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

25th August 2005-08-25

SUBMISSION TO THE REVIEW

The FFORNE Hardwood Co-operative has over 80 members who own and manage over 1000 ha of hardwood sawlog plantation in North East Victoria. The Co-operative formed after members participated in a 3-year, state funded, eucalypt sawlog plantation establishment incentive scheme, which ran from 1996-1998. The scheme established 1600ha of plantation with the State Government providing some \$2.8million and landholders contributing the land and over \$1million in cash. Landholder contribution has now lifted to over \$2million in plantation management since the establishment phase

The FFORNE Co-operative has so far concentrated on ensuring all their plantations are managed for the production of high quality sawlogs, but members are very concerned as to the lack of further investment in sawlog plantations following the end of the government funded project.

As a result of this concern, FFORNE has developed a business plan and attempted to attract further investment to the region for sawlog plantation establishment. So far, further investment for establishing sawlog plantations has not eventuated. To address this concern of lack of investment, FFORNE organised a Plantation Taxation and Investment Seminar in conjunction with Plantations North East and the Department of Primary Industries. The seminar was held on Monday 22nd August in Benalla.

Over sixty growers, industry representatives, accountants and consultants attended this seminar. A number of issues for your taxation review were raised and are outlined below.

1. LUMPY RETURNS

The lumpy returns resulting from long rotation sawlogs, particularly for private growers who have plantations as part of their farm enterprise and are not harvesting consistently, will have major tax implications. The ability to use the Farm Management Income Equalisation Deposits would be an ideal way to spread this lumpy income, but the scheme in its current form has major deficiencies for

addressing the needs of plantation growers. Issues such as the inability of a company to access the Farm Management Deposit schemes, the necessity for growers to have less than \$50,000 off-farm income, and the fact that money must be withdrawn from the scheme 120 days after ceasing to be a primary producer, are just some of the aspects of the scheme that severely limits its use by long term sawlog plantation growers. Either changes to this scheme need to be investigated to accommodate plantation growers (particularly where farmers require the funds for superannuation purposes) or a new scheme particularly for plantation growers, needs to be developed.

2. TAX RATES

Nearly all of the plantation income occurs when sawlog plantations are harvested, at over 25 years of age. This means the amount of tax paid will generally be at the high marginal tax rate, and an inequitable tax amount would be paid compared to an annual payment over the time period. The use of a discounted cash flow to determine assessable income was suggested as having real potential to reduce this tax burden.

3. Grants versus Taxation

The issue of attracting investment to develop a long rotation sawlog industry can also be addressed from a government grant aspect instead of a taxation aspect.

The Government needs to address the issue of developing a long term sustainable timber industry that replaces imports and creates employment in rural Australia.

Governments should seriously consider cash grants to encourage owners of cleared agricultural land to lock up portions of their land for sawlog timber production.

Payments would be made annually each year for six years and the completion of establishment, pruning & thinning operations.

A precedent has already been given from the FFORNE scheme, which established 1600 ha of sawlog plantations on 120 properties in north east Victoria for the cost to the state government of \$2.8 million. In this scheme the government provided landholders the expertise in plantation planning and undertook the site preparation and establishment and management of the plantations for 2 years. The landholders provided the land and \$750 /ha for the sites to be established and undertook to continue managing the plantation for high quality sawlogs until harvest. The scheme enabled the establishment of a large number of smaller (min 10 ha) plantations throughout north east Victoria, which are fully integrated into the farming landscape with community support.

This scheme has been highly successful, with most plantations managed appropriately, and a number of other spin-offs for the industry. These include;

- the formation of the FFORNE Co-operative
- the development of pruning and thinning guidelines specific to eucalypt sawlogs,
- the establishment of a number of plantation contract businesses employing people to carry out all the ongoing pruning and thinning, and
- the instigation of a number of research trials, including
 - plantation sawn recovery trials in local mills,
 - biodiversity trials in the plantation ,
 - growth modelling information for a range of sites, soils types and climate and species, and
 - identification and addressing of boron deficiency in these plantations.

A similar scheme is also underway in north east Victoria to establish firewood plantations, and again is proving very popular with landholders, both farmers and lifestylers.

4. ENVIRONMENTAL SERVICES

The inclusion of the value of environmental services in plantation growing needs to be addressed, both in grants or a taxation aspect. This needs to address biodiversity and salinity aspects, as well as carbon storage and air filtering.

5. MANAGED INVESTMENT SCHEMES

Attracting investment via Managed Investment Schemes has been highly successful for short-term pulp plantations, but the issues of allowing secondary markets for longer rotations needs to be addressed. The alteration of Paragraph 48 of the TR 2000/8, to allow for longer-term sawlog plantation investment needs to occur. The sunset clause of the 13-month rule is also an issue, which would detract investors from investing in long rotation plantations, and should be removed. More favourable treatment of leasing land and encouraging smaller, more integrated plantation establishment into the agricultural landscape is needed. The acquisition of the land for project management companies of the MIS with investor money, while only returning single rotation plantation profits, has distorted land values and establishment costing rates, while reducing integration of plantations into the agricultural landscape and communities.

Concern was expressed by some participants, that Taxation as it applies to Managed Investment Schemes, should be targeted at Wood Products as a primary focus. At present the major effects are on Managers revenues, and in many cases those wood products if and when they occur, are of secondary significance. It may well be that to promote the further development of plantations on agricultural land at a national level, that a grants scheme may achieve greater good in the development of a sustainable resource.

6. SELF MANAGED SUPERANNUATION SCHEMES

The potential of the Victorian Government Forestry Rights legislation, or the profit a prendre legislation of other states, which allows forestry to be regarded as an asset separate to the land, means that inclusion of plantations in Self Managed Superannuation schemes needs to be made a reality. Many of the FFORNE plantations have been established for superannuation purposes but again due to the lumpiness of the product, the taxation rate will be high and will detrimentally affect the value of the plantations to provide an income post retirement. The favourable tax rates for investing in superannuation needs to allow for the inclusion of plantations into these self managed superannuation schemes.

I trust you will view these comments favourably in your final recommendations
Yours sincerely,

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