Review of Fiscal Incentives for Plantation Forestry

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Introduction

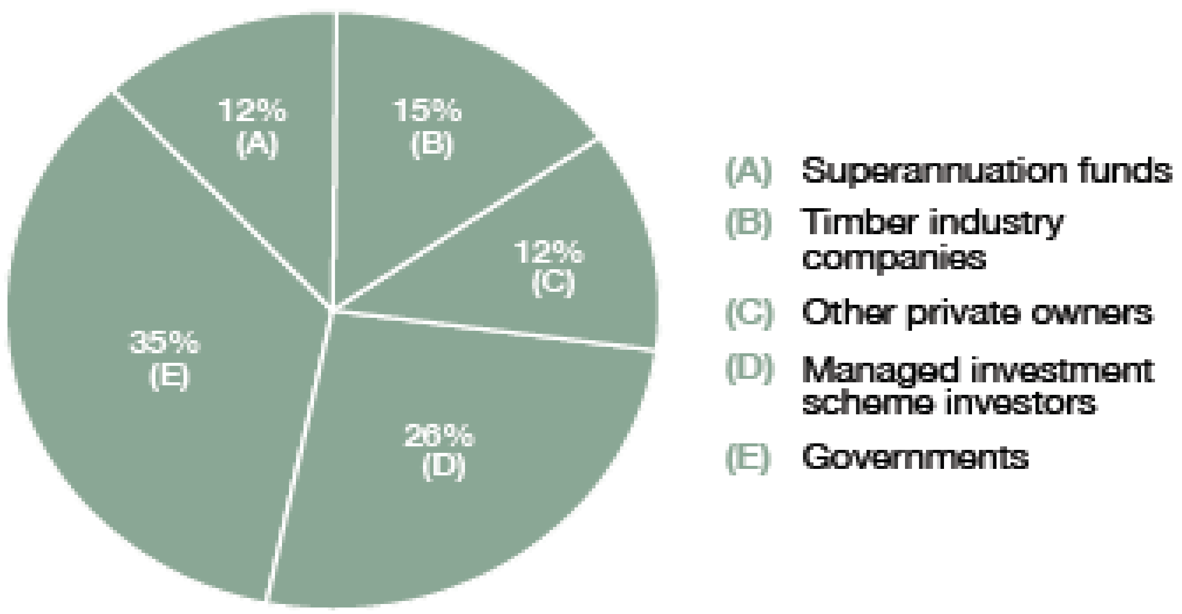
- Aim to "treble" the size of plantation forestry by 2020
- Private investment vs. Government ownership
- The role of forestry managed investment schemes (Forestry MIS)
- New rules post 1 July 2008?
- Why plantation forests?
- What are the incentives?
- Do they work?
- How to improve?

Significance of plantation forestry

- Plantations in the Australian landscape
- Economic significance
- Rejuvenation of rural communities
- Water and dry-land salinity benefits
- Carbon sequestration
- Biodiversity benefits

Significance of forestry MIS

FIGURE 03: PLANTATION OWNERSHIP, 2006



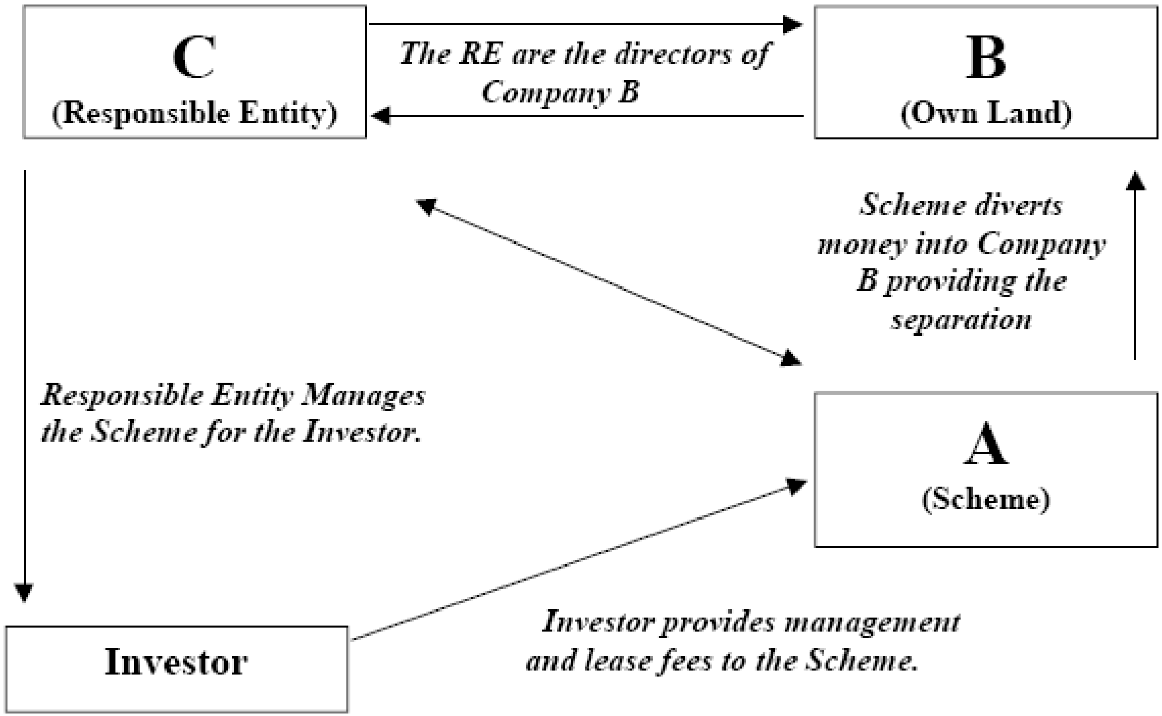
Government Policy – Plantations 2020

- Governmental policies
  - National forest policy statement
  - Plantations for Australia – the 2020 Vision
  - Action agenda
- Growth of sustainable forest industries that contribute to the following public goods:
  - “Kickstart” the forestry industry
  - Assist local industries move away from reliance on native forests
  - Enhance contributions to rural economy
  - Natural resource management (environmental problems)

When are incentives justified?

- Public goods
- Distribution of wealth to achieve minimum standard of welfare

Managed investment schemes



Current Tax Rules (pre 1 July 2008)

- Summary - administrative concessions and legislative “carve outs”.
  - Investor obtains a tax deduction for his contributions (upfront and ongoing) to the managed investment scheme.
  - The tax deduction is obtained in the year in which the amounts are paid to the promoter – which is usually the time that the investor subscribes to the scheme.
  - Income is only included in the investors income many years later when the trees are harvested or thinned.
  - The investor obtains assurance from the Australian Taxation Office, by way of a product ruling, confirming the tax benefits of the arrangements contemplated.
- Justified by commitment to Australia’s plantation forest policy.

Proposed tax rules (post 1 July 2008)

- Outright statutory deduction
- 70% DFE rule - to allay the criticism that the only a small portion of the investor’s funds were being spent on forestry
- Enable the secondary trading in investments, to create further incentives for this industry by creating a secondary market
- Justified by commitment to Australia’s plantation forest policy

Incentives?

- Bias in favour of forestry managed investment schemes as:
  - The time value benefits compared to other like investments
  - The risks from the venture are shared between the Government and the investor; and
  - The tax saved can be converted to a permanent savings (rather than a deferral) if the investor’s marginal rate of tax is reduced at the time of realisation

What are the problems?

- Incentives are generally not good
- No link between environment and incentive
- Not efficient
- Not equitable
- Relies entirely on regulatory mechanisms to ensure base level of environmental protection is met

Solutions

- Tailored tax concessions
- Net benefit test
- Develop alternative mechanisms to recognise benefits
  - Carbon trading
  - Salinity trading
  - Biodiversity trading
- Others?

Summary

- Questions?