



Australian Government
The Treasury

TREASURY
PORTFOLIO MINISTERS



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Minister for Revenue and the Assistant Treasurer

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TRADING OF FORESTRY MANAGED INVESTMENT SCHEME INTERESTS

The Government will allow investors in forestry managed investment schemes (forestry MIS) to trade their interests once they have been held by the initial investor for a period of at least four years.

The review into impediments to secondary markets for forestry MIS interests, announced on 21 December 2006, conducted by Treasury and the Department of Agriculture, Fisheries and Forestry has now been completed.

From 1 July 2007, initial investors in a forestry MIS will be allowed to trade their interests once they have been held for a period of at least four years. The four-year restriction will apply only to the initial investors in a scheme. The measure will apply to interests in a pre-existing scheme, meaning that taxpayers who invested in a forestry MIS prior to 1 July 2003 will be able to trade their interests from 1 July 2007.

The Government believes that trading of forestry MIS interests will introduce pricing information into the market and increase liquidity of the interests. Consequently, the Government will introduce legislation to amend the income tax law to:

- allow existing interests to be traded, to support depth in the market;
- require initial investors (both existing and future) to hold their forestry MIS interests for four years;
- extend the amendment period for forestry MIS investors to allow the Australian Taxation Office (ATO) to enforce the holding period rules;
- introduce a market value pricing rule at the time of first sale from an initial to secondary investor to reduce tax arbitrage;
- treat secondary investors (other than those holding interests as trading stock) on capital account for acquisition and disposal of their interests. For these purposes harvest proceeds will be treated as a disposal; and
- allow secondary investors a deduction for ongoing costs, to limit the incentive to front-load fees, and introduce a matching provision that seeks to recoup on revenue account these deductions from the sale or harvest proceeds.

The Government also intends to impose administrative requirements on promoters which will require them to:

- notify the ATO when they first receive income from a forestry MIS to ensure that the ATO is aware of all industry participants;
- document the basis on which the scheme satisfies the 70 per cent direct forestry expenditure rule which requires at least 70 per cent of the investors' contributions to be spent on expenditure directly related to developing forestry; and
- notify the ATO should the trees not be established within 18 months.

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