

Chapter 4

Committee conclusions

4.1 The committee considers that the tax deductions for carbon sink forests under the *Income Tax Assessment Act 1997* (ITAA) represent a valuable policy addition that will promote greenhouse gas reductions. The structures and processes outlined in the Act provide for a sensible legislative and administrative framework relating to the tax treatment around the establishment of forest carbon sinks.

4.2 The committee notes that other forms of greenhouse gas emissions reduction activities by industries are tax deductible. The change in the tax treatment of carbon sink forests addresses this anomaly in the tax system.

4.3 The committee believes that the tax deductions will provide incentives for corporate investment into greenhouse gas abatement activities which represents an ideal opportunity to direct necessary capital to achieve positive environmental outcomes.

4.4 The new tax arrangements provide a short-term incentive to encourage early establishment of carbon sink forests that will contribute to a medium-term emissions target, while other options for delivering significant emissions reductions are further developed. Carbon sink forests also contribute to the achievement of national policy objectives for sustainable natural resource management.

4.5 The committee considers that if Australia is to meet its carbon pollution reduction goals at least cost, the support of a viable carbon sink industry is important. Appropriate taxation arrangements are one part of a range of measures needed to encourage the role of carbon sink forests in Australia's carbon pollution reduction effort.

4.6 The committee recognises the benefits of relying on existing state and territory regulatory structures for the management of the impacts of carbon sink forests on the environment. The committee has some concerns that in certain key areas, such as land clearance legislation, natural resource management and water sharing, some states and regions may not currently have in place appropriate regulations or plans to manage the impacts of carbon sink forests. The committee notes that through the National Water Initiative, states and territories are committed to completing comprehensive water planning arrangements by 2011 and that COAG is currently seeking to accelerate the pace of this planning. The committee also notes that under this process steps have been taken to ensure that those water systems under the greatest pressure receive early attention. The committee considers that it would be desirable if a similar focus could be directed to regulation of land clearance and natural resource management.

4.7 More specifically, the committee notes the concerns raised in relation to the need to include ground water within water sharing plans. The committee supports the inclusion of specific reference to ground water in the Guidelines.

4.8 The committee notes the significant support expressed during this inquiry for specific incentives to encourage the establishment of biodiverse forests. The legislation as drafted does not distinguish between the type of forest planted and the committee is satisfied that it provides no disincentive for the plantation of biodiverse carbon sink forests. The committee also notes that biodiversity considerations have been taken into account in the development of the Guidelines and that these should contribute to the establishment of carbon sink forests in conformity with good practice environmental and natural resource management frameworks. The committee considers that any proposal to offer specific incentives for the establishment of biodiverse plantings must be considered within the context of existing environmentally focussed taxation incentives.

4.9 Finally, the committee welcomes the evidence received in relation to alternative options for terrestrial carbon stores, particularly in relation to perennial pasture cropping. While there clearly is some work to be done to demonstrate the benefits of such an approach within a carbon trading scheme, the committee considers that the wider benefits of improved soil structures and the potential increases in productivity of such systems warrant further examination. The committee considers that the government should request CSIRO to assess the data being accumulated from pasture cropping trials in Western Australia and New South Wales.

Senator Glenn Sterle
Chair