

Review of Taxation Treatment of Plantation Forestry.

Current Taxation treatment of the Plantation Forestry Industry is resulting in a major distortion of capital allocation within the agribusiness sector. We are seeing the following happening.

1. Productive agriculture land is being taken out of production and converted to forestry in areas where the financial viability of forestry industry is highly speculative.
2. Land and Water is being priced out of the reach of investor who wish to make long term agricultural investments that are not tax driven but are based on sound non-subsidised financial basis.
3. Industries that have a proven financial track record are being threatened due to asset prices being priced beyond what would be considered financially rationale to invest in. An example would be the dairy industry in South West Victoria which is under threat due to the ability of the plantation industry to purchase land at highly inflated prices due to the taxation benefits that they can avail themselves of.

It needs to be questioned who benefits from these tax benefits. Given the ability to gain a significant tax deduction in year one, promoters of these scheme ensure significant upfront fees up to 30 percent of the initial investment goes directly to the promoter and a percentage of this ends up as a kick backs to the financial planner. Most of these promoters are city based and have personally benefited greatly from the Australian Tax payer. The question needs to be asked why the Australian tax payer should support these promoters and the financial planning organizations that benefit from these kick backs at the detriment of existing financially viable agriculture businesses.

The investment decision making is not economically based but tax based. The promoter needs to place the fund money no matter what the economic viability of these investments are to ensure the tax benefit can be claimed. In discussions with an investment manager for one of the leading promoters, it was stated they had \$54 million to invest in a mangoes development even though they cannot justify the financial viability of the operation.

The net effect results in land and water prices been paid that have no reality to the economical value of the country. A significant side effect is that it dissuades non-tax driven investments out of agriculture as they cannot justify the investment due to the distortion in land and water values caused by tax subsidies.

There cannot be any justification for the current taxation benefit that is available to agricultural investment schemes. They provide no social or economic net-benefit to the Australian community with the only people benefiting being the few promoters of these dubious schemes and the financial planners who promote these schemes to avail themselves of the financial kick back provided by these schemes.

David Cornish B.Ag.Ec. B.Bus(Acct) Dip Fin Planing
Director – MS&A