



AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/madam

Submission on 'Australia's Future Taxation System'- tax treatment of conservation properties

I would like to respond to your Consultation Paper on 'Australia's Future Taxation System' from December 2008, specifically in regard to question 13.2. – "...are there features of the tax-transfer system which encourage poor environmental outcomes and how might such outcomes be addressed?"

The Nature Conservation Trust of NSW (NCT) purchases, covenants and sells properties throughout NSW to protect them for the future and to promote their conservation values.

The taxation system does not currently acknowledge or define properties managed wholly or partly for environmental outcomes. One example is the treatment of GST.

We generally purchase rural properties with areas of high conservation values. In most cases, no GST is payable at the time of purchase by the NCT on the assumption that the property has been used for 'farming purposes' for the previous five years and it can be argued that this will continue to be the case in the future.

An in perpetuity conservation covenant is registered on the title of the majority of the property by the NCT. In some cases an area will be left available for agriculture; however this will vary between properties. Some properties will be fully protected under a covenant and so are likely to fall outside the GST definition of a 'farming property'. It could be argued that this is not the case where covenants allow stock to periodically graze the conservation area for the purposes of fire control or weed management. In all cases, the NCT has to decide whether GST should be charged at the time of purchase and when the property is sold on. This will depend on the intent of the landowner. However if there is no agricultural area set aside and no grazing entitlements under the covenant, it is difficult to justify that the property can be used for 'farming purposes' and so GST would be applicable. Consequently GST will be payable at the time of sale given the change in use of the property from farming to conservation. If the new owner cannot claim the GST paid as an input tax credit, the impact of GST will increase the sales price by 10% and make the property more difficult to sell or lead to a loss. This will reduce funds available for future property acquisitions and conservation outcomes.

In these situations, the NCT has an alternative option to purchase the property under the GST margin scheme. This method bases the GST on the increase in value between 1 July 2000 and the date of purchase. This incurs additional valuation costs and will increase the cost price, as GST paid cannot be treated as an input tax credit by the NCT or the new owner. This approach will also reduce the funds available for future property acquisitions and conservation outcomes.

We find this situation as anomalous and an impediment to our operations and the promotion of nature conservation and environmental outcomes on private land.

This is one example of a lack of recognition within the taxation system for 'conservation properties'. We would contend that the broad entitlements within the taxation system open to owners of 'rural properties' and primary producers should also be extended to private land being actively managed for environmental outcomes.

We trust your review will clarify the treatment of 'conservation properties' for GST and other taxation purposes.

Yours sincerely



Rob Dunn
CEO