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**Agricultural and Resource
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**Faculty of Agriculture,
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Review of the Taxation of Plantation Forestry
C/- Department of the Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

Please find attached a submission I wish to make in relation to the Review of
Taxation of Plantation Forestry.

Yours sincerely

T.G. MacAulay
Professor of Agricultural Economics

Submission to the Review of the Taxation of Plantation Forestry

By Professor Gordon MacAulay
Agricultural and Resource Economics
University of Sydney, NSW, 2006

Background

Forestry is important as a supplier of timber, environmental services and as a user of resources. Tax advantages, through managed investment schemes, have been provided for a number of years and these have encouraged the plantation of more extensive areas of timber in Australia so as to replace the use of old growth forests. It is argued that these advantages have allowed forestry growers to bid land away from agriculture because of the tax benefits. The effect of these advantages has, in part, been to have removals of roundwood now exceeding consumption and there are significantly rising levels of exports (Figure 1).

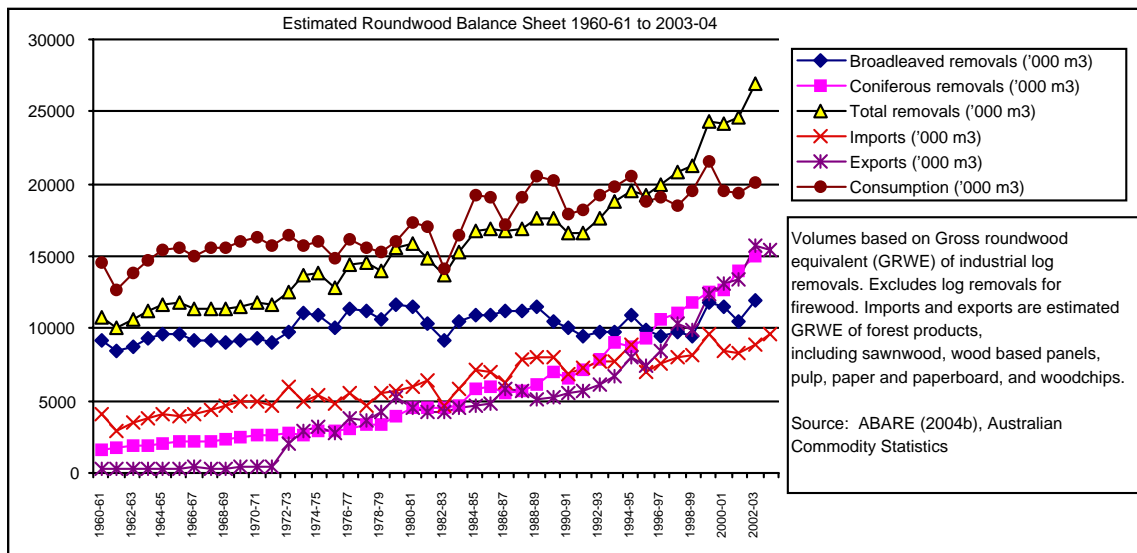


Figure 1. Roundwood Equivalent Removals, Imports, Exports and Consumption, 1960-61 to 2003-04

The use of taxation benefits have led to investment schemes where investors pay an upfront fee per hectare for access to a long-term payoff with the harvesting of the timber at a future date. In the mean time investors have the benefit of the tax write off and the forestry management company has a significant source of funds and gains ownership of large tracts of land (probably the most attractive feature of the schemes for the management companies). In this way they are able to pay substantially higher prices for land than the value of land in other agricultural uses.

Issues

1. A significant subsidy appears to be being provided to the forestry plantation sector through the tax system—agriculture as a competitive user of land has, over time, had almost all such benefits removed.
2. A tax benefit appears to be being given for an expenditure, which when transferred to another entity is treated as an expense but which includes within it the full cost of items of a capital nature (for example, such costs include, road works, site preparation, and fencing, etc). Note that the higher the entry fee the greater the tax write off.
3. In addition there is the issue of the land that is purchased by the project manager, but only as a result of the payment of an entry fee to the scheme. Presumably, such land could not be purchased if an entry fee were not to be paid.
4. In principle, direct or indirect financial support for a commercial industry implies a waste of resources, either in the industry or in associated industries, and thus in this context a waste of public moneys. It may be that too much wood is being exported or that too much land is being transferred from other forms of farming into forestry plantations and possibly too quickly.

Recommendations

1. Remove the favourable and discriminatory treatment of forestry plantations by ensuring any tax write offs for expenses are given in direct relation to the expenses incurred and do not include the full cost of capital items such as land, fencing, roads and other investments of a long-term nature.
2. Ensure that the timing of the taxation benefits match the timing of the expense and income flows and that capital items are appropriately depreciated in the hands of the investor and not the management company and that an artificial timing is not created which provides an implicit subsidy from taxpayers to investors in plantation forestry.

AND/OR

Provide that the land used for the plantation is rented at an appropriate rental rather than being funded by an upfront fee and also ensure that the timing of the taxation benefits matches the timing of the expense and income flows along with the proper handling of capital items.

28 July 2005