



# ***PR 2006/63 - Income tax: Rewards Group Teak Project 2006 (Pre 1 July Growers)***

 This cover sheet is provided for information only. It does not form part of *PR 2006/63 - Income tax: Rewards Group Teak Project 2006 (Pre 1 July Growers)*

 This document has changed over time. This is a consolidated version of the ruling which was published on *3 May 2006*



## Product Ruling

### Income tax: Rewards Group Teak Project 2006 (Pre 1 July Growers)

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#### **ⓘ This Ruling provides you with the following level of protection:**

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, we must apply the law to you in the way set out in the ruling (or in a way that is more favourable for you if we are satisfied that the ruling is incorrect and disadvantages you, and we are 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.

## No guarantee of commercial success

The Tax Office **does not** sanction or guarantee this product. Further, we give no assurance that the product is commercially viable, that charges are reasonable, appropriate or represent industry norms, or that projected returns will be achieved or are reasonably based.

Potential participants must form their own view about the commercial and financial viability of the product. 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 and how the product fits an existing portfolio. We recommend a financial (or other) adviser be consulted for such information.

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

If the scheme is not carried out as described, participants lose the protection of this Product Ruling. Potential participants may wish to seek assurances from the promoter that the scheme will be carried out as described in this Product Ruling.

Potential participants should be aware that the Tax Office will be undertaking review activities to confirm the scheme has been implemented as described below and to ensure that the participants in the scheme 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 entity(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 Ruling is about

1. This Ruling sets out the Commissioner's opinion on the way in which the relevant taxation provision(s) identified below apply to the defined class of entities, who take part in the scheme to which this Ruling relates. In this Ruling, the scheme is sometimes referred to as the 'Rewards Group Teak Project 2006' or simply as 'the Project'.

### Relevant taxation provision(s)

2. The tax provisions dealt with in this Ruling are:

- section 6-5 of the *Income Tax Assessment Act 1997* (ITAA 1997);
- section 8-1 of the ITAA 1997;
- section 17-5 of the ITAA 1997;
- section 25-25 of the ITAA 1997;
- Division 27 of the ITAA 1997;
- Division 35 of the ITAA 1997;
- Subdivision 61-J of the ITAA 1997;
- Division 328 of the ITAA 1997;
- Division 328 of the *Income Tax (Transitional Provisions) Act 1997*;
- section 82KL of the *Income Tax Assessment Act 1936* (ITAA 1936);
- section 82KZME and 82KZMF of the ITAA 1936;
- section 82KZMG of the ITAA 1936; and
- Part IVA of the ITAA 1936.

3. All legislative references in this Ruling are to the ITAA 1997 unless otherwise indicated.

### Goods and Services Tax

4. 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.

**Changes in the law**

5. Although this Ruling deals with the laws enacted at the time it was issued, later amendments may impact on this Ruling. Any such changes will take precedence over the application of this Ruling and, to that extent, this Ruling will be superseded.

6. Entities who are considering participating 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**

7. Product Rulings were introduced for the purpose of providing certainty about tax consequences for entities in projects such as this. In keeping with that intention, the ATO suggests that promoters and advisers ensure that entities are fully informed of any legislative changes after the Ruling is issued.

**Class of entities**

8. The class of entities to whom this Ruling applies are the entities more specifically identified in the Ruling part of this Product Ruling and who enter into the scheme described below on or after the date this Ruling is made. They will have a purpose of staying in the scheme until it is completed (that is, 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 scheme. In this Ruling, these entities are referred to as 'Growers'.

9. The class of entities to whom this Ruling applies does not include:

- Growers 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;
- Growers who enter into finance arrangements with entities associated with this Project, other than those specified in paragraphs 51 to 63; or
- Growers who enter the Project after 30 June 2006.

**Qualifications**

10. The class of entities defined in this Ruling may rely on its contents provided the scheme actually carried out is carried out in accordance with the scheme described in paragraphs 18 to 63.

11. If the scheme actually carried out is materially different from the scheme that is described in this Ruling, then:

- this Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled; and
- this Ruling may be withdrawn or modified.

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## Date of effect

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13. This Ruling applies prospectively from 3 May 2006, 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. Furthermore, the Ruling only applies to the extent that:

- it is not later withdrawn by notice in the Gazette; or
- the relevant provisions are not amended.

14. If this Product Ruling is inconsistent with a later public or private ruling, the relevant class of entities may rely on either ruling which applies to them (item 1 of subsection 357-75(1) of Schedule 1 to the *Taxation Administration Act 1953* (TAA)).

15. If this Product Ruling is inconsistent with an earlier private ruling, the private ruling is taken not to have been made if, when the Product Ruling is made, the following two conditions are met:

- the income year or other period to which the rulings relate has not begun; and
- the scheme to which the rulings relate has not begun to be carried out.

16. If the above two conditions do not apply, the relevant class of entities may rely on either ruling which applies to them (item 3 of subsection 357-75(1) of Schedule 1 to the TAA).

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## Withdrawal

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17. This Product Ruling is withdrawn and ceases to have effect after 30 June 2009. The Ruling continues to apply, in respect of the tax law(s) ruled upon, to all entities within the specified class who enter into the scheme specified below. Thus, the Ruling continues to apply to those entities, even following its withdrawal, who entered into the specified scheme prior to withdrawal of the Ruling. This is subject to there being no change in the scheme or in the entities involvement in the scheme.

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## Scheme

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18. The scheme that is the subject of this Ruling is described below. This scheme incorporates the following documents:

- Application for Product Ruling received on 13 February 2006, plus additional correspondence from the Applicant dated 15 February 2006, 27 March 2006, 30 March 2006 and 12 April 2006;
- Draft Product Disclosure Statement issued by Rewards Projects Ltd ('Responsible Entity') for the Rewards Group Teak Project 2006, received 11 April 2006;
- Draft Constitutions for the Rewards Group Teak Project 2006 and the Rewards Group Land Trust, received 13 February 2006;
- Draft **Management Agreement** between Rewards Projects Ltd (the 'Responsible Entity') and the Grower, received 12 April 2006;
- Draft **License Agreement** between Rewards Projects Ltd and the Grower received 13 February 2006;
- Draft Head-Lease between Rewards Projects Ltd as the 'Responsible Entity', for the Rewards Group Teak Land Trust (the land owner), and Rewards Projects Ltd as 'Responsible Entity' for the Rewards Group Teak Project 2006, received 13 February 2006;
- Draft **Terms Agreement** between Rewards Projects Ltd and the Grower, received 13 February 2006;
- Draft Plantation Management Plan received 30 March 2006;
- Draft Operations Agreement between Rewards Projects Ltd and Rewards Management Pty Ltd, received 13 February 2006;

- Draft Compliance Plan for the Rewards Group Teak Project 2006 and the Rewards Group Teak Land Trust, received 13 February 2006;
- Draft Application Form for the Rewards Group Teak Project 2006 received 13 February 2006;
- Draft **Loan Agreement** between the Grower and the Nominated Financier, undated, received 13 February 2006; and
- Draft Teak Land Trust **Loan Agreement**, received 13 February 2006.

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

19. The documents highlighted (in bold) are those that Growers may enter into. For the purposes of describing the scheme to which this Ruling applies, there are no other schemes, whether formal or informal, and whether or not legally enforceable, which a Grower, or any associate of a Grower, will be a party to, which are a part of the scheme to which this Ruling applies.

20. All Australian Securities and Investment Commission (ASIC) requirements are, or will be, complied with for the term of the agreements. The effect of these agreements is summarised as follows.

### Overview

21. The salient features of the Rewards Group Teak Project 2006 are as follows:

Location	Approximately 140 km south of Cairns near Tully/Innisfail, North Queensland.
Type of business each participant is carrying on	Commercial growing and cultivation of <i>Tectona grandis</i> (Teak) for the purpose of producing timber.
Number of hectares available for cultivation under this offer	800
Minimum Allocation	1 Woodlot
Size of each leasehold area	0.2 hectare
Number of Teak trees established	1,250 trees per hectare planted. Expected mortality rate of 50 trees per hectare.
The term of the Project	Approximately 20 years
Initial cost per woodlot	\$6,600

Ongoing costs	<p>License and Maintenance Fees payable in arrears from the net sales proceeds of each harvest.</p> <p>Insurance costs.</p> <p>Cost of harvest and sale payable out of harvest proceeds.</p>
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22. The Project has been registered as a Managed Investment Scheme under the *Corporations Act 2001*. The Responsible Entity for the Project is Rewards Projects Ltd. The Project will be conducted on land located near the towns of Tully and Innisfail in northern Queensland.

23. This offer pertains to 4,000 Woodlots of 0.2 hectares each. There is no minimum subscription for the Project. The Responsible Entity is able to accept oversubscriptions to the extent of any further land it reasonably expects will become available within 9 months of acceptance. Any additional land for the Project will only be purchased if deemed suitable by the Independent Forester for the establishment of a Teak plantation.

24. Growers participating in the arrangement will enter into a Licence Agreement. Under this Agreement, Growers licence an area of land called a 'Woodlot' for a term of approximately 20 years for the purpose of Tree Farming. Each Woodlot will be planted with Teak tissue culture tubestock at a minimum rate of 1,250 trees per hectare.

25. Under this offer, Growers may enter the Project in either the 2006 income year or the 2007 income year. Growers who are allotted Woodlots during the income year ended 30 June 2006 are defined as '2006 Growers' for the purpose of this Ruling and may be covered by this Ruling. Growers who are allotted Woodlots during the income year ended 30 June 2007 are defined as '2007 Growers' to whom PR 2006/62 may apply.

26. The Growers will also enter into a Management Agreement with the Responsible Entity for the management of their Woodlot. The Responsible Entity will be responsible for establishing and cultivating the Trees. The Responsible Entity will Harvest the Timber on their behalf. Harvests are expected to take place when the Trees are aged 6, 10, 14 and 18 years. The precise timing, number of trees per harvest and the number of harvests will be determined by Rewards Projects Ltd at the relevant time with the aim of achieving the best overall result for Growers.

27. Growers will only be accepted by paying the Initial Fee to the Responsible Entity either in full or by instalments under a Terms Payment Option offered by the Responsible Entity. Growers will execute a Power of Attorney enabling the Responsible Entity to act on their behalf as required when they make an application for a Woodlot. This will include the execution of the Licence and Management Agreements, and, where the Grower elects to pay fees by instalment, a Terms Agreement.



## **The Land Trust (Optional)**

28. A Grower **may** also purchase units in the Rewards Group Teak Land Trust. The Constitution establishes the Trust and operates as a deed under which the Responsible Entity holds assets on trust for the unit holders. It sets out the terms and conditions under which Rewards Projects Ltd agrees to act as the Responsible Entity for the Trust.

29. This Ruling applies to Growers who acquire units in the Rewards Group Teak Land Trust during the year ended 30 June 2006, that is, 'Class A Unitholders' who acquire their unit in the Land Trust on or before 30 June 2006. 'Class B Unitholders' who acquire their units in the Land Trust on or after 1 July 2006 and on or before 30 June 2007 may be covered by PR 2006/62.

30. An offer of 4000 Units at an issue price of \$1,500 per Unit in the Land Trust is to be made. A minimum subscription of 120 Units must be met before the Trust will proceed.

31. If minimum subscription is not met, Rewards Land Pty Ltd will acquire the Land and lease the land to Rewards Projects Ltd which will then contract directly with the Grower via a Licence Agreement.

## **Constitution**

32. The Constitution establishes the Project and operates as a deed binding on all of the Growers and the Responsible Entity. The Constitution sets out the terms and conditions under which Rewards Projects Ltd agrees to act as Responsible Entity and thereby manage the Project. The Licence and the Management Agreements will be executed on behalf of a Grower following acceptance of the application by the Responsible Entity. Growers are bound by the Constitution by virtue of their participation in the Project.

33. Under the terms of the Constitution, all moneys received from applications shall be paid to the Responsible Entity. The Responsible Entity shall deposit those moneys into a Subscription Fund in the name of the Responsible Entity. The Subscription Money will be released by the Responsible Entity when certain specified criteria in the Constitution have been met (clause 3.3 of the Constitution).

## **Compliance Plan**

34. As required by the *Corporations Act 2001*, a Compliance Plan has been prepared by Rewards Projects Ltd. Its purpose is to ensure that the Responsible Entity manages the Project in accordance with its obligations and responsibilities contained in the Constitution and that the interests of Growers are protected.

**Licence Agreement**

35. Growers participating in the arrangement will enter into a Licence Agreement with Rewards Projects Ltd in its capacity as Responsible Entity of the Rewards Group Teak Project 2006. Growers are granted a Licence to use their Woodlot for the purpose of conducting their afforestation business upon terms and conditions as set out in the Licence. The Licence will commence on the date Woodlots are allotted to Growers and will continue until the completion of the final harvest or the final distribution of receipts to Growers in approximately 20 years.

**Management Agreement**

36. The Management Agreement is between the Grower and Rewards Projects Ltd as the Responsible Entity. Each Grower agrees to engage the Responsible Entity of the Project to perform services under the Agreement. The Responsible Entity may subcontract an agent or contractor to carry out some or all of these duties. The Responsible Entity, by execution of the Operations Agreement, contracts Rewards Management Pty Ltd to manage the Woodlots on its behalf.

37. Annexure A (Initial Services) and Annexure B (Ongoing Services) of the Management Agreement specify the services to be performed by the Responsible Entity.

38. Initial Services are:

- supply sufficient tissue culture Teak plantlets to the specifications recommended in the Plantation Management Plan; and
- ensure that the Woodlots are ready for planting in accordance with the Management Plan including ripping, mounding and herbicide spraying (if required).

39. Ongoing Services include:

- undertake such operations as may be reasonably required to prevent or combat land degradation in relation to the Woodlots;
- ensure all necessary approvals for the establishment of the Plantation are obtained;
- ensure that all roads, tracks and firebreaks in and about the Plantation are in good repair;
- ensure control on the Plantation of rabbits, pest and other vermin;
- provide an experienced and competent forestry management team to perform the services under this agreement;
- supervise and secure management of all works on the Plantation;

- tend to the Trees according to the principles of good forestry; including such nutrient analysis, pruning, fertilising and fumigating, as the Responsible Entity deems appropriate to promote Tree growth and yields;
- maintain and repair such roads and fences as exist on the Land and otherwise keep the Woodlots in good and substantial repair and condition;
- do such things as may reasonably be required to eradicate, exterminate and keep the Plantation free from disease, rodent, vermin, noxious weeds, rabbits, insect pests and all other pests of any kind;
- keep current with a reputable insurer a public risk insurance policy in respect of the Plantation to cover the liability of the Grower and the Responsible Entity in which the limit of public risk shall be not less than \$5,000,000 or such other amount as the Responsible Entity directs. The policy shall include all provisions as are normally contained in insurance policies for public risk;
- grow out and during the wet season immediately following the end of the Initial Period plant the teak plants;
- within 12 months of the planting of the Trees, conduct a survival count and replant the Trees such that there is an average 1200 Trees per hectare;
- carry out any other obligation imposed on the Grower under the provisions of Clause 4.1 and clause 10 of the License Agreement subject to the other provisions thereof;
- manage the Tree crop in accordance with the Management Plan;
- determine the Harvest schedule and manage each Harvest in accordance with clause 6;
- manage the sale of Harvested Timber in accordance with clause 7; and
- provide periodic reports to the Grower in accordance with clause 10.

40. The Initial Services will be completed by the Responsible Entity within the 'Initial Period' (clause 2.2). The Initial Period means in relation to a 2006 Grower's Application a period of 12 months commencing on 1 July 2006.

**Planting**

41. Under the Management Agreement the Grower agrees to purchase Teak plantlets from the Responsible Entity to enable cultivation of Trees. The Responsible Entity will plant the Teak Trees on the Woodlots during the wet season immediately following the end of the Initial Period. Under the Plantation Management Plan, a sufficient number of Trees will be planted which would reasonably be expected to meet the projected timber production. The Responsible Entity will conduct a survival count within 12 months of planting the Teak Trees and replant as necessary. The Responsible Entity will then maintain the Trees in accordance with good silvicultural practice.

**Operations Agreement**

42. The Operations Agreement is between Rewards Projects Ltd as the Responsible Entity and Rewards Management Pty Ltd as Manager. This Agreement appoints Rewards Management Pty Ltd to perform the obligations of the Responsible Entity under the Management Agreement.

**Fees**

43. The fees payable under the Licence and the Management Agreements on a per Woodlot basis are as follows:

- Initial Fee of \$6,600 payable to the Responsible Entity on Application for the Initial Period;
- at each relevant harvest, the Grower is required to pay a Maintenance Fee for Ongoing Services to the Responsible Entity of an amount equal to 8.8% of the Grower's Share of the net sales proceeds of the harvest after deducting any applicable harvest, transport, loading and sale costs;
- at each relevant harvest, a harvest and loading cost based on the current market costs per cubic metre, as independently verified; and
- a license fee of 13.2% of the net sales proceeds of each harvest.

**Other Fees**

44. Pursuant to the terms of the Head Lease, the Responsible Entity must maintain certain crop insurance covering the Woodlots. The Responsible Entity will use its best endeavours, if so requested, to arrange additional crop insurance for the Woodlots on behalf of the Grower. The Grower is responsible for the cost of insurance attributable to the Grower's Woodlot(s) and any additional insurance the Responsible Entity arranges for the Grower (clause 2.3 of the Management Agreement).

## **Payment of Fees**

45. Upon signing an Application Form, the Grower acknowledges that the full amount of the Subscription Money is immediately due and payable. However, under the Product Disclosure Statement, the Responsible Entity is offering Terms Payment Options in respect of the Initial Fee payable for the Initial Period (refer to paragraph 52). Growers may either use the cash option, whereby \$6,600 per Woodlot is payable in full on application or elect to use the Terms Payment Option as described in paragraph 52.

## **Terms Agreement**

46. If a Grower chooses to pay the Initial Fee under the instalment option, they must complete a Terms Application and Direct Debit Request. A Terms Agreement will be executed by the Responsible Entity.

47. If a Grower does not pay the required instalment under the Terms Agreement, then provided Rewards Projects Ltd has given the Grower 14 days written notice to remedy the situation and payment has still not been made, the balance owing under the Terms Agreement will become immediately due and payable. In addition Rewards Projects Ltd may take legal proceedings to recover the amount, resume all rights and interest which the Grower has in their Woodlot(s), or do anything which an owner of the Woodlot(s) is entitled to do (clause 6.2 of the Terms Agreement).

## **Harvesting and Marketing**

48. The Grower is entitled to the Teak Trees to be planted on the Woodlot and has a right to the timber from those Trees. Harvesting will take place as and when deemed appropriate by the Responsible Entity in producing the best overall result for the Grower. The Responsible Entity expects to conduct thinning harvests on a progressive basis of trees between the ages 6 and 18 years with the remainder to be harvested in the final year of the project.

49. Each Woodlot is estimated to yield 8.0 cubic metres of teak poles and logs at age 6 years, 14.0 cubic metres at 10 years, 15.8 cubic metres at age 14 years and 27.0 cubic metres at age 18 years. These estimates are best estimates based on a mean annual increment of 18.0 cubic metres per hectare per year and have been independently verified.

50. The proceeds from sale of the Grower's timber will be paid direct to the Responsible Entity who must deposit them into a Proceeds Fund. The Responsible Entity shall pay out of the Grower's Share, the costs of harvest and sale as advised by the Manager plus any outstanding fees or other amounts owing by the Grower to the Responsible Entity or Lessor. The balance will then be distributed to the Growers on a proportionate basis. The term 'Proceeds Fund' is defined in the Constitution and the term 'Grower's Share' is defined in the Management Agreement.

### **Teak Project Finance**

51. Growers may fund their participation in the Project themselves, through a Terms Payment Option with the Responsible Entity, through finance provided by the Nominated Financier or borrow from an independent lender.

52. Terms Payment Option:

<b>Number of Years to pay Initial Fee</b>	<b>Deposit</b>	<b>Monthly Repayments</b>
One Year	\$660	\$501.17

53. A Terms Payment Administration Fee of \$50 per Woodlot is payable under the 12 Month Terms Agreement. The Responsible Entity will monitor the level of applications received under the Terms Payment Option and is not obliged to accept applications for terms.

54. The Nominated Financier will offer the following finance options to those participating in the project. Each financial option has:

- an initial deposit of 10% of the application amount;
- fixed interest rate of 10.95% per annum; and
- an application fee of 1% of the Finance Application Amount subject to a minimum Application Fee of \$100 and a maximum Application Fee of \$500 is payable by the Grower to the Nominated Financier on the first drawdown date which is 31 July 2006.

55. Tree Project financial options are:

<b><i>Financial Option</i></b>	<b><i>Monthly Repayment (Per Woodlot)</i></b>
2 years principal & interest loan	24 monthly payments of \$276.71 per Woodlot
5 years principal & interest loan	60 monthly payments of \$129.00 per Woodlot
10 years principal & interest loan	120 monthly payments of \$81.66 per Woodlot

3 years interest only and then	36 interest only monthly payments of \$54.20 per Woodlot
7 years principal & interest loan	84 monthly payments of \$101.55 pre Woodlot

**Land Trust Finance**

56. Growers may fund their participation in the Land Trust themselves, through a Loan with the Responsible Entity, through finance provided by the Nominated Financier or borrow from an independent lender.

57. Participants may purchase Units in the Land Trust by borrowing money from Rewards Projects Ltd which is repayable over a 12 month period ('12 Month Loan'). An Administration fee of \$50 per unit is payable.

Number of Years to pay Initial Fee	Deposit	Monthly Repayments
One Year	\$150.00 per Unit	\$117.50

58. The Nominated Financier will offer the following finance products to those participating in the trust. Each financial option has:

- an initial deposit of 10% of the application amount;
- fixed interest rate of 10.95% per annum; and
- an application fee of 1% of the Finance Application Amount subject to a minimum Application Fee of \$100 and a maximum Application Fee of \$500 is payable by the Grower to the Nominated Financier on the first drawdown date which is 31 July 2006.

59. Loan Trust financial options:

<b>Financial Option</b>	<b>Monthly Repayments (Per Woodlot)</b>
2 years principal & interest loan	24 monthly payments of \$62.89 per Unit
5 years principal & interest loan	60 monthly payments of \$29.32 per Unit
10 years principal & interest loan	120 monthly payments of \$18.56 per Unit
3 year interest only and then	36 interest only monthly payments of \$12.32 per Unit
7 years principal & interest loan	84 monthly payments of \$23.08 per Unit.

**Teak Project and Land Trust**

60. The deposit and the amount borrowed for the Nominated Financier will be paid into the Application Fund.

61. The Financiers will offer the finance on a full recourse basis. Security will be a fixed charge over the borrower's interest in the Project. Normal debt recovery procedures, including legal action, will be taken in the case of defaulting borrowers.

62. This Ruling will not apply to Growers who enter into finance arrangements with Rewards Projects Ltd or the Nominated Financier, with terms and conditions that differ in any way from those set out in paragraphs 51 to 61.

63. 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' will be granted to the borrowers for the purpose of section 82KL of the ITAA 1936, or the funding arrangements transform the Project into a 'scheme' to which Part IVA of the ITAA 1936 may apply;
- the loan terms or rate of interest are of a non-arm's length nature;
- repayments of the principal and 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) back to the lender or any associate;
- 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 are involved in the provision of finance for the Project other than the Nominated Financier or Rewards Projects Ltd under the Terms Payment Options or the 12 Month Loan.



## Ruling

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64. This Ruling applies **only** to Growers:

- who are accepted to participate in the Project on or before 30 June 2006 where the Grower has executed Licence and Management Agreements on or before that date.

65. This Ruling does not apply to Growers who:

- enter into finance arrangements with entities associated with this Project, other than those specified in paragraphs 51 to 63; or
- enter the Project after 30 June 2006.

66. The Grower's participation in the Project must constitute the carrying on of a business of primary production. A Grower is not eligible to claim any tax deductions until the Grower's application to enter the Project is accepted and the Project has commenced.

### The Simplified Tax System (STS)

#### **Division 328**

67. To be an 'STS taxpayer' a Grower must be eligible to be an 'STS taxpayer' and must have elected to be an 'STS taxpayer' (Division 328 1TAA 1997). For a Grower participating in the Project, the recognition of income and the timing of tax deductions is different under the STS where a Grower who was an 'STS taxpayer' prior to the 1 July 2005 continues to use the cash accounting method (called the 'STS accounting method') – see sections 328-120 and 328-125 of the *Income Tax (Transitional Provisions) Act 1997*.

68. For such Growers, a reference in this Ruling to an amount being deductible when 'incurred' will mean that amount is deductible when paid and a reference to an amount being included in assessable income when 'derived' will mean that amount is included in assessable income when received.

### **25% entrepreneurs tax offset**

69. For the first income year starting on or after 1 July 2005, Subdivision 61-J provides for a tax offset of up to 25% of income tax liability related to the business income of a business in the STS with annual group turnover of less than \$75,000. Entitlement to the offset varies depending on the type of entity and is therefore outside the scope of this Ruling.

**Assessable income****Section 6-5 and Division 328**

70. That part of the gross sales proceeds from the Project attributable to the Grower's produce, less any GST payable on those proceeds (section 17-5), will be assessable income of the Grower under section 6-5.

71. The Grower recognises ordinary income from carrying on the business of afforestation at the time that income is derived.

**Deductions for the Initial Fee and Interest****Section 8-1**

72. A Grower may claim tax deductions under section 8-1 for the expenses in the following Tables.

**Rewards Group Teak Project 2006**

<b>Fee Type</b>	<b>ITAA 1997 Section</b>	<b>Year Ended 30 June 2006</b>	<b>Year Ended 30 June 2007</b>	<b>Year Ended 30 June 2008</b>
<b>Initial Fee</b>	8-1	\$6,600 See Notes (i) & (ii)		
<b>Interest (For finance provided by the Nominated Financier)</b>	8-1	As incurred See Note (iii)	As incurred See Note (iii)	As incurred See Note (iii)
<b>Loan Application Fee (For finance provided by the Nominated Financier)</b>	25-25	Must be calculated See Note (iv)	Must be calculated See Note (iv)	Must be calculated See Note (iv)

**Deductions for participation in the Land Trust**

<b>Fee Type</b>	<b>ITAA 1997 Section</b>	<b>Year Ended 30 June 2006</b>	<b>Year Ended 30 June 2007</b>	<b>Year Ended 30 June 2008</b>
<b>Interest (For finance provided by the Nominated Financier)</b>	8-1	As incurred  See Note (iii)	As incurred  See Note (iii)	As incurred  See Note (iii)
<b>Loan Application Fee (For finance provided by the Nominated Financier or Rewards Projects Ltd in relation to the 12 Month Loan)</b>	25-25	Must be calculated  See Note (iv)	Must be calculated  See Note (iv)	Must be calculated  See Note (iv)
<b>Administration Fee (For 12 Month loan provided by Rewards Projects Ltd)</b>	25-25	Must be calculated  See Note (iv)	Must be calculated  See Note (iv)	Must be calculated  See Note (iv)

**Notes:**

- (i) If the Grower is registered or required to be registered for GST, amounts of outgoing would need to be adjusted as relevant for GST (for example, input tax credits): Division 27.
- (ii) The Initial Fee is expenditure for 'seasonally dependent agronomic activities' and is deductible in the income year in which it is incurred (see paragraphs 97 to 98 in the Explanations); and is deductible under section 8-1 in the income year in which it is incurred.
- (iii) Interest payable under the finance options described at paragraphs 51 to 63 will be deductible when incurred.

- (iv) The Loan Application Fee and the Administration Fee payable under the 12 Month Loan offered by Rewards Projects Ltd are borrowing cost and are deductible under section 25-25. They are incurred for borrowing moneys that are used or are to be used during that income year for income producing purposes. The deduction is spread over the period of the loan or 5 years, whichever is the shorter.

### **Deductions for Interest**

#### ***Interest***

73. The deductibility or otherwise of interest incurred by Growers who finance their participation in the Project through a loan facility with a bank or financier, other than the 12 Month Loan offered by Rewards Projects Ltd or the loans offered by the Nominated Financier, is outside the scope of this Ruling. However all Growers who borrow funds in order to participate in the Project, should read the discussion of the prepayment rules in paragraphs 99 to 111 as those rules may be applicable if interest is prepaid. Subject to the 'excluded expenditure' exception, the prepayment rules apply whether the prepayment is required under the relevant loan agreement or is at the Grower's choice.

74. Growers who borrow from lenders other than the Nominated Financier or Rewards Projects Ltd may request a private ruling on the deductibility of the interest incurred.

### **Stamp Duty**

75. Growers who enter into a Terms Payments Option will incur a stamp duty charge on the execution of the Terms Option Agreement. This amount is not deductible under section 8-1.

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

#### ***Section 35-55 – Commissioner's discretion***

76. For a Grower who is an individual, that enters the Project during the year ended 30 June 2006, 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 2006 Growers that for the income years ending **30 June 2006 to 30 June 2025**, 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.

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

- the 'exception' in subsection 35-10(4) applies; or
- a Grower's business activity satisfies one of the tests in sections 35-30, 35-35, 35-40 or 35-45; or
- the Grower's business activity produces assessable income for an income year greater than the deductions attributable to it for that year (apart from the operation of subsection 35-10(2)).

78. Where the 'exception' in subsection 35-10(4) applies, or the Grower's business activity satisfies one of the tests, or the discretion in subsection 35-55(1) is exercised, section 35-10 will not apply. This means that a Grower will not be required to defer any excess of the deductions attributable to their business activity in excess of any assessable income from that activity, that is, 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.

79. 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 commercially viable. An assessment of the Project or the product from this perspective has not been made.

## **Section 82KL and Part IVA**

80. For a Grower who participates in the Project and incurs expenditure as required by the Licence Agreement and the Management Agreements the following provisions of the ITAA 1936 have application as indicated:

- section 82KL does not apply to deny the deductions otherwise allowable; and
- 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.

## 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.*

### Is the Grower carrying on a business?

81. For the amounts set out in the Tables above to constitute allowable deductions, the Grower's afforestation activities as a participant in the Rewards Group Teak Project 2006 must amount to the carrying on of a business of primary production.

82. Where there is a business, or a future business, the gross proceeds from the sale of the Teak 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.

83. For schemes such as that of the Rewards Group Teak Project 2006, Taxation Ruling TR 2000/8 sets out in paragraph 89 the circumstances in which the Grower's activities can constitute the carrying on of a business. As TR 2000/8 sets out, these circumstances have been established in court decisions such as *Commissioner of Taxation v. Lau* (1984) 6 FCR 202; 84 ATC 4929; (1984) 16 ATR 55.

84. Generally, a Grower will be carrying on a business of afforestation, and hence primary production, if:

- the Grower has an identifiable interest (by lease or by licence) in the land on which the Grower's trees are established;
- the Grower has a right to harvest and sell the wood produce from those trees;
- the afforestation activities are carried out on the Grower's behalf;
- the afforestation activities of the Grower are typical of those associated with an afforestation business; and
- the weight and influence of general indicators point to the carrying on of a business.

85. In this Project, each Grower enters into a Management Agreement and a Licence Agreement.

86. Under the Licence Agreement each individual Grower will have rights over a specific and identifiable area of 0.2 hectares of land. The Licence Agreement provides the Grower with an ongoing interest in the specific trees on the licensed area for the term of the Project. Under the licence the Grower must use the land in question for the purpose of carrying out afforestation activities, and for no other purpose. The licence allows the Responsible Entity to come onto the land to carry out its obligations under the Management Agreement.

87. Under the Management Agreement the Responsible Entity is engaged by the Grower to establish and maintain a Woodlot on the Grower's identifiable area of land during the term of the Project. The Responsible Entity has provided evidence that it holds the appropriate professional skills and credentials to provide the management services to establish and maintain the Woodlot on the Grower's behalf.

88. The Responsible Entity is also engaged to harvest and sell, on the Grower's behalf, the wood produce grown on the Grower's Woodlot.

89. 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 Project's description for all the indicators.

90. The activities that will be regularly carried out during the term of the Project demonstrate a significant commercial purpose. Based on reasonable projections, a Grower in the Project will derive assessable income from the sale of the wood produce that will return a before-tax profit, that is a profit in cash terms that does not depend in its calculation on the fees in question being allowed as a deduction.

91. The pooling of wood produce from trees grown on the Grower's Woodlot with the wood produce of other Growers is consistent with general afforestation practices. Each Grower's proportionate share of the sale proceeds of the pooled wood products will reflect the proportion of the trees contributed from their Woodlot.

92. The Responsible Entity's services are also consistent with general silvicultural practices. They are of the type ordinarily found in afforestation ventures that would commonly be said to be businesses. While the size of a Woodlot is relatively small, it is of a size and scale to allow it to be commercially viable.

93. The Grower's degree of control over the Responsible Entity as evidenced by the Management Agreement, and supplemented by the *Corporations Act 2001*, is sufficient. During the term of the Project, the Responsible Entity will provide the Grower with regular progress reports on the Grower's Woodlot and the activities carried out on the Grower's behalf. Growers are able to terminate arrangements with the Responsible Entity in certain instances, such as cases of default or neglect.

94. The afforestation 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. For the purposes of this Ruling, the Growers' afforestation activities in the Rewards Group Teak Project 2006 will constitute the carrying on of a business.

## **The Simplified Tax System**

### ***Division 328***

95. Subdivision 328-F sets out the eligibility requirements that a Grower must satisfy in order to enter the STS and Subdivision 328-G sets out the rules for entering and leaving the STS.

96. Changes to the STS rules apply from 1 July 2005. The question of whether a Grower is eligible to be an 'STS taxpayer' is outside the scope of this Product Ruling. Therefore, any Grower who relies on those parts of this Ruling that refer to the STS will be assumed to have correctly determined whether or not they are eligible to be an 'STS taxpayer'.

## **Deductibility of the initial fee**

### ***Section 8-1***

97. Consideration of whether the initial fee is 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 is contractually committed 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.

98. The initial fee associated with the afforestation activities will relate to the gaining of income from the Grower's business of afforestation (see above), and hence have a sufficient connection to the operations by which income (from the harvesting and sale of wood produce) 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 Initial Fee. The tests of deductibility under the first limb of section 8-1 are met. The exclusions do not apply.



**Prepayment provisions*****Sections 82KZL to 82KZMG***

99. The prepayment provisions contained in Subdivision H of Division 3 of Part III of the ITAA 1936 affect the timing of deductions for certain prepaid expenditure. These provisions apply to certain expenditure incurred under an agreement in return for the doing of a thing under the agreement (for example the performance of management services or the leasing of land) that will not be wholly done within the same year of income as the year in which the expenditure is incurred. If expenditure is incurred to cover the provision of services to be provided within the same year, then it is not expenditure to which the prepayment rules apply.

100. For this Project, only section 82KZL of the ITAA 1936 (an interpretive provision) and sections 82KZME, 82KZMF and 82KZMG of the ITAA 1936 are relevant. Subject to section 82KZMG, if the requirements of sections 82KZME and 82KZMF are met, taxpayers determine deductions for prepaid expenditure under section 82KZMF using the formula in subsection 82KZMF(1) of the ITAA 1936.

***Sections 82KZME and 82KZMF***

101. Other than expenditure deductible under section 82KZMG of the ITAA 1936, if the requirements of subsections 82KZME(2) and (3) of the ITAA 1936 are met, the formula in subsection 82KZMF(1) of the ITAA 1936 (see below) will apply to apportion expenditure that is otherwise deductible under section 8-1 of the ITAA 1997. The requirements of subsection 82KZME(2) will be met if expenditure is incurred by a taxpayer in return for the doing of a thing that is not to be wholly done within the year the expenditure is made. The year in which such expenditure is incurred is called the 'expenditure year' (subsection 82KZME(1) of the ITAA 1936).

102. The requirements of subsection 82KZME(3) of the ITAA 1936 will be met where the agreement (or scheme) has the following characteristics:

- the taxpayer's allowable deductions under the agreement for the 'expenditure year' exceed any assessable income attributable to the agreement for that year;
- the taxpayer does not have effective day to day control over the operation of the agreement. That is, the significant aspects of the scheme are managed by someone other than the taxpayer; and
- either:
  - a) there is more than one participant in the agreement in the same capacity as the taxpayer; or

- b) the person who promotes, arranges or manages the agreement (or an associate of that person) promotes similar agreements for other taxpayers.

103. For the purpose of these provisions, the agreement includes all activities that relate to the agreement (subsection 82KZME(4) of the ITAA 1936). This has particular relevance for a Grower in this Project who, in order to participate in the Project may borrow funds from a financier. Although undertaken with an unrelated party, that financing would be an element of the arrangement. The funds borrowed and the resulting interest deductions are directly related to the activities under the arrangement. If a Grower prepays interest under such financing arrangements, the deductions allowable will be subject to apportionment under section 82KZMF of the ITAA 1936.

104. There are a number of exceptions to these rules, but for Growers participating in this Project, only the 'excluded expenditure' exception in subsection 82KZME(7) of the ITAA 1936 is relevant. 'Excluded expenditure' is defined in subsection 82KZL(1) of the ITAA 1936. However, for the purposes of Growers in this Project, 'excluded expenditure' is prepaid expenditure incurred under the arrangement that is less than \$1,000. Such expenditure is immediately deductible.

105. Where the requirements of section 82KZME of the ITAA 1936 are met, section 82KZMF of the ITAA 1936 applies to apportion relevant prepaid expenditure. Section 82KZMF uses the formula below, to apportion prepaid expenditure and allow a deduction over the period that the benefits are provided.

$$\frac{\text{Expenditure} \times \text{Number of days of eligible service period in the year of income}}{\text{Total number of days of eligible service period}}$$

106. In the formula 'eligible service period' (defined in subsection 82KZL(1) of the ITAA 1936) means, the period during which the thing under the agreement is to be done. The eligible service period begins on the day on which the thing under the agreement commences to be done or on the day on which the expenditure is incurred, whichever is the later, and ends on the last day on which the thing under the agreement ceases to be done, up to a maximum of 10 years.

### **Section 82KZMG**

107. Under section 82KZMG(1) of the ITAA 1936, expenditure is excluded from the prepayment rules that would otherwise apply, to the extent that the prepaid amount satisfies the requirements of subsections 82KZMG(2) to (4) of the ITAA 1936.

108. Subsection 82KZMG(2) of the ITAA 1936 requires that the expenditure is:

- incurred on or after 2 October 2001 and on or before 30 June 2008;
- the eligible service period must be 12 months or shorter and must end on or before the last day of the year of income after the expenditure year; and
- for the doing of a thing under the agreement that is not to be wholly done within the expenditure year.

109. To satisfy subsection 82KZMG(3) of the ITAA 1936 the agreement must satisfy the following requirements:

- it must be an agreement for planting and tending trees for felling;
- be an agreement where the taxpayer does not have day to day control over the operations arising out of the agreement. (a right to be consulted or to give directions does not equate to day to day control for the purposes of this requirement); and
- either:
  - (i) there is more than one participant in the agreement in the same capacity as the taxpayer; or
  - (ii) the manager manages, arranges or promotes the agreement, or an associate of the manager, manages, arranges or promotes similar agreements.

110. Under subsection 82KZMG(4) of the ITAA 1936 the expenditure incurred by the taxpayer must be paid for 'seasonally dependent agronomic activities' undertaken by the manager during the 'establishment period' for the relevant planting of trees for felling. The term 'seasonally dependent agronomic activities' is explained in Taxation Determination TD 2003/12.

111. Subsection 82KZMG(5) of the ITAA 1936 defines the 'establishment period to commence at the time that the first 'seasonally dependent agronomic activity' is performed in relation to a specific planting of trees and to conclude with the planting of trees. Where it is necessary to apply a fertiliser or herbicide to the trees at the same time as planting then those activities fall within the establishment period. Planting of trees refers to the main planting of the particular plantation and expressly excludes specific planting to replace existing seedlings that have not survived.

**Application of the prepayment provisions to this Project**

112. Under the Management Agreement, a Grower incurs an Initial Fee consisting of expenditure of \$6,600 for 'seasonally dependent agronomic activities'.

113. As the requirements of section 82KZMG of the ITAA 1936 have been met, a deduction is allowable in the income year ended 30 June 2006 for the expenditure incurred under the Management Agreement for 'seasonally dependent agronomic activities'.

**Interest deductibility****Section 8-1***(i) Growers who use the 12 Month Loan or borrow funds from the Nominated Financier*

114. Some Growers may acquire units through the 12 Month Loan with Rewards Projects Ltd or may finance their participation in the Project by borrowing funds from the Nominated Financier. 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.

115. The interest incurred, if any, for the year ended 30 June 2006 and in subsequent years of income will be in respect of financing the Grower's business operations – the cultivation and growing of trees or in the case of the Land Trust loan or 12 Month Loan, the acquisition of units in the Land Trust – that will continue to be 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.

*(ii) Growers who DO NOT use Rewards Projects Ltd or the Nominated Financier as a finance provider*

116. 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 Rewards Projects Ltd or the Nominated Financier 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.

117. 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. Alternatively, a Grower may choose to prepay such interest. Unless such prepaid interest is 'excluded expenditure' any tax deduction that is allowable will be subject to the prepayment provisions of the ITAA 1936 (see paragraphs 99 to 111).

**Stamp Duty****Section 8-1**

118. Growers who finance their participation in the Project through the Terms Payment Option with Rewards Projects Ltd will also incur a charge for stamp duty on execution of the 12 Month Terms Agreement. In doing so, they will incur a Terms Administration Fee. Whether the resulting fee is deductible under section 8-1 depends on the same reasoning as that applied to the deductibility of the initial fees.

119. One of the exclusions under section 8-1 relates to expenditure that is capital or capital in nature. Any part of the expenditure of a Grower that is attributable to acquiring an asset or advantage of an enduring kind is generally capital or capital in nature and will not be an allowable deduction under section 8-1. In this Project, Stamp Duty is capital in nature. It is not deductible under section 8-1 or any other section of the Act.

**Section 25-25 – deductibility of the Loan application fee as a borrowing expense**

120. Subsection 25-25(1) allows a deduction for expenditure incurred by the taxpayer for borrowing money to the extent that the borrowed money is used for the purpose of producing assessable income.

121. The loan application fee is an expense of borrowing money. Under subsections 25-25(1) and 25-25(3), they will be deductible to the extent that the Loan proceeds are used to purchase the units in the Land Trust under the arrangement. For instance, if 60% of the Loan is used to purchase Units, then 60% of the Loan Initial Fee will be allowable as a deduction over the relevant period.

122. If the loan application fee does not exceed \$100 it is fully deductible in the year it is incurred.

**Division 35 – deferral of losses from non-commercial business activities****Section 35-55 – exercise of Commissioner's discretion**

123. In deciding to exercise the discretion in paragraph 35-55(1)(b) on a conditional basis for the income years 30 June 2006 to 30 June 2025 the Commissioner has applied the principles set out in Taxation Ruling TR 2001/14 Income tax: Division 35 – non-commercial business losses. Accordingly, based on the evidence supplied, the Commissioner has determined that for those income years ended **30 June 2006 up to and including 30 June 2025**:

- it is because of its nature that the business activity of a Grower will not satisfy one of the four tests in Division 35;

- there is an objective expectation that within a period that is commercially viable for the afforestation industry, a Grower's business activity will satisfy one of the four tests set out in Division 35 or produce a taxation profit; and
- a Grower who would otherwise be required to defer a loss arising from their participation in the Project under subsection 35-10(2) until a later income year is able to offset that loss against their other assessable income.

124. The exercise of the Commissioner's discretion under paragraph 35-55(1)(b) is conditional on the Project being carried on in the manner described in this Ruling during the income years specified. If the Project is carried out in a materially different way to that described in the Ruling a Grower will need to apply for a private ruling on the application of section 35-55 to those changed circumstances.

### **Section 82KL – recouped expenditure**

125. The operation of section 82KL of the ITAA 1936 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 of the ITAA 1997.

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

126. For Part IVA of the ITAA 1936 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).

127. The Rewards Group Teak 2006 Project 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 43 to 47 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.

128. 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 wood produce. 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 at arm's length or, if any parties are not dealing 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.

## Appendix 2 – Detailed contents list

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## References

### *Previous draft:*

Not previously issued as a draft

### *Related Rulings/Determinations:*

PR 2006/62; TD 2003/12; TR 97/11;  
TR 98/22; TR 2000/8; TR 2001/14

### *Subject references:*

- advance deductions and expenses for certain forestry expenditure
- carrying on a business
- commencement of business
- fee expenses
- forestry agreement
- interest expenses
- management fees
- non-commercial losses
- producing assessable income
- product rulings
- public rulings
- seasonally dependent agronomic activity
- taxation administration
- tax avoidance
- tax benefits under tax avoidance schemes
- tax shelters
- tax shelters project

### *Legislative references:*

- ITAA 1936 82KL
- ITAA 1936 Pt III Div 3 Subdiv H
- ITAA 1936 82KZL
- ITAA 1936 82KZL(1)
- ITAA 1936 82KZM
- ITAA 1936 82KZMA
- ITAA 1936 82KZMB
- ITAA 1936 82KZMC
- ITAA 1936 82KZMD
- ITAA 1936 82KZME
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