

TD 2010/15 - Income tax: does failure to plant all the trees intended to be established under a forestry managed investment scheme covered by Division 394 of the Income Tax Assessment Act 1997 mean that no deduction is allowable under Division 394 of that Act in respect of a participant's initial contribution to the scheme?

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Taxation Determination

Income tax: does failure to plant all the trees intended to be established under a forestry managed investment scheme covered by Division 394 of the *Income Tax Assessment Act 1997* mean that no deduction is allowable under Division 394 of that Act in respect of a participant's initial contribution to the scheme?

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This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

Ruling

1. Yes. Failure to plant in this circumstance means that the conditions under which an amount can be deducted under Division 394 of the *Income Tax Assessment Act 1997* (ITAA 1997)¹ are not satisfied.
2. However, where a business is or was being carried on, the amount incurred which fails the test in Division 394 of the ITAA 1997, may nonetheless still be deductible under section 8-1 of the ITAA 1997. Such amounts will be subject to the operation of Subdivision H of Division 3 of Part III (Subdivision H) of the *Income Tax Assessment Act 1936* (ITAA 1936).

¹ All subsequent legislative references in this Determination are to the ITAA 1997 unless indicated otherwise.

Example

3. *Zane paid an amount under a forestry managed investment scheme in 2008. Due to the insolvency of the forestry manager, it is apparent that all the trees intended to be established under the scheme will not be planted by 31 December 2009. The content of the agreements indicate that a business is also being carried on. The amounts incurred remain deductible under section 8-1 of the ITAA 1997 and are subject to the operation of Subdivision H of the ITAA 1936.*

Class of persons

4. This Determination applies to participants in schemes that are either subject to a current product ruling, or were subject to a product ruling which has been withdrawn with effect from immediately before any material difference occurred.

Date of effect

5. This Determination applies to years of income commencing both before and after its date of issue. However, this Determination will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Determination (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

Commissioner of Taxation

2 June 2010

Appendix 1 – Explanation

❶ *This Appendix is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

Explanation

6. Under subsection 394-10(1), a deduction is allowed for amounts paid to acquire a forestry interest provided certain conditions are met, one of which is that subsection 394-10(4) is satisfied. Subsection 394-10(4) provides that if 18 months have elapsed since the end of the year of income in which amounts were first paid under the scheme and all the trees intended to be established have not been established then the conditions for deduction have not been met.

7. However, where the conduct of the forestry managed investment scheme also constitutes the carrying on of a business, expenditure may also have been deductible under section 8-1. In the event that expenditure satisfies the tests in both provisions, section 8-10 operates to ensure that the deduction is allowed under the most appropriate provision. That is, if the deduction was to be allowed under Division 394 then section 8-10 would prevent the amount also being claimed under section 8-1. However, in the situation where a business is being carried on, and a deduction is not allowable under Division 394, such as where planting did not occur within the prescribed time, then a deduction may be allowable under section 8-1 in respect of the expenditure.

8. Where agreements entered into are of a similar nature to those entered into by the taxpayers in *Hance v. FC of T*; *Hannebery v. FC of T*² it is likely to be concluded that a business is being carried on. In *Commissioner of Taxation v. Sleight*³ the business of the taxpayer was found to have commenced at the time of entering into the relevant agreements. Refer to the judgment of Hill J at paragraphs 9 and 61.⁴

9. The impact of Subdivision H of the ITAA 1936 will need to be considered in respect of any amounts allowable under section 8-1 of the ITAA 1997. Section 82KZMG of the ITAA 1936 will not apply if the period for providing establishment services extends over the 18 month period envisaged by Division 394 of the ITAA 1997. If this is the case, then the more general rules under sections 82KZME and 82KZMF of the ITAA 1936 may apply, and any deduction would be spread over the eligible service period (as defined in section 82KZL of the ITAA 1936).

² [2008] FCAFC 196; 74 ATR 644; 2008 ATC 20-085.

³ [2004] FCAFC 94; (2004) 136 FCR 211; 2004 ATC 4477; (2004) 55 ATR 555.

⁴ *Commissioner of Taxation v. Sleight* [2004] FCAFC 94; (2004) 136 FCR 211; 2004 ATC 4477; (2004) 55 ATR 555.

References

Previous draft:

TD 2009/D14

Related Rulings/Determinations:

TR 2006/10

Subject references:

- advance expenses & payments
- afforestation expenses
- forestry
- prepayments
- primary production

Legislative references:

- ITAA 1936 Pt III Div 3 Subdiv H
- ITAA 1936 82KZL
- ITAA 1936 82KZME

- ITAA 1936 82KZMF
- ITAA 1936 82KZMG
- ITAA 1997 8-1
- ITAA 1997 8-10
- ITAA 1997 Div 394
- ITAA 1997 394-10(1)
- ITAA 1997 394-10(4)
- TAA 1953

Case references:

- Commissioner of Taxation v. Sleight [2004] FCAFC 94; (2004) 136 FCR 211; 2004 ATC 4477; (2004) 55 ATR 555
- Hance v. FC of T; Hannebery v. FC of T [2008] FCAFC 196; 74 ATR 644; 2008 ATC 20-085

ATO references

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