



# FORESTS & FOREST INDUSTRY COUNCIL OF TASMANIA

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

Dear Sir/Madam

On behalf of the Forests and Forest Industry Council of Tasmania (FFIC), I write to provide you with a submission on the application of taxation law to plantation forestry, within the context of the Australian Government's broader plantation and natural resource management strategies.

The FFIC is an organisation with the express purpose of providing expert advice to the Tasmanian Minister for Infrastructure, Energy and Resources and represents the broad cross-section of all forestry interests, including forest workers, contractors, sawmillers, beekeepers, local government, indigenous groups, recreational users, furniture manufacturers, timber companies, private forest growers and farmers as well as Forestry Tasmania and the State Government.

The FFIC also plays an important leadership role in the development and communication of forest industry policy, industry development initiatives and applied scientific advice. We are also an information source on forestry-related technologies and value-adding opportunities. As you can appreciate, our brief covers a very diverse range of subjects and interests.

In regard to the review of the impact of taxation law on plantation forestry, the FFIC appreciates the opportunity to comment on what has become an extremely important component of the forest industry in Tasmania, and one that will continue to play an ever-increasing role in providing growth opportunities balanced with careful environmental stewardship.

This submission is structured in a way that addresses each of the terms of reference.

## ***1. The commercial viability and current tax treatment of plantation investment***

The FFIC supports the current tax treatment of plantations within the context that this treatment:

- i. is consistent with National Forest Policy Statement (NFPS);
- ii. supports Tasmania's resource management strategies; and
- iii. has made significant progress in encouraging plantation growing and contributing to the expansion of Australia's timber production capacity (this is also consistent with the 2020 Vision strategy endorsed by the Australian Government in 1999).

In Tasmania, plantation forestry is becoming an important contributor to the overall forest industry in this State. Over 225,000 ha of plantations have now been established in Tasmania, of which hardwood plantations represent roughly 67%. Twenty years ago, plantations only accounted for approximately 39,000 ha (hardwood plantations represented 5% of this total).

The recent expansion of plantation forestry has reduced our reliance on harvesting Tasmania's native forests. Through both the Regional Forest Agreement (RFA – 1997) and the Tasmanian Community Forest Agreement (TCFA – 2005), the Tasmanian forest industry has achieved a sensible balance between providing economic development opportunities for the community, encouraging public participation and ensuring that the natural and cultural values of our forests are managed sustainably and for the longer term. Both of these agreements were significant achievements for the Australian and Tasmanian State Governments that have delivered long-term security and certainty for the forest industry in Tasmania.

Over the next decade, Tasmania's reliance on older native forest will increasingly shift to plantations and regrowth forest. The TCFA effectively shifts the projected hardwood sawlog yield from plantations set at 25% by 2020 under the RFA upward to around 40% under the new TCFA.

The recent expansion in Tasmania's forest plantation sector is due to the increased area of reserves that have been implemented through each of the agreements. Twenty years ago, parks and reserves accounted for less than 800,000 ha; now following the TCFA, 42% of Tasmania's land mass is reserved on 2.9 million ha of land, representing the removal of over 2 million ha from production.

As more and more of Tasmania's forests have become formally and permanently reserved, Tasmania's forest industry has sought alternative solutions to offset this reduced access to native forests. The expansion of Tasmania's forest plantation sector, particularly hardwood, has been necessitated by the need to meet our legislated sustainable volumes of 300,000 m<sup>3</sup> of timber annually for the sawmill and veneer industries from public forests.

In this respect, Tasmania's plantation resource management strategies, combined with the Australian Government's taxation treatment of plantation forests, has stimulated investment in plantation development and provided regional and rural Tasmania with a viable alternative to current agricultural practices, which in some cases have become less viable.

In Tasmania, plantation forestry has become an important component of the agricultural sector. With ever-increasing uncertainties in short rotation crop markets, plantation forests not only offer farmers an opportunity to invest in long-term security, but ensure that landowners can plan for succession within the family. This is an important national issue. A number of Tasmanian farmers have integrated their traditional farming practices with plantation forests, allowing diversification

within the farm business as a means of providing a source of income when the traditional crop markets are depressed or become unviable.

Whilst many farmers diversify their own farming activities into plantation forests, the FFIC believes the Review Committee should consider changes to the legal and administrative arrangements relating to taxation rulings, so that small and large scale investors alike can be more certain of the likely nature of tax rulings and benefit equally from taxation arrangements.

The FFIC believes that the current range of investment options available to managed investment schemes should also be extended to individuals wishing to invest in plantation development, and that taxation arrangements should not unduly differentiate between a range of investment options. If this situation is rectified, then it will allow smaller scale plantation developments on rural farmland. A likely outcome would be strong support from the investors and a strengthening of the family farm through this ability to attract investors.

The FFIC also supports equitable and fair taxation treatment for all primary producers. We believe that any measures that neutralise the effect of period inequity, or encourage expenditure during the most appropriate stage of a crop's life-cycle should be adopted where appropriate.

## ***2. Whether the operation of the Income Tax Assessment Acts impedes investment in longer term forest rotations which produce higher value products***

If Tasmania's forest industry is to rely more and more on hardwood plantations, then some consideration should be given to enhancing investments in longer rotation products. Removal of impediments might be equally effective, however, any attempt to remove these impediments should not compromise existing investments in shorter rotation forest products either.

The FFIC supports taxation law initiatives that complement existing resource management policies. On the other hand, the FFIC would not support changes to taxation law that distort or manipulate commercial market forces to the extent that they are either discriminatory, increase sovereign risk, or are inconsistent with existing Government policy initiatives, such as the 2020 Vision or NFPS.

The FFIC would support an examination of current tax laws, to encourage further investment in longer rotation plantations. Current taxation arrangements favour shorter term rotations, since managed investment scheme investors are liable to repay all of their tax deductions should the sale of a plantation occur prior to final harvesting. Any mechanism that would encourage the development of secondary markets for plantations, without incurring the tax liabilities, would stimulate further investment in longer term forest rotations. In addition, such a mechanism would also encourage plantation growers and owners to develop value-adding initiatives which become more pronounced at the longer rotation end of plantation forestry.

To remove the bias against longer-term rotations, the FFIC supports any mechanism that would achieve neutrality between long and short term rotation investment decisions for the various investment groups.

3. ***The role of State and Territory Governments in plantation industry development as investors, growers and land managers, and any implication this has for competitive neutrality with regard to tax liabilities and incentives***

The FFIC supports initiatives that ensure a level playing field for all those involved in the forest and timber processing industries at a State and National level.

The current investment climate in Tasmania is favourable with respect to plantation development, however, there are some fees and costs associated with growing plantations in Tasmania that may provide a disincentive to investing in Tasmania as opposed to other States that do not incur these costs (such as Western Australia, Queensland, New South Wales and South Australia).

The FFIC also supports any examination of taxation laws for forestry plantations that are consistent with national policies (such as those administered by the Australian Competition and Consumer Commission), or agreements entered into by the Tasmanian and Australian Governments (such as the RFA and TCFA) which support sustainable plantation developments in this State.

4. ***The capacity to adapt existing tax policies to contribute to achieving the Australian and State Governments' desire to achieve a greater integration of plantation and natural resource management policies to improve the management of salinity and water quality***

Whilst plantation forestry in Tasmania is set to become an important contributor to the forest industry's overall economic performance, the owners and managers of plantation forests have also helped to preserve the environmental and landscape values in both regional and rural communities. The FFIC believes that there is a strong case for the private costs of providing such public benefits to be recognised and rewarded. The value of providing these non-market benefits and environmental services should, in some way, be encouraged either directly through funding programs and grants or indirectly through taxation incentives or subsidies.

The Natural Resource Management Program shared between the States and the Australian Government also provides opportunities for plantation forestry to be undertaken on land subject to high salinity, and soil erosion. However, there is no incentive for investors to commit funds to grow plantations on land with sub-standard soil characteristics leading to poor growth and longer than expected rotations. The FFIC would support changes to the taxation laws to encourage plantation developments in areas of high salinity, poor water quality or soil erosion on the basis that:

- i. this type of activity would lead to sustainable environmental outcomes;
- ii. reasonable rates of return could be achieved by investors; and
- iii. timber harvested from these plantations could be used by the timber industry.

***5. The relative roles and effectiveness of tax system and expenditure programmes in the delivery of assistance to the industry***

Once again, the FFIC supports a policy of favourable taxation treatment including:

- i. the categorisation of plantation forestry as a primary production activity;
- ii. deducting all non-capital costs associated with managing and harvesting a plantation against total income in the year in which the non-capital business expenses are incurred;
- iii. the time equity treatment afforded to forest plantation;
- iv. pre-payment provisions such as the 12-Month Rule that recognise the complex and unique nature of plantation investment, enabling plantations to be established in a seasonally appropriate manner; and
- v. the expectation of paying tax on a profit when it arises.

Whilst the existing support mechanisms have proved effective in stimulating investment in the plantation forestry sector, the Review Committee should examine each of the current mechanisms with a view to optimising benefits to the industry, the environment, investor groups and the community. In addition, any such examination should also assess each of the available options against specific performance criteria, such as maximising economic efficiency and performance, reducing sovereign risk, increasing environmental and social outcomes, alignment with current policy frameworks, reducing administered costs to government etc. In any event, the FFIC would encourage the review committee to develop fair and equitable taxation treatments that provide a level playing field for those wishing to invest in a long term and environmentally sustainable industry.

Please do not hesitate to contact Sean Riley on (03) 6233 8221 if you require any assistance or additional information on this submission.

Yours sincerely



Rob Woolley  
**CHAIRMAN**  
**FORESTS AND FOREST INDUSTRY COUNCIL OF TASMANIA**