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## **Treasury submission: Stapled structures**

The following is Rural Funds Management as Responsible Entity for Rural Funds Group's brief submission in respect of the Consultation Paper issued March 2017 entitled "Stapled Structures".

For the reasons set out below, Rural Funds Management considers it important that Australia maintains a regime for A-REITS that provides for flow through distributions including tax deferred components.

### Background and why do we use stapled structure?

Rural Funds Group is a stapled specialised agricultural A-REIT listed on the ASX 300. It formally has the S&P Global Industry Classification Standard (GICS) of A-REIT. The stapled group comprises of Rural Funds Trust (passive trust) and RF Active (active trust), together forming the Rural Funds Group (ASX: RFF). The stapled structure was set up in October 2014.

The principal activity of Rural Funds Group is the leasing of agricultural property to tenants; and it holds assets in the Cattle, Vineyard, Cotton, Almond, Macadamia and Poultry sectors.

RF Active was set up to provide tenants the opportunity to lease ancillary assets such as farming plant and equipment, cattle, and water entitlements; and other assets that are used by the tenants in their active farming operations. This is particularly relevant in the agriculture industry in terms of providing a leasing option to tenants who are having to manage the upfront costs/investment into crops, and the delays in the realisation of profit. While the return to RF Active is a rental charge (or in the case of cattle leasing is economically a financing charge akin to interest) these activities do not generally qualify as 'passive' for trading trust purposes.

As at 31 December 2016, Rural Funds Trust held approximately 90% of the gross assets and approximately 94% of the revenue of the Group with RF Active holding approximately 10% of the gross assets and approximately 6% of revenue. The activities of RF Active are ancillary to the primary business being the leasing of property, and do not necessarily fit into the de minimis exemptions allowed in Division 6C which was a factor in the establishment of the stapled structure.

Rural Funds Trust is a Managed Investment Trust that is increasingly attracting foreign investors who can access concessional withholding tax rates. Historically RFF has had low foreign ownership, as at 9 March 2017 this represented approximately 3.5%. However, competitive tax incentives encourage growth in foreign capital to expand land investment in Australian agribusiness.

### What have we found beneficial to the use of the structure?

The current regime of stapled structures:

1. Promotes investment in property, and in the case of the Rural Funds Group, investment in agricultural assets; and further
2. Attracts foreign capital in a competitive international market.

The Rural Funds Group has found this particularly valuable in the agricultural sector to:

- Fund the development of agricultural assets where Australia has an international trade advantage, for example almond orchards;
- Achieve scale and economies;
- Monetise Australia's agricultural assets;
- Provide liquidity for farmers wishing to exit their sectors for whatever reason including inter-generational change.

### Recommendations in the Treasury submission

RFM strongly supports the taxation outcomes achieved under the current Stapled Structure regime for A-REITS. However, it acknowledges the complexity involved in monitoring as well as maintaining stapled structures. RFM considers that the current restrictive threshold in Australia has probably contributed to the growth in Stapled Structures and would equally support an alternative approach of specific A-REIT legislation and/or a less restrictive approach under the current Division 6C rules for passive investment, whether this relates to non-passive assets or income.

RFM would request that any changes to the current regime be accompanied by transitional arrangements to ensure no interruption to current taxation outcomes.

Please contact Daniel Yap on (02) 8234 3400 should you wish to discuss any of the matters raised in this submission.

Kind regards,



Daniel Yap  
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Rural Funds Management



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Rural Funds Management