

Combining a Timber Land investment with a division 7A item

Case study: for financial advisers only

Objective

Your clients are looking to make an investment which will increase the diversification and tax efficiency in their portfolios. They would also like to consider opportunities to manage the impact of deemed Division 7A items.

Division 7A items may arise if you are a shareholder or an associate of a shareholder in a private company which makes a payment or loan to you, or forgives a debt that you owe the company. You may need to include the amount of this payment/loan or forgiven debt as an unfranked dividend in your tax return for the year in which the amount is paid, lent or forgiven.¹

The Macquarie Forestry Investment 2011

The Macquarie Forestry Investment 2011 offers an exciting way to diversify investment portfolios through agriculture. It provides your clients with an opportunity to invest in the Timber Land asset class and participate in the Australian hardwood plantation sector. The investment has an innovative structure, aiming to reduce the downside risk and maximise the potential for growth.

¹ For more information on how dividends are treated under Division 7A, visit the ATO website at ato.gov.au/businesses/content.asp?doc=/content/40660.htm.

Who may be interested?

Individuals who:

- are looking to diversify their investment portfolio
- want potential for growth
- would benefit from potential tax efficiency
- have a long term investment horizon
- have a reliable income stream but limited upfront capital (if borrowing to invest).

The strategy

With the Macquarie Forestry Investment 2011, investors have the ability to invest in either or both the Macquarie Eucalypt Project 2011 (Tree Project) and the Macquarie Timber Land Trust 2011 (Land Trust). For instance an investor could invest:

- in the Tree Project in their own name, borrowing 100 per cent of the investment amount for the Tree Project (excluding Goods and Services Tax (GST))
- in the Land Trust, to gain exposure to a complete Timber Land investment.

Furthermore, investors may borrow 100 per cent of the application price from Macquarie Bank Limited (MBL) meaning the impact to their cash flow is also managed.

An example

James is 35 years old and is a shareholder in a private company. James wants to improve diversification in his portfolio by investing in Timber Land. James has also been advised that he has a deemed Division 7A item totalling \$100,000 which must be included in his assessable income for the current financial year. James however has already spent this money on renovating his house. James is on the top marginal tax rate.

James' adviser recommends the following investment strategy:

- invest into Timber Land through the Macquarie Forestry Investment 2011
- invest in 42 Interests (\$108,570) in the Tree Project and 19,950 Units (\$19,950) in the Land Trust in his own name
- utilise the MBL financing option and borrow both the Tree and Land application amounts (excluding GST).

This investment strategy has the following effect on James' individual position for the 2011 year.

	With the Macquarie Eucalypt Project 2011	Without the Macquarie Eucalypt Project 2011
Deemed Division 7A item	\$100,000	\$100,000
Tax deduction for the investment*	\$98,700	\$0
Taxable income	\$1,300	\$100,000
Income tax payable (at 46.5%)	\$605	\$46,500
Investment loan funding	\$128,520	\$0
Investment in Tree Project*	\$98,700	\$0
Investment in Land Trust	\$19,950	\$0
Net after tax cash	(\$605)	(\$46,500)

Potential benefits

By implementing this simple investment strategy James has achieved the following benefits:

- portfolio diversity through a true Timber Land investment (investment in both the land and the trees)
- a reduction in income tax payable this financial year of \$45,895
- an opportunity to invest in the Land Trust (\$1,900 per plantable hectare). The average unencumbered value of the land is expected to be \$6,100 (excluding stamp duty) per plantable hectare.

* Assumes the individual is registered for GST. Assumes the client is a member of the class of entities specified in the ATO Product Ruling, PR 2011/2.

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