5 years I have developed a forestry business with substantial capital invested and if making a killing financially was my goal I would never have got involved. At the same time the Federal Govt. has never offered or given any incentive to me to encourage my involvement in this industry, and I guess I don't expect any now. My sense of achievement is in being able to spread what assets I do have across a number of investments.

The one in question just happens to

- 1) Help build the national wealth
- 2) Create jobs.
- 3) Provide a cash injection to the local economy
- 4) Provide habitat for countless species of wildlife.
- 5) Restore water quality.
- 6) Help redress salinity and soil erosion.
- 7) Purify the atmosphere of greenhouse gases.

There is also no greater sense of satisfaction than standing in a plantation, with trees towering above your head, and that's all you can see, and the birds are twittering, and its your creation. And when it is felled, it will coppice from the stumps reproducing itself all over again.

I thank you for the opportunity to respond to this review.

Yours Faithfully

Heather and Trevor Waring

For Pyrenees Plantations 25/7/05

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