



## Media Release

11 February 2010

### ANU report on forestry tax assistance flawed

The National Association of Forest Industries (NAFI) is concerned that a recent ANU report on financial assistance measures across the agriculture and forestry sectors is flawed, leading to incorrect conclusions about the level of assistance provided to forestry managed investment schemes (MIS) compared to other sectors.

In the report 'Climate change policy distortions in the wood and food market', Judith Ajani attempts to show that forestry receives substantial assistance through tax concessions compared to other agricultural sectors. She uses the analysis to raise concerns about the impact of forestry on food production.

"However, closer examination of the data reveals a fundamental flaw in her argument, with the data proving the contrary finding – forestry does not receive substantial assistance in comparison with other agricultural land uses", said NAFI CEO Allan Hansard.

"For a long time some commentators have been trying to argue that forestry is highly advantaged through tax arrangements compared to other sectors. However, in her attempts to prove this, she has uncovered an inconvenient truth. The Government's data used in her analysis actually shows that forestry has a lower level of assistance compared to other agricultural activities.

For 2007-08, the Productivity Commission reported the combined assistance for forestry at \$49.6 million. This compares with \$438.7 million for dairy farming and \$1028.9 million for grain, sheep and beef cattle farming over the same period. In total, the combined assistance measures for primary production were over \$2.3 billion.

It is clear that claims by some commentators that forestry will take over high productivity 'food growing' land are unsubstantiated. To the contrary, there is growing evidence that well targeted forestry practices integrated with agriculture can produce substantial economic, social and environmental benefits, including enhanced agricultural productivity.

"This goes to prove what many farmers and foresters have known for a long time – we can have a healthier, more productive food basket by incorporating a balanced diet of wood fibre", said Mr Hansard.

Further details on the Ajani analysis and assistance measures provided to the forestry and agricultural sectors are contained in the Attachment. [ENDS]

Contact: James Gray **0408 940 935** or **02 6285 3833** [james.gray@nafi.com.au](mailto:james.gray@nafi.com.au)

Ph: (02) 6285 3833 Fax: (02) 6285 3855 Internet: [www.nafi.com.au](http://www.nafi.com.au)

## Attachment: Assistance measures provided to forestry and agricultural sectors

### *Assistance measures*

In her paper, Ajani states the 'Productivity Commission advises that their estimated effective rates of assistance to industry excludes subsidies through the plantation MIS arrangements, with the exception of an estimate for a now removed taxation provision, originally called the 13 month rule' (page 8). Ajani uses this as a basis to calculate an alternative estimate of the cost of tax assistance for the plantation industry. This data is used to reach a conclusion that forestry is subsidised to a greater extent than agriculture.

This approach is unnecessary and flawed because the new tax arrangements for forestry were not implemented until 2008-09. The Productivity Commission estimate of tax assistance for the tax provision called the 13 month rule (12 month prepayment rule) is the correct budgetary assistance estimate as this is the name of the tax provision that underpinned the MIS tax provision at that time. The new tax arrangements (Div 394) were implemented in 2008-09 and would not result in a substantially different assistance level to the previous arrangements.

Table A4 from the Productivity Commission report used by Ajani provides estimates for budgetary assistance that include tax concessions for industry specific measures, including the 12 month prepayment rule for forestry.

**Table A4: Australian Government budgetary assistance to primary industry groups 2001-02 to 2007-08 <sup>a</sup>**

Forestry and logging	\$ million							Total
Industry specific measures	01-02	02-03	03-04	04-05	05-06	06-07	07-08	01-08
12 –month prepayment rule	-	55.0	-15.0	40.0	40.0	-10.0	-5.0	\$105

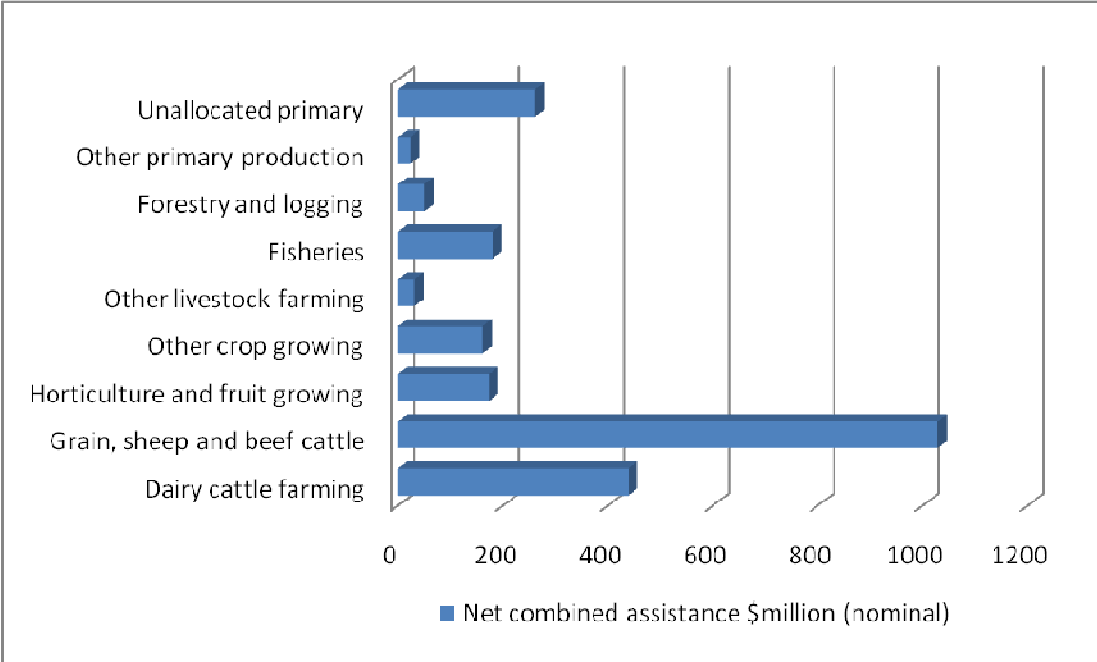
<sup>a</sup> Budgetary assistance includes Government outlays and tax concessions. For this 12 month rule the estimate specifically relates to the tax concession. Source: Productivity Commission 2009. Trade and Assistance Review 2007-08.

The negative years in the series are due to the fact that under the tax legislation forestry MIS companies pay tax on the gross receipts from investor funds in the year they are received. In contrast, under normal business tax arrangements companies pay tax on their net receipts in the period to which the receipts relate. In some years taxation arrangements for forestry result in the government receiving more tax from MIS companies than they pay in deductions to forestry investors for that year. The cost of the 12 month rule between 2001-02 to 2007-08 is estimated at \$105 million, well below the estimates by Ajani of over \$900 million.

### *Industry assistance across industry sectors*

Judith Ajani attempts to prove that MIS arrangements provide the plantation sector with a high level of government assistance, specifically through tax concessions compared to other agricultural sectors. However, the same Government data that Ajani uses in her argument demonstrates the contrary. **Figure 1** outlines the total budgetary assistance, outlays and tax concessions by agriculture, forestry and fisheries industry groupings for 2007-08. It can be seen that the value of combined assistance for forestry is significantly less than for most other agricultural sectors.

**Figure 1: Combined assistance for primary production industry grouping, 2007-08**



Source: Productivity Commission 2009. Trade and Assistance Review 2007-08, page 17.