

PR 2001/13A - Addendum - Income tax: Australian Forests Project 2001

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Addendum

Income tax: Australian Forests Project 2001

At paragraph 14, delete:

- Letters and attachments from the Tax Adviser dated 21 December 2000 and 22 January 2001.

and replace with:

- Letters and attachments from the Tax Adviser dated 21 December 2000, 22 January 2001, 2 May 2001, 4 May 2001 and 15 May 2001.

At paragraph 21, delete:

The Management Agreement stipulates the time for the provision of the “Plantation Establishment Services” (Clause 2). This agreement contemplates that for Growers who are accepted into the Project on or before 31 May 2001, the “Plantation Establishment Services” will be completed on or before 30 June 2001.

and replace with:

The Management Agreement stipulates the time for the provision of the Plantation Establishment Services (Clause 2). This agreement contemplates that for Growers who are accepted into the Project on or before 31 May 2001, the Plantation Establishment Services will be completed on or before 30 June 2001. It is also contemplated that Growers’ applications received after 31 May 2001 will only be accepted if Ausforestry will be able to complete all the Plantation Establishment Services by 30 June 2001.

Add to the Ruling part of the Product Ruling:

Section 8-1: allowable deductions under subscription option 1

Deductions where a Grower invests under subscription option 1 and is not registered or not required to be registered for GST

1. A Grower may claim tax deductions as outlined in the table below for the years ending 30 June 2001 to 30 June 2003 where:

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- the Grower makes an application to participate in the Project to carry on the business of afforestation after 31 May 2001;
- the Grower's application is accepted by Ausforestry;
- the Plantation Establishment Services are completed by 30 June 2001;
- incurs the fees shown in paragraph 25; and
- is not registered or is not required to be registered for GST.

Deductions available each year per Woodlot - option 1

Fee Type	ITAA 1997 Section	Year 1 30/6/2001	Year 2 30/6/2002	Year 3 30/6/2003
Establishment fee	8-1	\$1,815	nil	nil
Annual rent	8-1	nil	\$88 see note (i) below	\$88 see note (i) below
Annual maintenance fees	8-1	nil	\$55 see note (i) below	\$55 see note (i) below
Interest on borrowed funds	8-1	As incurred – see note (ii) below	As incurred – see note (ii) below	As incurred – see note (ii) below
Insurance, land tax and rates	8-1	As incurred	As incurred	As incurred
Stamp duty on lease	25-20	As incurred – see note (iii) below	nil	nil
Borrowing Costs	25-25	As incurred – see notes (ii) and (iv) below	As incurred – see notes (ii) and (iv) below	As incurred –see notes (ii) and (iv) below

Notes:

- (i) The annual rental and management fees are payable in arrears. The first payment to be on the 30 June 2002 and thereafter on the anniversary of that date every year

until clearfall.

Where a Grower incurs the annual rental and management fees as required by the Lease Agreement and Management Agreement, those fees are deductible in full in the year incurred. However, if a Grower **chooses** to prepay fees for the doing of things (e.g., the provision of management services or the leasing of land) that will not be wholly done in the same income year as the fees are incurred, then the prepayments rules of the ITAA may apply to apportion those fees. In such cases, the tax deduction for the prepaid fee **MUST** be determined using the formula shown in paragraphs 72 to 77 unless the expenditure is 'excluded expenditure'. 'Excluded expenditure', being expenditure of less than \$1,000, is an 'exception' to any prepayment rules that apply and is deductible in full in the year in which it is incurred.

- (ii) The deductibility or otherwise of interest and borrowing expenses arising from agreements entered into with financiers other than Forest Enterprises Australia Limited is outside the scope of this Ruling. However, Growers should read carefully the discussion of the prepayment rules in paragraphs 54 to 57 below, as those rules may be applicable if interest is prepaid.
- (iii) A Grower will pay stamp duty in relation to the Agreement to Lease.
- (iv) A Grower will pay stamp duty payable on the Loan Agreement.

Section 8-1: allowable deductions under subscription option 2

Deductions where a Grower invests under subscription option 2 and is not registered or not required to be registered for GST

2. A Grower may claim tax deductions as outlined in the table below for the years ending 30 June 2001 to 30 June 2003 where:

- the Grower makes an application to participate in the Project to carry on the business of afforestation after 31 May 2001;
- the Grower's application is accepted by Ausforestry;
- the Plantation Establishment Services are completed by 30 June 2001;
- incurs the fees shown in paragraph 25; and

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- is not registered or is not required to be registered for GST.

Deductions available each year per Woodlot - option 2

Fee Type	ITAA 1997 Section	Year 1 30/6/2001	Year 2 30/6/2002	Year 2 30/6/2003
Establishment fee	8-1	\$1,815	nil	nil
Interest on borrowed funds	8-1	As incurred – see note (v) below	As incurred – see note (v) below	As incurred – see note (v) below
Insurance, land tax and rates	8-1	As incurred	As incurred	As incurred
Stamp duty on lease	25-20	As incurred – see note (vi) below	nil	nil
Borrowing Costs	25-25	As incurred – see notes (v) & (vii) below	As incurred – see note (v) & (vii) below	As incurred – see note (v) & (vii) below

Notes:

- (v) The deductibility or otherwise of interest and borrowing costs arising from agreements entered into with financiers other than Forest Enterprises Australia Limited is outside the scope of this Ruling. However, Growers should read carefully the discussion of the prepayment rules in paragraphs 54 to 57 below, as those rules may be applicable if interest is prepaid.
- (vi) A Grower will pay all stamp duty in relation to the Agreement to Lease.
- (vii) A Grower will pay any stamp duty payable on the Loan Agreement.

Deductions where a Grower is registered or required to be registered for GST

- Where a Grower who is registered or required to be registered for GST:

- makes an application to participate in the Project to carry on the business of afforestation after 31 May 2001;
- the application is accepted by Ausforestry;
- the Plantation Establishment Services are completed by 30 June 2001;
- incurs the fees shown in paragraph 25; and
- is entitled to an input tax credit for the fees.

4. then the tax deductions shown in the tables above will exclude any amounts of input tax credit (Division 27 of the ITAA). See Example 1 at paragraph 89.

At paragraph 70, delete:

Under the Management Agreement, an initial establishment fee of \$1,815 per woodlot will be incurred on the execution of that Agreement. The fee is charged for providing services to a Grower by 30 June 2001 where the Grower invests on or before 31 May 2001. The fee is expressly stated to be for a number of specified services. No explicit conclusion can be drawn from the arrangement's description that the fee has been inflated to result in reduced fees being payable for subsequent years.

and replace with:

Under the Management Agreement, an initial establishment fee of \$1,815 per woodlot will be incurred on the execution of that Agreement. The fee is charged for providing services to a Grower by 30 June 2001 where the Grower's application has been accepted. The fee is expressly stated to be for a number of specified services. No explicit conclusion can be drawn from the arrangement's description that the fee has been inflated to result in reduced fees being payable for subsequent years.

Commissioner of Taxation

30 May 2001

ATO references:
NO T2000/13746
ISSN: 1039 - 0731