



# ***PR 2001/60 - Income tax: APT Eucalypt SolidWood Project 2001***

 This cover sheet is provided for information only. It does not form part of *PR 2001/60 - Income tax: APT Eucalypt SolidWood Project 2001*

 This document has changed over time. This is a consolidated version of the ruling which was published on *9 May 2001*



## Product Ruling

### Income tax: APT Eucalypt SolidWood Project 2001

| Contents                          | Para |
|-----------------------------------|------|
| What this Product Ruling is about | 1    |
| Date of effect                    | 11   |
| Withdrawal                        | 13   |
| Arrangement                       | 14   |
| Ruling                            | 37   |
| Explanations                      | 52   |
| Example                           | 92   |
| Detailed contents list            | 95   |

Potential investors may wish to refer to the ATO's Internet site at <http://www.ato.gov.au> or contact the ATO directly to confirm the currency of this Product Ruling or any other Product Ruling that the ATO has issued.

#### Preamble

*The number, subject heading, and the **What this Product Ruling is about** (including **Tax law(s)**, **Class of persons** and **Qualifications** sections), **Date of effect**, **Withdrawal**, **Arrangement** and **Ruling** parts of this document are a 'public ruling' in terms of Part IVAAA of the **Taxation Administration Act 1953**. Product Ruling PR 1999/95 explains Product Rulings and Taxation Rulings TR 92/1 and TR 97/16 together explain when a Ruling is a public ruling and how it is binding on the Commissioner.*

#### No guarantee of commercial success

The Australian Taxation Office (ATO) **does not** sanction or guarantee these products as investments. Further, we give no assurance that the products are commercially viable, that charges are reasonable, appropriate or represent industry norms, or that projected returns will be achieved or are reasonably based.

Potential investors must form their own view about the commercial and financial viability of the products. This will involve a consideration of important issues such as whether projected returns are realistic, the 'track record' of the management, the level of fees in comparison to similar products, how the investment fits an existing portfolio, etc. We recommend a financial (or other) adviser be consulted for such information.

This Product Ruling provides certainty for potential investors by confirming that the tax benefits set out below in the **Ruling** part of this document are available, **provided that** the arrangement is carried out in accordance with the information we have been given, and have described below in the **Arrangement** part of this document.

If the arrangements are not carried out as described below, investors lose the protection of this Product Ruling. Potential investors may wish to seek assurances from the promoter that the arrangements will be carried out as described in this Product Ruling.

Potential investors should be aware that the ATO will be undertaking review activities in future years to confirm the arrangements have been implemented as described below and to ensure that participants in the arrangements include in their income tax returns income derived in those future years.

#### Terms of use of this Product Ruling

This Product Ruling has been given on the basis that the person(s) who applied for the Ruling, and their associates, will abide by strict terms of use. Any failure to comply with the terms of use may lead to the withdrawal of this Ruling.

## What this Product Ruling is about

1. This Ruling sets out the Commissioner's opinion on the way in which the 'tax law(s)' identified below apply to the defined class of persons, who take part in the arrangement to which this Ruling relates. In this Ruling this arrangement is sometimes referred to as the APT Eucalypt SolidWood Project 2001, or simply as 'the Project'.

### Tax law(s)

2. The tax law(s) dealt with in this Ruling are:
- Section 6-5 of the *Income Tax Assessment Act 1997* ('ITAA 1997');
  - Section 8-1 (ITAA 1997);
  - Section 17-5 (ITAA 1997);
  - Division 27 (ITAA 1997);
  - Division 35 (ITAA 1997);
  - Section 82KL of the *Income Tax Assessment Act 1936* ('ITAA 1936');
  - Section 82KZL (ITAA 1936);
  - Section 82KZM (ITAA 1936);
  - Section 82KZME (ITAA 1936);
  - Section 82KZMF (ITAA 1936); and
  - Part IVA (ITAA 1936)

### Goods and Services Tax

3. In this Ruling all fees and expenditure referred to include Goods and Services Tax ('GST') where applicable. In order for an entity (referred to in this Ruling as a Grower to be entitled to claim input tax credits for the GST included in its expenditure, it must be registered, or required to be registered for GST and hold a valid tax invoice.

### Business Tax Reform

4. The Government is currently evaluating further changes to the tax system in response to the Ralph *Review of Business Taxation* and continuing business tax reform is expected to be implemented over a

number of years. Although this Ruling deals with the laws enacted at the time it was issued, future tax changes may affect the operation of those laws and, in particular, the tax deductions that are allowable. Where tax laws change, those changes will take precedence over the application of this Ruling, and to that extent, this Ruling will be superseded.

5. Taxpayers who are considering investing in the Project are advised to confirm with their taxation adviser that changes in the law have not affected this Product Ruling since it was issued.

### **Note to promoters and advisers**

6. Product Rulings were introduced for the purpose of providing certainty about tax consequences for investors in projects such as this. In keeping with that intention, the Tax Office suggests that promoters and advisers ensure that potential investors are fully informed of any changes in tax laws that take place after the Ruling is issued. Such action should minimise suggestions that potential investors have been negligently or otherwise misled.

### **Class of persons**

7. The class of persons to whom this Ruling applies is those who enter into the arrangement described below on or after the date this Ruling is made. They will have a purpose of staying in the arrangement until it is completed (i.e., being a party to the relevant agreements until their term expires) and deriving assessable income from this involvement as set out in the description of the arrangement. In this Ruling these persons are referred to as 'Growers'.

8. The class of persons to whom this Ruling applies does not include persons who intend to terminate their involvement in the arrangement prior to its completion, or who otherwise do not intend to derive assessable income from it.

### **Qualifications**

9. The Commissioner rules on the precise arrangement identified in the Ruling. If the arrangements described in the Ruling are materially different from the arrangements that are actually carried out:

- the Ruling has no binding effect on the Commissioner, as the arrangements entered into are not the arrangements ruled upon; and
- the Ruling will be withdrawn or modified.

10. A Product Ruling may only be reproduced in its entirety. Extracts may not be reproduced. As each Product Ruling is copyright, apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to the Manager, Legislative Services, AusInfo, GPO Box 1920, Canberra ACT 2601.

## Date of effect

---

11. This Ruling applies prospectively from 9 May 2001, the date this Ruling is made. However, the Ruling does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

12. If a taxpayer has a more favourable private ruling (which is legally binding), the taxpayer can rely on the private ruling if the income year to which the private ruling relates has ended, or has commenced but not yet ended. However, if the arrangement covered by the private ruling has not begun to be carried out, and the income year to which it relates has not yet commenced, this Ruling applies to the taxpayer to the extent of the inconsistency only (see Taxation Determination TD 93/34).

## Withdrawal

---

13. This Product Ruling is withdrawn and ceases to have effect after 30 June 2004. The Ruling continues to apply, in respect of the tax law(s) ruled upon, to all persons within the specified class who enter into the specified arrangement during the term of the Ruling. Thus, the Ruling continues to apply to those persons, even following its withdrawal, who entered into the specified arrangement prior to withdrawal of the Ruling. This is subject to there being no change in the arrangement or in the persons' involvement in the arrangement.

## Arrangement

---

14. The arrangement that is the subject of this Ruling is described below. This description incorporates the following documents:

- Application for Product Ruling dated 10 April 2001;
- Draft Prospectus for APT Eucalypt SolidWood Project 2001 dated 10 April 2001;

- **Draft Management Agreement between APT Projects Ltd (the “Responsible Entity”), APT Projects Ltd (the “Grantor”) and each Grower, dated 10 April 2001;**
- **Draft Lease Agreement between APT Projects Ltd (the “Responsible Entity”), APT Projects Ltd (the “Grantor”) and the Grower dated 16 March 2001;**
- **Draft Plantation Agreement between APT Projects Ltd (the “Responsible Entity”), APT Projects Ltd (the “Grantor”) and the Grower dated 16 March 2001;**
- **Draft Constitution for the APT Eucalypt SolidWood Project 2001 dated 16 March 2001;**
- Plantation Establishment and Maintenance Services Agreement Head Agreement between APT Land Pty Ltd (the “Principal”) and APT Forestry Pty Ltd (the “Head-contractor”) undated;
- Plantation Establishment and Maintenance Agreement Head Agreement between Australian Plantation Timber Ltd (the “Principal”) and APT Forestry Pty Ltd (the “Head-Contractor”) undated;
- Plantation Establishment and Maintenance Services Agreement Head Agreement between APT Projects Ltd (the “Principal”) and APT Forestry Pty Ltd (the “Head-Contractor”) undated;
- Compliance Plan for APT Eucalypt SolidWood Project 2001; and
- Additional correspondence dated 26 April 2001.

**Note:** certain information received from APT Projects Ltd has been provided on a commercial-in-confidence basis and will not be disclosed or released under Freedom of Information legislation.

15. The documents highlighted are those the Growers enter into. There are no other agreements, whether formal or informal, and whether or not legally enforceable, which a Grower, or any associate of the Grower, will be a party to. The effect of these agreements is summarised as follows.

### **Overview**

16. The arrangement is called the APT Eucalypt SolidWood Project 2001.

**PR 2001/60**

|  |   |
|--|---|
| Location   | Western Australia, Victoria or South Australia  |
| Type of business each participant is carrying on | Commercial growing, and cultivation of <i>Eucalyptus globulus</i> (Tasmanian Blue Gums), <i>Eucalyptus nitens</i> (Shining Gums), <i>Eucalyptus saligna</i> (Sydney Bluegum, <i>Eucalyptus viminalis</i> (Ribbon Gum), <i>Eucalyptus botryoides</i> (Southern Mahogany) and controlled crosses of <i>Eucalyptus grandis</i> with <i>Eucalyptus camaldulensis</i> trees for the purpose of producing poles, veneer logs and sawlogs with residual high quality pulp. |
| Number of hectares under cultivation             | 3,000   |
| Size of each Timberlot                           | 0.9 – 1.2 hectare   |
| Size of each leased area                         | 0.9 – 1.2 hectares  |
| Number of trees per hectare                      | A minimum of 1,100 trees per hectare  |
| Expected production                              | 400 cubic metres per Timberlot  |
| The term of the investment                       | Approximately 18 years  |
| Initial cost                                     | \$5,995 or \$5,500 where the Grower has applied for 5 or more interests in APT 2001 Plantation Projects   |
| Initial cost per hectare                         | \$5,995 or \$5,500 where the Grower has applied for 5 or more interests in APT 2001 Plantation Projects   |
| Ongoing costs                                    | Second instalment of Planting fee;<br>Tending fees;<br>Rent or Plantation Agreement Fee;<br>Maintenance and Marketing fee; and<br>Insurance costs to be charged to the Grower.  |

17. Growers participating in the arrangement will enter into a Management Agreement and a Lease or Plantation Agreement for the Project. These Agreements are set out in the Schedule to the Constitution. The Agreement gives a Grower a lease or licence from

APT Projects Ltd over an identifiable area of land called a “Timberlot” until the Project is terminated pursuant to the provisions of the Constitution or the net proceeds of sale are distributed, the entire forest produce is clear felled pursuant to the Management Agreement or the date the Management Agreement is terminated, whichever happens first. Each Timberlot is between 0.9 and 1.2 hectare in size.

18. The Project land is situated in Western Australia, Victoria and South Australia. It is owned by Australian Plantation Timber Limited or a wholly owned subsidiary. APT Projects Limited either enters into a head lease with the land owner and sub-leases the land to the Grower or enters into a forestry right with the land owner and subsequently provides a license to the Grower. APT Projects will grant to the Grower, by way of sub-lease or licence, rights over an identifiable area of land called a “Timberlot” to enable the Grower to carry on a long term commercial afforestation business. Growers are specifically granted rights to harvest timber on their Timberlots for this purpose.

19. The Prospectus states there is no minimum subscription for this Project, however, applications made under the Prospectus will not be accepted after 31 December 2001. Each investor may subscribe for a minimum of one Timberlot, at a cost of \$5995 per Timberlot, or \$5,500 for Growers who applied for 5 or more interests in 2001 APT Plantation Projects (see paragraph 25). The Responsible Entity will only accept and execute agreements for investors who lodge applications between 1 June 2001 and 30 June 2001 where the Primary Preparation Services are capable of being completed by 30 June 2001. The Responsible Entity will be monitoring on a daily basis, its ability to complete the Primary Preparation Services by 30 June 2001. No Agreements will be executed in the period 1 July 2001 and 31 July 2001.

20. Where the Growers lodge their application and the Management Agreement is executed by 30 June 2001, a minimum of 1,100 seedlings or trees will be planted per Timberlot (1,100 seedlings or trees per hectare) on or before 29 August 2001 (Item 4 and Item 17 of the Schedule to the Management Agreement). Growers will execute a Power of Attorney enabling the Responsible Entity, APT Projects Ltd, to act on their behalf as required, when they make an application for a Timberlot.

### **Constitution**

21. The Constitution for the Project sets out the terms and conditions under which the Responsible Entity agrees to act for the Growers and to manage the Project. The Responsible Entity will keep a register of Growers (cl 25). Growers are entitled to assign their



Grower's Interest in certain circumstances (cl 26). The Management Agreement is annexed to the Constitution will be executed on behalf of a Grower following them signing the Application and a Power of Attorney Form in the Prospectus. Growers are bound by the Constitution by virtue of their participation in the Project.

## **Compliance plan**

22. The Responsible Entity has prepared a Compliance Plan in accordance with the Corporations Law. Under the Compliance Plan, a Compliance Committee will monitor to what extent the Responsible Entity meets its obligations as the Responsible Entity and the rights of the Growers are protected.

## **Interest in land**

23. A lease or license is granted by the Responsible Entity to the Growers under the terms of the Lease or Plantation Agreement for the Project. Growers are granted an interest in land in the form of a lease or license to use their Timberlots for the purpose of conducting their afforestation business (cl 2.1 of the Lease and cl 2.1 of the Plantation Agreement).

24. Each Grower must pay a fee for rent to the Responsible Entity of an amount equal to 11% of every distribution to the Grower of any Net Proceeds from the Proceeds (Sales) Fund and the Proceeds (Insurance) Fund (cl.3.1 of the Lease Agreement and cl.3.1 of the Plantation Agreement). The term of the Grower's sub-lease or licence is until the Project is terminated pursuant to the provisions of the Constitution or the net proceeds of sale are distributed, or the entire forest produce is clear felled pursuant to the Management Agreement or the date the Management Agreement is terminated, whichever happens first. This is estimated as occurring approximately 18 years after the commencement of the Project.

## **Management Agreement**

25. Each Grower enters into a Management Agreement with the Responsible Entity for each Timberlot. Growers contract with the Responsible Entity to establish and maintain the plantation until maturity. Each Grower must pay a fee for Primary Preparation Services (\$4,158), Secondary Preparation Services (\$1,650) and Planting Services (\$561). For Growers who have applied for 5 or more interests in APT Eucalypt Project 2001, APT Plantation Project No. 11, APT Pine SolidWood Project 2001 and this project combined ('2001 APT Plantation Projects') the fee for Primary Preparation Services is \$3,663.

26. Tending Services are to be performed from year 2 to year 6 of the Project. An amount of \$374 is payable in each of those years for Tending Services commencing 1 September 2002, for Growers who invest in the Project by 30 June 2001, and 1 September 2003 for Growers investing in the Project between 1 August 2001 and 31 December 2001. Each Grower must pay an amount for Maintenance and Marketing Services to the Responsible Entity of an amount equal to 5.5% of every distribution to the Grower of any Net Proceeds of Sale from the Proceeds (Sales) Fund and the Proceeds (Insurance) Fund (Item 31 of the Schedule to the Management Agreement).

27. The Management Agreement provides that each Grower appoints the Responsible Entity to perform services under the agreement. The Schedule to the Management Agreement specifies the services to be performed by the Responsible Entity. The Responsible Entity will supervise and manage all silviculture activities on behalf of each Grower and must:

- acquire appropriate seeds and seedlings;
- rip and mound the Timberlot;
- plant seedlings on the land;
- keep access roads in good repair and each Timberlot free from rabbits and other vermin; and
- maintain the Timberlot according to good silvicultural and forestry practices.

28. The Responsible Entity will determine the appropriate time to harvest the trees having regard to set criteria including age of all of the Plantations, current and future markets for timber produce and all the advice of the Independent Forester (cl.11.2)

29. The Responsible Entity will harvest and sell timber produce on the Growers behalf, at the highest price possible for the timber produce (cl.11.3). The Grower shall be responsible for paying the cost of annual insurance on the Timberlot (cl. 14.4).

### **Planting**

30. For Growers who invest in the Project and their agreements are executed by 30 June 2001, the Responsible Entity is required to plant 1,100 seedlings on the Timberlots during the period up to 29 August 2001. For Growers whose Agreements are executed during the period 1 August 2001 to 31 December 2001, the planting service will be performed during the period 1 June 2002 until 29 August 2002. From 1 September following the planting period, the Responsible Entity will maintain the trees in accordance with good

silvicultural practice. The services to be provided by the Responsible Entity over the term of the Project are outlined in the Management Agreement (the Schedule).

### **Fees**

31. The initial amount payable under the Management Agreement for the Project is \$5,995 per Timberlot or \$5,500 where the Grower has applied for and is allocated 5 or more Timberlots in any of the 2001 APT Plantation Projects. This fee includes the Primary Preparation Services Fee of \$4,158, or \$3,663 where the Grower has applied for 5 or more interests in the APT Plantation Projects, and a Secondary Preparation Fee of \$1,650 for the preparation of the plantation (Items 10 and 15 of the Schedule to the Management Agreement). Where Growers lodge their applications by 31 May 2001 those services will be completed by 30 June 2001. For Growers whose Management Agreement is executed between 1 June 2001 and 30 June 2001, the Primary Preparation Services will be completed by 30 June 2001 and the Secondary Preparation Services will be completed by 31 July 2001. For Growers whose Management Agreement is executed between 1 August 2001 and 31 December 2001 both the Primary Preparation Services and Secondary Preparation Services will be completed by 30 June 2002.

32. A Planting Service Fee of \$561 is also payable. This fee is payable in two instalments, \$187 on application and \$374 on 1 September 2001 or 1 September 2002 where the Management Agreement is executed during the period 1 August 2001 and 31 December 2001. The Planting Services will be completed on the latter of execution of the Management Agreement and 1 June 2001 and ending on 29 August 2001 or commencing on 1 June 2002 and ending on 29 August 2002 for Growers whose Management Agreement is executed during the period 1 August 2001 and 31 December 2001.

33. A Tending Services Fee of \$374 is payable by 1 September in years 2 to 6 of the Project. For Growers whose trees are planted by 29 August 2001, the fee is first payable on 1 September 2002. Growers whose trees are planted by 29 August 2002 the fee is first payable on 1 September 2003.

34. Each Grower must also pay an amount for Maintenance and Marketing Services to the Responsible Entity of an amount equal to 5.5% of every distribution to the Grower of any Net Proceeds of Sale from the Proceeds (Sales) Fund and the Proceeds (Insurance) Fund (Item 31 of the Schedule to the Management Agreement). Each Grower must pay a fee for rent to the Responsible Entity of an amount equal to 11% of every distribution to the Grower of any Net Proceeds of Sale from the Proceeds (Sales) fund and the Proceeds (Insurance)

Fund (cl. 3.1 of the Lease Agreement and cl. 3.1 of the Plantation Agreement). The Application Monies will be banked in the Application Bank Account.

### **Finance**

35. Growers can fund their investment in the Project themselves, borrow from APT Finance Pty Limited (a lender associated with the Responsible Entity) or borrow from an independent lender.

36. This Ruling does not apply if a Grower enters into a finance agreement that includes or has any of the following features:

- there are split loan features of a type referred to in Taxation Ruling TR 98/22;
- there are indemnity arrangements or other collateral agreements in relation to the loan designed to limit the borrower's risk;
- 'additional benefits' are or will be granted to the borrowers for the purpose of section 82KL or the funding arrangements transform the Project into a 'scheme' to which Part IVA may apply;
- the loan or rate of interest is non-arm's length;
- repayments of the principal and payments of interest are linked to the derivation of income from the Project;
- the funds borrowed, or any part of them, will not be available for the conduct of the Project but will be transferred (by any mechanism, directly or indirectly) back to the lender, or any associate of the lender;
- lenders do not have the capacity under the loan agreement, or a genuine intention, to take legal action against defaulting borrowers; or
- entities associated with the Project other than APT Finance Pty Limited, are involved or become involved, in the provision of finance to Growers for the Project.

## **Ruling**

---

### **Assessable Income**

37. A Grower's share of the gross sales proceeds from the Project, less any GST payable on these proceeds, will be assessable income under section 6-5. Section 17-5 excludes from assessable income an amount relating to GST payable on a taxable supply.

**Deductions where a Grower is not registered nor required to be registered for GST.**

38. A Grower may claim the deductions as set out in the following table where the Grower:

- participates in the Project on or before 31 May 2001 to carry on the business of afforestation;
- incurs the fees and expenditure shown in paragraphs 31-33 above; and
- is not registered, or is not required to be registered, for GST.

**Section 8-1 – Prepaid fees**

39. Expenditure incurred by a Grower who participates in the Project is subject to the prepayment rules contained in sections 82KZME and 82KZMF. Therefore, a Grower who prepays fees that are otherwise allowable under section 8-1 **cannot** claim a tax deduction for the full amount of the fees in the year in which the expenditure is incurred unless it is 'excluded expenditure' (see note 2 below).

40. The amount and timing of tax deductions allowable each year for such fees must be determined using the formula in subsection 82KZMF(1). In that formula, which is shown below, the 'eligible service period' means, generally, the period over which the services are to be provided.

Expenditure X Number of days of eligible service period in the year of income

Total number of days of eligible service period

In this Project, the tax deductions allowable for the Planting Service Fee and the tax deduction allowable in respect of the Secondary Preparation Services Fee for Growers whose Management Agreement is executed between 1 June 2001 and 30 June 2001 (detailed at paragraphs 31 and 32 of the Arrangement) must be calculated by applying the formula to the amount incurred each year by the Grower. The application of this method is shown in the Examples at paragraphs 93 and 94.

**PR 2001/60**FOI status: **may be released**

Page 13 of 34

| Fee type   | ITAA<br>1997<br>section | Year 2001<br>deduction  | Year 2002<br>deduction  | Year 2003<br>deduction                                   |
|--|-------------------------|---|---|--|
| Primary<br>Preparation<br>Services<br>Fee – see #<br>below | 8-1                     | \$4,158   |   |  |
| Primary<br>Preparation<br>Services<br>Fee –see ##<br>below | 8-1                     | \$3,663   |   |  |
| Secondary<br>Preparation<br>Services<br>Fee                | 8-1                     | \$1,650   |   |  |
| Planting<br>Services<br>Fee                                | 8-1                     | Amount must<br>be calculated<br>see notes (i)<br>and (ii) below | Amount<br>must be<br>calculated<br>see notes (i)<br>and (ii)<br>below |  |
| Tending<br>Services<br>Fee                                 | 8-1                     |   | \$374 – see<br>notes (ii) and<br>(iv) below                           | \$374 – see<br>notes (ii) and<br>(iv) below              |
| Interest   | 8-1                     | As incurred –<br>see notes (ii)<br>(iii) & (iv)<br>below        | As incurred –<br>see notes (ii)<br>(iii) & (iv)<br>below              | As incurred –<br>see notes (ii)<br>(iii) & (iv)<br>below |
| Insurance  | 8-1                     | As incurred–<br>see notes (ii)<br>& (iv) below                  | As incurred–<br>see notes (ii)<br>& (iv) below                        | As incurred–<br>see notes (ii)<br>& (iv) below           |

# where the Grower has applied for less than 5 interests in 2001 APT Plantation Projects.

## where the Grower has applied for 5 or more interests in 2001 APT Plantation Projects.

**Notes:**

- (i) The Planting Services Fees shown in the Table above are **NOT** deductible in full in the year incurred. The deduction for each year's fees must be determined using the formula

above. The Responsible Entity will inform Growers of the number of days in the 'eligible service period' in the first 'expenditure year'. This figure is necessary to calculate the deduction allowable for the fees incurred. See Example 2 at paragraph 93.

- (ii) Amounts of less than \$1,000 will be 'excluded expenditure'. Excluded expenditure is an 'exception' to the prepayment rules and is deductible in full in the year in which it is incurred (see Example 3 at paragraph 94). Deductibility of amounts of \$1,000 or more, such as may occur where a Grower acquires a number of interests in the Project, will be determined on the same basis as the prepaid planting service fee, i.e., using the formula shown above (in paragraph 40).
- (iii) The deductibility or otherwise of interest arising from agreements entered into with financiers other than APT Finance Pty Limited is outside the scope of this Ruling. However, all Growers who finance their participation in the Project other than with APT Finance Pty Limited should read carefully the discussion of the prepayment rules in paragraphs 68-70 below as those rules may be applicable if interest is prepaid.
- (iv) Where a Grower **chooses** to prepay the Tending Service Fees or interest or insurance costs beyond 13 months, sections 82KZME and 82KZMF will not apply to set the amount and timing of that Grower's tax deductions. Instead, unless the expenditure is 'excluded expenditure', the amount and timing of the tax deductions is determined under either subsection 82KZM(1) or subsection 82KZMD(2) (see paragraphs 71 to 76). To apportion the expenditure over the eligible service period, these provisions, which apply respectively to 'small business taxpayers' and taxpayers who are not 'small business taxpayers', effectively use the same formula as that shown above.

**Deductions where a Grower is not registered nor required to be registered for GST.**

41. A Grower may claim the deductions as set out in the following table where the Grower :

- participates in the project by 30 June 2001 to carry on the business of growing trees;
- executes their Management Agreement between 1 June 2001 and 30 June to carry on the business of growing trees;
- incurs the fees and expenditure shown in paragraphs 31-33 above; and

**PR 2001/60**FOI status: **may be released**

Page 15 of 34

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

| <b>Fee type</b>                     | <b>ITAA 1997 section</b> | <b>Year 2001 deduction</b>                             | <b>Year 2002 deduction</b>                             | <b>Year 2003 deduction</b>                      |
|-------------------------------------|--------------------------|--|--|---|
| Primary Preparation Services Fee #  | 8-1                      | \$4,158  |  |   |
| Primary Preparation Services Fee ## | 8-1                      | \$3,663  |  |   |
| Secondary Preparation Services Fee  | 8-1                      | Amount must be calculated – see notes (i) & (ii) below | Amount must be calculated – see notes (i) & (ii) below |   |
| Planting Services Fee               | 8-1                      | Amount must be calculated see notes (i) and (ii) below | Amount must be calculated see notes (i) and (ii) below |   |
| Tending Services Fee                | 8-1                      |  | \$374 – see notes (ii) and (iv) below                  | \$374 – see notes (ii) and (iv) below           |
| Interest                            | 8-1                      | As incurred – see notes (ii) (iii) & (iv) below        | As incurred – see notes (ii) (iii) & (iv) below        | As incurred – see notes (ii) (iii) & (iv) below |
| Insurance                           | 8-1                      | As incurred– see notes (ii) & (iv) below               | As incurred– see notes (ii) & (iv) below               | As incurred– see notes (ii) & (iv) below        |

# where the Grower has applied for less than 5 interests in 2001 APT Plantation Projects.

## where the Grower has applied for 5 or more interests in 2001 APT Plantation Projects.



**Notes:**

- (i) The Planting Services Fees and the Secondary Preparation Services Fees shown in the Table at paragraph 41 above are **NOT** deductible in full in the year incurred. The deduction for each year's fees must be determined using the formula above (see paragraph 40). The Responsible Entity will inform Growers of the number of days in the 'eligible service period' in the first 'expenditure year'. This figure is necessary to calculate the deduction allowable for the fees incurred. See Example 2 at paragraph 93.
- (ii) Amounts of less than \$1,000 will be 'excluded expenditure'. Excluded expenditure is an 'exception' to the prepayment rules and is deductible in full in the year in which it is incurred (see Example 3 at paragraph 94). Deductibility of amounts of \$1,000 or more, such as may occur where a Grower acquires a number of interests in the Project, will be determined on the same basis as the prepaid planting service fee, i.e., using the formula shown above (in paragraph 40).
- (iii) The deductibility or otherwise of interest arising from agreements entered into with financiers other than APT Finance Pty Limited is outside the scope of this Ruling. However, all Growers who finance their participation in the Project other than with APT Finance Pty Limited should read carefully the discussion of the prepayment rules in paragraphs 68 - 70 below as those rules may be applicable if interest is prepaid.
- (iv) Where a Grower **chooses** to prepay the Tending Service Fees or interest or insurance costs beyond 13 months, sections 82KZME and 82KZMF will not apply to set the amount and timing of that Grower's tax deductions. Instead, unless the expenditure is 'excluded expenditure', the amount and timing of the tax deductions is determined under either subsection 82KZM(1) or subsection 82KZMD(2) (see paragraphs 71 to 76). To apportion the expenditure over the eligible service period, these provisions, which apply respectively to 'small business taxpayers' and taxpayers who are not 'small business taxpayers', effectively use the same formula as that shown above.

**Deductions where a Grower is not registered nor required to be registered for GST.**

42. Grower may claim the deductions set out in the following table where the Grower:

- participates in the Project on or after 1 August 2001 to carry on the business of afforestation;

**PR 2001/60**FOI status: **may be released**

Page 17 of 34

- executes his/her Grower's Management Agreement between 1 August 2001 and 31 December 2001;
- incurs the fees and expenditure shown in paragraphs 31-33 above; and
- is not registered or is not required to be registered, for GST:

| Fee type                            | ITAA 1997 section | Year 2002 deduction                                    | Year 2003 deduction                                    | Year 2004 deduction                             |
|-------------------------------------|-------------------|--|--|---|
| Primary Preparation Services Fee #  | 8-1               | \$4,158  |  |   |
| Primary Preparation Services Fee ## | 8-1               | \$3,663  |  |   |
| Secondary Preparation Services Fee  | 8-1               | \$1,650  |  |   |
| Planting Services Fee               | 8-1               | Amount must be calculated see notes (i) and (ii) below | Amount must be calculated see notes (i) and (ii) below |   |
| Tending Services Fee                | 8-1               |  | \$374 – see notes (ii) and (iv) below                  | \$374 – see notes (ii) and (iv) below           |
| Interest                            | 8-1               | As incurred – see notes (ii) (iii) & (iv) below        | As incurred – see notes (ii) (iii) & (iv) below        | As incurred – see notes (ii) (iii) & (iv) below |
| Insurance                           | 8-1               | As incurred– see notes (ii) & (iv) below               | As incurred– see notes (ii) & (iv) below               | As incurred– see notes (ii) & (iv) below        |

# where the Grower has applied for less than 5 interests in 2001 APT Plantation Projects.

## where the Grower has applied for 5 or more interests in 2001 APT Plantation Projects.

**Notes :**

- (i) The Planting Services Fees shown in the Table at paragraph 42 above are **NOT** deductible in full in the year incurred. The deduction for each year's fees must be determined using the formula above (see paragraph 40). The Responsible Entity will inform Growers of the number of days in the 'eligible service period' in the first 'expenditure year'. This figure is necessary to calculate the deduction allowable for the fees incurred. See Example 2 at paragraph 93.
- (ii) Amounts of less than \$1,000 will be 'excluded expenditure'. Excluded expenditure is an 'exception' to the prepayment rules and is deductible in full in the year in which it is incurred (see Example 3 at paragraph 94). Deductibility of amounts of \$1,000 or more, such as may occur where a Grower acquires a number of interests in the Project, will be determined on the same basis as the prepaid planting service fee, i.e., using the formula shown above (in paragraph 40).
- (iii) The deductibility or otherwise of interest arising from agreements entered into with financiers other than APT Finance Pty Limited is outside the scope of this Ruling. However, all Growers who finance their participation in the Project other than with APT Finance Pty Limited should read carefully the discussion of the prepayment rules in paragraphs 68 - 70 below as those rules may be applicable if interest is prepaid.
- (iv) Where a Grower **chooses** to prepay the Tending Service Fees or interest or insurance costs beyond 13 months, sections 82KZME and 82KZMF will not apply to set the amount and timing of that Grower's tax deductions. Instead, unless the expenditure is 'excluded expenditure', the amount and timing of the tax deductions is determined under either subsection 82KZM(1) or subsection 82KZMD(2) (see paragraphs 71 to 76). To apportion the expenditure over the eligible service period, these provisions, which apply respectively to 'small business taxpayers' and taxpayers who are not 'small business taxpayers', effectively use the same formula as that shown above.

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

43. Where a Grower who is registered, or required to be registered for GST:

- participates in the Project on or before 31 May 2001 to carry on the business of growing trees;

- incurs the fees and expenditure shown in paragraphs 40 above; and
- is entitled to an input tax credit for the fees;

then the deductions shown in the Tables above will exclude any amounts of input tax credit (Division 27 of the ITAA 1997). See Example 1 at paragraph 92.

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

44. Where a Grower who is registered, or required to be registered for GST:

- participates in the Project on or before 30 June 2001 to carry on the business of growing trees;
- the Management Agreement to which they are a party is executed between 1 June 2001 and 30 June 2001;
- incurs the fees and expenditure shown in paragraphs 41 above; and
- is entitled to an input tax credit for the fees;

then the deductions shown in the Tables above will exclude any amounts of input tax credit (Division 27 of the ITAA 1997). See Example 1 at paragraph 92.

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

45. Where a Grower who is registered, or required to be registered for GST:

- participates in the Project by 31 December 2001 to carry on the business of afforestation;
- the Management Agreement to which they are a party is executed between 1 August 2001 and 31 December 2001;
- incurs the fees and expenditure shown in paragraphs 42 above; and
- is entitled to an input tax credit for the fees;

then the deductions shown in the Tables above will exclude any amounts of input tax credit (Division 27 of the ITAA 1997). See Example 1 at paragraph 92.

**Division 35 – Deferral of losses from non-commercial business activities*****Section 35-55 – Commissioner’s discretion***

46. For a Grower who is an individual and who enters the Project the rule in section 35-10 may apply to the business activity comprised by their involvement in this Project. Under paragraph 35-55(1)(b) the Commissioner will decide for the income years ending 30 June 2001 to 30 June 2009 that the rule in section 35-10 does not apply to this activity provided that the Project is carried out in the manner described in this Ruling.

47. This exercise of the discretion in subsection 35-55(1) will not be required where, for any year in question:

- a Grower’s business activity satisfies one of the objective tests in sections 35-30, 35-35, 35-40 or 35-45; or
- the ‘Exception’ in subsection 35-10(4) applies (see paragraph 80 in the Explanations part of this Ruling, below).

48. Where either the Grower’s business activity satisfies one of the objective tests, the discretion in subsection 35-55(1) is exercised, or the Exception in subsection 35-10(4) applies, section 35-10 will not apply. This means that a Grower will not be required to defer any excess of deductions attributable to their business activity in excess of any assessable income from that activity, i.e., any ‘loss’ from that activity, to a later year. Instead, this ‘loss’ can be offset against other assessable income for the year in which it arises.

49. Growers are reminded of the important statement made on Page 1 of this Product Ruling. Therefore, Growers should not see the Commissioner’s decision to exercise the discretion in paragraph 35-55(1)(b) as an indication that the Tax Office sanctions or guarantees the Project or the product to be a commercially viable investment. An assessment of the Project or the product from this perspective has not been made.

**Section 82KL**

50. Section 82KL does not apply to deny the deduction otherwise allowable.

**Part IVA**

51. The relevant provisions in Part IVA will not be applied to cancel a tax benefit obtained under a tax law dealt with in this Ruling.

---

**Explanations**

---

**Section 8-1**

52. Consideration of whether the management fees and the lease fees are deductible under section 8-1 begins with the first limb of the section. This view proceeds on the following basis:

- the outgoing in question must have a sufficient connection with the operations or activities that directly gain or produce the taxpayer's assessable income;
- the outgoings are not deductible under the second limb if they are incurred when the business has not commenced; and
- where all that happens in a year of income is that a taxpayer contractually commits themselves to a venture that may not turn out to be a business, there can be doubt about whether the relevant business has commenced, and hence, whether the second limb applies. However, that does not preclude the application of the first limb in determining whether the outgoing in question has a sufficient connection with activities to produce assessable income.

**Is the Grower carrying on a business?**

53. An afforestation scheme can constitute the carrying on of a business. Where there is a business, or a future business, the Gross Harvest Proceeds each year from Timber from Woodlots comprising the Project will constitute gross assessable income in their own right. The generation of 'business income' from such a business, or future business, provides the backdrop against which to judge whether the outgoings in question have the requisite connection with the operations that more directly gain or produce this income. These operations will be the planting, tending, maintaining and harvesting of the timber each year from the Timberlot.

54. Generally, a Grower will be carrying on a business of afforestation where:

- the Grower has an identifiable interest in specific growing timber coupled with a right to harvest and sell the timber each year from the trees;
- the afforestation activities are carried out on the Grower's behalf; and
- the weight and influence of the general indicators of a business as used by the Courts point to the carrying on of a business.

55. For this Project Growers have rights under the Lease or Plantation Agreement in the form of a lease or a license over an identifiable area of land consistent with the intention to carry on a business of growing timber. Under the Management Agreement Growers engage the Responsible Entity to acquire seedlings and plant out the seedlings on the leased land and to provide ongoing services to care and maintain the trees. Growers are considered to have control of their operations.

56. The Lease Agreement and the Plantation Agreement provides Growers with more than a chattel interest in the trees. The Project documentation contemplates Growers will have an ongoing interest in the trees.

57. Growers have the right to use the land in question for silviculture purposes and to have the Responsible Entity come onto the land to carry out its obligations under the Management Agreement. The Growers' degree of control over the Project Manager as evidenced by the Management Agreement, and supplemented by the Corporations Law, is sufficient. Under the Project, Growers are entitled to receive regular progress reports on the Project Manager's activities. Growers are able to terminate arrangements with the Project Manager in certain instances, such as cases of default or neglect. The afforestation activities described in the Management Agreement are carried out on the Growers' behalf.

58. The general indicators of a business, as used by the Courts, are described in Taxation Ruling TR 97/11. Positive findings can be made from the arrangement's description for all the indicators. Growers to whom this Ruling applies intend to derive assessable income from the Project. This intention is related to projections contained in the Prospectus that suggest the Project should return a 'before-tax' profit to the Growers, i.e., a 'profit' in cash terms that does not depend in its calculation on the fees in question being allowed as a deduction.

59. Growers will engage the professional services of a manager with appropriate credentials. There is a means to identify which trees Growers have an interest in. These services are based on accepted

silviculture practices and are of the type ordinarily found in afforestation ventures that would commonly be said to be businesses.

60. Growers have a continuing interest in the trees from the time they are acquired until the cessation of the Project. The silviculture activities, and hence the fees associated with their procurement, are consistent with an intention to commence regular activities that have an 'air of permanence' about them. The Growers' afforestation activities will constitute the carrying on of a business.

61. The lease fees and management fees associated with the afforestation activities will relate to the gaining of income from this business, and hence have a sufficient connection to the operations by which income (from the regular sale of timber) is to be gained from this business. They will thus be deductible under the first limb of section 8-1. Further, no 'non-income producing' purpose in incurring the fee is identifiable from the arrangement. The fee appears to be reasonable. There is no capital component of the management fee. The tests of deductibility under the first limb of section 8-1 are met. The exclusions do not apply.

### **Sections 82KZME and 82KZMF – Prepaid fees**

62. Expenditure prepaid by Growers for management fees and lease fees meets the requirements of subsections 82KZME(1) and (2) and the expenditures are incurred under an 'agreement' as described in subsection 82KZME(3). Therefore, unless one of the exceptions to section 82KZME applies to the expenditures, the amount and timing of tax deductions for those expenditures are determined under section 82KZMF.

63. In relation to the requirements of subsection 82KZME(1) and (2), the prepaid management and lease fees incurred by a Grower who participates in the Project:

- are otherwise deductible under section 8-1; and
- have 'eligible service periods' (for each of the fees) that end not more than 13 months after the Grower incurs the expenditure; and
- are incurred in return for the doing of a thing under the agreement that is not wholly to be done within the expenditure year.

The 'eligible service period' (defined in subsections 82KZL(1)) means, generally, the period over which the services are to be provided.

64. In relation to an 'agreement' referred to in subsection 82KZME(3), the Project is an 'agreement' (this being a broad concept



under subsection 82KZME(4)), where, during the term of this Product Ruling:

- the Grower's allowable deductions attributable to the Project for each expenditure year exceeds the Grower's assessable income from the Project (if any) for the expenditure year; and
- the Grower does not have day-to-day control over the operation of the Project; and
- there is more than one Grower participating in the Project.

65. The prepaid Planting Services Fees, being amounts of less than \$1,000 in each expenditure year, constitute 'excluded expenditure' as defined in subsection 82KZL(1). Under Exception 3 (subsection 82KZME(7)) 'excluded expenditure' is not subject to section 82KZMF and is, therefore, deductible in full in the year in which it is incurred. However, where a Grower acquires more than one interest in the Project and the quantum of prepaid lease fees is \$1,000 or more, then the deduction allowable for those amounts will also be subject to apportionment under section 82KZMF.

### **Interest deductibility**

#### ***(i) Growers who use APT Finance Pty Limited as the finance provider***

66. Some Growers may finance their participation in the Project through a loan facility with APT Finance Pty Limited. Under the terms of the Loan Agreement to be entered into between those Growers and APT Finance Pty Limited, interest must be paid.

67. Whether the resulting interest costs are deductible under section 8-1 depends on the same reasoning as that applied to the deductibility of lease and management fees. The interest incurred for the year ended 30 June 2001 and in subsequent years of income will be in respect of a loan to finance the Project business operations of growing timber and is therefore directly connected with the gaining of 'business income' from the Project. Such interest will, therefore, have a sufficient connection with the gaining of assessable income to be deductible under section 8-1, subject to the operation of sections 82KZME and 82KZMF.

#### ***ii) Growers who DO NOT use APT Finance Pty Limited as the finance provider***

68. The deductibility of interest incurred by Growers who finance their participation in the Project through a loan facility with a bank or financier other than APT Finance Pty Limited is outside the scope of

this Ruling. Product Rulings only deal with arrangements where all details and documentation have been provided to, and examined by the Tax Office.

69. While the terms of any finance agreement entered into between relevant Growers and such financiers are subject to commercial negotiation, those agreements may require interest to be prepaid. Under the prepayment rules contained in section 82KZME, 'agreement' (defined in subsection 82KZME(4)) is a broad concept and includes all activities that relate to the agreement including those that give rise to deductions or assessable income. It will encompass activities not described in the Arrangement or otherwise dealt with in the Product Ruling, such as a loan to finance participation in the Project.

70. Therefore, unless the prepaid interest is 'excluded expenditure', where such a loan facility requires interest to be prepaid and the requirements of section 82KZME are met, relevant Growers will be required to determine any tax deduction using the formula in subsection 82KZMF(1). The relevant formula is shown above in paragraph 40 and the method is explained in the Examples at paragraphs 93 and 94.

### **Prepayments where the eligible service period exceeds 13 months**

71. Although not required under the Arrangement described in this Product Ruling, some Growers may choose to prepay some or all of their fees for periods longer than the agreements require. Specifically, this will occur when the 'eligible service period' relating to the prepaid amount ends more than 13 months after the Grower incurs the expenditure. Where the 'eligible service period' exceeds 13 months sections 82KZME and 82KZMF will not apply, as the requirement of paragraph 82KZME(1)(b) is not met.

72. Instead, for a Grower who is a 'small business taxpayer' (see paragraphs 74 to 76) subsection 82KZM(1) applies to apportion the expenditure and determine the amount and timing of the deductions. Alternatively, for a Grower who is not a 'small business taxpayer' subsection 82KZMD(2) applies to apportion the expenditure and determine the amount and timing of the deductions.

73. Both of these provisions, although slightly different in form, apportion deductible expenditure over the 'eligible service period' in the same way as the formula contained in paragraph 40 (above). However, expenditure, which is 'excluded expenditure', is an exception to both provisions (subparagraph 82KZM(1)(b)(ii) and subsection 82KZMA(4) respectively). A tax deduction for 'excluded expenditure' can be claimed in full in the year in which the expenditure is incurred.

## **Small business taxpayers**

74. A 'small business taxpayer' is defined in section 960-335 of the ITAA 1997 as a taxpayer who is carrying on a business and either their 'average turnover' for the year is less than \$1,000,000 or their turnover recalculated under section 960-350 is less than \$1,000,000.

75. 'Average turnover' is determined under section 960-340 by reference to the average of the taxpayer's 'group turnover'. The group turnover is the sum of the 'value of business supplies' made by the taxpayer and entities connected with the taxpayer during the year (section 960-345).

76. Whether a Grower is a 'small business taxpayer' depends upon the circumstances of each Grower and is beyond the scope of this Product Ruling. It is the responsibility of each Grower to determine whether or not they are within the definition of a 'small business taxpayer'.

## **Division 35 – Deferral of losses from non-commercial business activities**

77. Under the rule in subsection 35-10(2) a deduction for a loss incurred by an individual (including an individual in a general law partnership) from certain business activities will not be allowable in an income year unless:

- the 'Exception' in subsection 35-10(4) applies;
- one of four objective tests in sections 35-30, 35-35, 35-40 or 35-45 is met; or
- if one of the objective tests is not satisfied, the Commissioner exercises the discretion in section 35-55.

78. Generally, a loss in this context is, for the income year in question, the excess of an individual taxpayer's allowable deductions attributable to the business activity over that taxpayer's assessable income from the business activity.

79. Under the loss deferral rule in subsection 35-10(2) the relevant loss is not able to be taken into account in the calculation of taxable income in the year that loss arose. Instead, in a later year it may be offset against any income from the same or similar business activity, or, if one of the objective tests is passed, or the Commissioner's discretion exercised, against other income.

80. For the purposes of applying the objective tests, subsection 35-10(3) allows taxpayers to group business activities 'of a similar kind'. Under subsection 35-10(4), there is an 'Exception' to the

general rule in subsection 35-10(2) where the loss is from a primary production business activity and the individual taxpayer has other assessable income for the income year from sources not related to that activity, of less than \$40,000 (excluding any net capital gain). As both subsections relate to the individual circumstances of Growers who participate in the Project they are beyond the scope of this Product Ruling and are not considered further.

81. In broad terms, the objective tests require:

- (a) at least \$20,000 of assessable income in that year from the business activity (section 35-30);
- (b) the business activity results in a taxation profit in 3 of the past 5 income years (including the current year) (section 35-35);
- (c) at least \$500,000 of real property is used on a continuing basis in carrying on the business activity in that year (section 35-40); or
- (d) at least \$100,000 of certain other assets are used on a continuing basis in carrying on the business activity in that year (section 35-45).

82. A Grower who participates in the Project will be carrying on a business activity that is subject to these provisions. Information provided with the application for this Product Ruling indicates that a Grower who acquires the minimum investment of one interest in the Project is unlikely to pass one of the objective tests or produce a taxation profit until the income year ended 30 June 2010. Growers who acquire more than one interest in the Project may however, pass one of the tests in an earlier income year.

83. Therefore, prior to this time, unless the Commissioner exercises an arm of the discretion under paragraphs 35-55(1)(a) or (b), the rule in subsection 35-10(2) will apply to defer to a future income year any loss that arises from the Grower's participation in the Project.

84. The first arm of the discretion in paragraph 35-55(1)(a) relates to 'special circumstances' applicable to the business activity, and has no relevance for the purposes of this Product Ruling. However, for an individual Grower who acquires an interest(s) in the Project, the Commissioner will decide that it would be unreasonable not to exercise the second arm of the discretion in paragraph 35-55(1)(b) for the income years ending 30 June 2001 to 30 June 2009.

85. The second arm of the discretion in paragraph 35-55(1)(b) may be exercised by the Commissioner where:

- (i) the business activity has started to be carried on; and

- (ii) there is an objective expectation that the business activity of an individual taxpayer will either pass one of the objective tests or produce a taxation profit within a period that is commercially viable for the industry concerned.

86. This Product Ruling is issued on a prospective basis (i.e., before an individual Grower's business activity starts to be carried on). Therefore, if the Project fails to be carried on during the income years specified above (see paragraph 46), in the manner described in the Arrangement (see paragraphs 14 to 36), the Commissioner's discretion will not have been exercised, because one of the key conditions in paragraph 35-55(1)(b) will not have been satisfied.

87. In deciding that the second arm of the discretion in paragraph 35-55(1)(b) will be exercised on this conditional basis, the Commissioner has relied upon:

- the report of the independent Forrester and additional expert or scientific evidence provided with the application by the Responsible Entity;
- independent, objective, and generally available information relating to the afforestation industry which substantially supports cash flow projections and other claims, including prices and costs, in the Product Ruling application submitted by the Responsible Entity.

### **Section 82KL**

88. The operation of section 82KL depends, among other things, on the identification of a certain quantum of 'additional benefits(s)'. Insufficient 'additional benefits' will be provided to trigger the application of section 82KL. It will not apply to deny the deduction otherwise allowable under section 8-1.

### **Part IVA - general tax avoidance provisions**

89. For Part IVA to apply there must be a 'scheme' (section 177A), a 'tax benefit' (section 177C) and a dominant purpose of entering into the scheme to obtain a tax benefit (section 177D).

90. The APT Eucalypt SolidWood Project 2001 will be a 'scheme'. A Grower will obtain a 'tax benefit' from entering into the scheme, in the form of tax deductions for the amounts detailed at paragraphs 40 to 45 that would not have been obtained but for the scheme. However, it is not possible to conclude the scheme will be entered into or carried out with the dominant purpose of obtaining this tax benefit.

91. Growers to whom this Ruling applies intend to stay in the scheme for its full term and derive assessable income from the harvesting and sale of the trees. There are no facts that would suggest that Growers have the opportunity of obtaining a tax advantage other than the tax advantages identified in this Ruling. There is no non-recourse financing or round robin characteristics, and no indication that the parties are not dealing with each other at arm's length, or, if any parties are not at arm's length, that any adverse tax consequences result. Further, having regard to the factors to be considered under paragraph 177D(b) it cannot be concluded, on the information available, that participants will enter into the scheme for the dominant purpose of obtaining a tax benefit.

## **Examples**

### **Example 1 – Entitlement to ‘input tax credit’**

92. Margaret, who is registered for GST, invests in the Green Circle Bluegums Project. The management fees are payable on 1 July each year for management services to be provided over the following 12 months. On 1 July 2000 Margaret pays her first year's management fees of \$5,500 and is eligible to claim a tax deduction for the fees in the income year ended 30 June 2001. The extent of her deduction for the management fees however, is reduced by the amount of any ‘input tax credit’ to which she is entitled. The Project Manager provides Margaret with a ‘tax invoice’ showing its ABN and the ‘price of the taxable supply’ for management services as \$5,500. Using the details shown on the valid tax invoice, Margaret calculates her input tax credit as:

$$1/11 \times \$5,500 = \$500$$

Therefore, the tax deduction for management fees that she can claim in her income tax return for the year ended 30 June 2001 is \$5,000 (\$5,500 less \$500).

### **Example 2 – Apportionment of Fees**

93. Murray decides to invest in the ABC Pineforest Prospectus which is offering 500 interests of 0.5ha in an afforestation project of 25 years. The management fees are \$5,000 in the first year and \$1,200 for years 2 and 3. From year 4 onwards the management fee will be the previous year's fee increased by the CPI. The first year's fees are payable on execution of the agreements for services to be provided in the following 12 months and thereafter, the fees are payable in advance each year on the anniversary of that date. The project is subject to a minimum subscription of 300 interests. Murray

provides the Project Manager with a 'Power of Attorney' allowing the Manager to execute his Management Agreement and the other relevant agreements on his behalf. On 5 June 2001 the Project Manager informs Murray that the minimum subscription has been reached and the Project will go ahead. Murray's agreements are duly executed and management services start to be provided on that date.

Murray, who is not registered nor required to be registered for GST calculates his tax deduction for management fees for the **2001 income year** as follows:

Management fee x Number of days of eligible service period in the year of income

Total number of days of eligible service period

\$5,000 X 26

365

= **\$356** (this is Murray's total tax deduction in 2001 for the Year 1 prepaid management fees of \$5,000. It represents the 26 days for which management services were provided in the 2001 income year).

In the **2002 income year** Murray will be able to claim a tax deduction for management fees calculated as the sum of two separate amounts:

\$5,000 X 339

365

= **\$4,643** (this represents the balance of the Year 1 prepaid fees for services provided to Murray in the 2002 income year).

\$1,200 X 26

365

= **\$85** (this represents the portion of the Year 2 prepaid management fees for the 26 days during which services were provided to Murray in the 2002 income year).

**\$4,643 + \$85 = \$4,728** (The sum of these two amounts is Murray's total tax deduction for management fees in 2002).

Murray continues to calculate his tax deduction for prepaid management fees using this method for the term of the Project.

**Example 3 – Apportionment of fees where there is a contractual 'eligible service period' and the fees include expenditure that is 'excluded expenditure'**

94. On 1 June 2001 Kevin applies for an interest into the Western Bluegum Project, a prospectus based afforestation project of 12 years. Kevin is accepted into the project and executes a lease and management agreement with the Responsible Entity for the provision of management services and the lease of his Woodlot. The terms of

the lease and management agreement require Kevin to prepay the management fees and the lease fee on or before the 30 June each year for the lease of his Woodlot and the provision of management services between the 1 July and 30 June in the following income year. Kevin pays the first year management fee of \$3,600 and first year lease fee of \$500 on 15 June 2001.

Kevin, who is not registered nor required to be registered for GST calculates his tax deduction for management fees and the lease fee for the **2001 income year** as follows:

#### *Management fee*

Even though he paid the \$3,600 in the 2001 income year, because there are no 'days of eligible service period' in that year, Kevin is unable to claim any part of his management fees as a tax deduction in his tax return for the year ended 30 June 2001.

#### *Lease fee*

Because the \$500 lease fee is less than \$1,000 it is 'excluded expenditure' and can be claimed in full as a tax deduction in Kevin's tax return for the year ended 30 June 2001.

In the **2002 income year** Kevin can claim a tax deduction for his first year's management fees calculated as follows:

$$\begin{array}{r} \$3,600 \times \frac{365}{365} \end{array}$$

= **\$3,600** (this represents the whole of the first year's management fee prepaid in the 2001 income year but not deductible until the 2002 income year).

For the term of the Project Kevin continues to calculate his tax deduction for prepaid fees using this method.

## **Detailed contents list**

95. Below is a detailed contents list for this Product Ruling:

|  | Paragraph |
|--|-----------|
| <b>What this Product Ruling is about</b> | <b>1</b>  |
| Tax law(s)                               | 2         |
| Goods and Services Tax                   | 3         |
| Business Tax Reform                      | 4         |



**PR 2001/60**

|   |           |
|---|-----------|
| Note to promoters and advisers  | 6         |
| Class of persons  | 7         |
| Qualifications  | 9         |
| <b>Date of effect</b>   | <b>11</b> |
| <b>Withdrawal</b>   | <b>13</b> |
| <b>Arrangement</b>  | <b>14</b> |
| Overview  | 16        |
| Constitution  | 21        |
| Compliance plan   | 22        |
| Interest in land  | 23        |
| Management Agreement  | 25        |
| Planting  | 30        |
| Fees  | 31        |
| Finance   | 35        |
| <b>Ruling</b>   | <b>37</b> |
| Assessable Income   | 37        |
| Deductions where a Grower is <u>not</u> registered nor required to be registered for GST. | 38        |
| Section 8-1 – Prepaid fees  | 39        |
| Deductions where a Grower is <u>not</u> registered nor required to be registered for GST. | 41        |
| Deductions where a Grower is <u>not</u> registered nor required to be registered for GST. | 42        |
| Deductions where a Grower is registered or required to be registered for GST              | 43        |
| Deductions where a Grower is registered or required to be registered for GST              | 44        |
| Deductions where a Grower is registered or required to be registered for GST              | 45        |
| Division 35 – Deferral of losses from non-commercial business activities                  | 46        |
| <i>Section 35-55 – Commissioner's discretion</i>  | 46        |
| Section 82KL  | 50        |
| Part IVA  | 51        |
| <b>Explanations</b>   | <b>52</b> |

|  |           |
|--|-----------|
| Section 8-1  | 52        |
| Is the Grower carrying on a business?  | 53        |
| Sections 82KZME and 82KZMF – Prepaid fees  | 62        |
| Interest deductibility   | 66        |
| <i>(i) Growers who use APT Finance Pty Limited as the finance provider</i>   | 66        |
| <i>ii) Growers who DO NOT use APT Finance Pty Limited as the finance provider</i>  | 68        |
| Prepayments where the eligible service period exceeds 13 months  | 71        |
| Small business taxpayers   | 74        |
| Division 35 – Deferral of losses from non-commercial business activities   | 77        |
| Section 82KL   | 88        |
| Part IVA - general tax avoidance provisions  | 89        |
| <b>Examples</b>  | <b>92</b> |
| Example 1 – Entitlement to ‘input tax credit’  | 92        |
| Example 2 – Apportionment of Fees  | 93        |
| Example 3 – Apportionment of fees where there is a contractual ‘eligible service period’ and the fees include expenditure that is ‘excluded expenditure’ | 94        |
| <i>Management fee</i>  | 94        |
| <i>Lease fee</i>   | 94        |
| <b>Detailed contents list</b>  | <b>95</b> |

---

**Commissioner of Taxation**
**9 May 2001**


---

|  |                                |
|--|--------------------------------|
| <i>Previous draft:</i>                 | - primary production           |
| Not previously issued in draft form    | - primary production expenses  |
|  | - producing assessable income  |
| <i>Related Rulings/Determinations:</i> | - product rulings              |
| PR 1999/95; TR 92/1; TR 97/11;         | - public rulings               |
| TR 97/16; TR 92/20; TR 98/22;          | - schemes                      |
| IT 175; IT 333; TD 93/34               | - tax avoidance                |
|  | - tax benefits                 |
| <i>Subject references:</i>             | - horticultural expenses       |
| - carrying on a business               |                                |
| - commencement of a business           | <i>Legislative references:</i> |
| - interest expenses                    | - ITAA 1997 6-5                |
| - harvesting expenses                  | - ITAA 1997 8-1                |
| - management fees                      | - ITAA 1997 17-5               |

# PR 2001/60

- |                         |                             |
|-------------------------|-----------------------------|
| - ITAA 1997 Div 27      | - ITAA 1936 82KL            |
| - ITAA 1997 Div 35      | - ITAA 1936 82KZL           |
| - ITAA 1997 35-10       | - ITAA 1936 82KZL(1)        |
| - ITAA 1997 35-10(2)    | - ITAA 1936 82KZM           |
| - ITAA 1997 35-10(3)    | - ITAA 1936 82KZM(1)        |
| - ITAA 1997 35-10(4)    | - ITAA 1936 82KZM(1)(b)(ii) |
| - ITAA 1997 35-30       | - ITAA 1936 82KZMA(4)       |
| - ITAA 1997 35-35       | - ITAA 1936 82KZMD(2)       |
| - ITAA 1997 35-40       | - ITAA 1936 82KZME          |
| - ITAA 1997 35-45       | - ITAA 1936 82KZME(1)       |
| - ITAA 1997 35-55       | - ITAA 1936 82KZME(1)(b)    |
| - ITAA 1997 35-55(1)    | - ITAA 1936 82KZME(2)       |
| - ITAA 1997 35-55(1)(a) | - ITAA 1936 82KZME(3)       |
| - ITAA 1997 35-55(1)(b) | - ITAA 1936 82KZME(4)       |
| - ITAA 1997 Subdiv 42-C | - ITAA 1936 82KZME(7)       |
| - ITAA 1997 42-15       | - ITAA 1936 82KZMF          |
| - ITAA 1997 42-118      | - ITAA 1936 82KZMF(1)       |
| - ITAA 1997 42-125      | - ITAA 1936 Pt IVA          |
| - ITAA 1997 42-160      | - ITAA 1936 177A            |
| - ITAA 1997 42-160(1)   | - ITAA 1936 177C            |
| - ITAA 1997 42-160(3)   | - ITAA 1936 177D            |
| - ITAA 1997 42-165      | - ITAA 1936 177D(b)         |
| - ITAA 1997 960-335     |                             |
| - ITAA 1997 960-340     |                             |
| - ITAA 1997 960-345     |                             |
| - ITAA 1997 960-350     |                             |
- 

ATO references:

NO 2001/006909

BO

FOI number: I 1024982

ISSN: 1441-1172