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## **MEDIA RELEASE**

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### **The Facts on Tax and Timber Plantations**

"Incorrect claims have been made in some rural press that afforestation managed investment schemes receive special tax incentives, but the facts are that plantations grown under these schemes (MIS) operate under the same basic tax regime as other businesses" says Gippsland Private Forestry's Executive Officer Rob Willersdorf.

Business expenses incurred in growing trees are fully tax deductible in the same way that they are for all businesses, including grazing, cropping and dairying, and tax must be paid on the profits.

In a managed investment plantation project, growers engage a manager to establish, manage and harvest the plantation and sell its produce. Because the growers are carrying on a primary production business, the lease and management fees the growers pay to the manager are tax deductible in the year the fees are paid. In turn, the manager of the plantation must pay tax on the fees from growers in the year it receives the money.

The manager then has 12 months in which to establish the plantation. This so-called '12-month rule' has been legislated to enable plantation managers to better plan their land, contractor and seedling requirements and to establish the plantation in a seasonally appropriate manner. This is simply a timing mechanism that recognises the complex and unique nature of plantation establishment.

Plantation managers finance the land purchases with commercial loans, with funds raised in the capital markets, or from their own after-tax working capital. This is the same as a farming enterprise where tax is paid on earnings, and the farmer may use post-tax retained earnings to purchase more land. The MIS plantation manager cannot use growers' deductible management fees to purchase land, which is a capital investment and therefore not tax deductible to anyone at the time of purchase. This is the same in other businesses..

What is constantly overlooked by critics is that plantation growers have to wait between 10 and 25 years to receive the bulk of their income and then usually pay tax at a high marginal rate.

The plantation timber industry contributes substantially to long-term employment, business investment and environmental enhancement in Gippsland, and is but one small part of the change occurring in rural landscapes and communities.

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