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FOREST | FORESTIERS *du*
OWNERS | CANADA

**Written Submission on Federal Assistance for
Various Natural Resources Industries to the
Standing Committee on Natural Resources of
the House of Commons of Canada**

November 17, 2022

Canadian Forest Owners would like to support the Standing Committee on Natural Resources in its work on Federal Assistance for Various Natural Resources Industries. The federal government has a role to play in supporting Canada's 450,000 forest owners and the forest sector as a whole by maintaining current measures and developing new fiscal tools to support the development of Canada's forest resources. Our recommendations to the Committee are as follows:

Recommendation 1 : That the government recognize the importance of investment, job creation in the forest sector and rural economic development by implementing a *Personal Silvicultural Savings and Investment Plan* for Canadian forest owners.

Recommendation 2 : That the government confirms the leadership and competitiveness of the Canadian forest sector, its contribution to economic growth and innovation with the renewal of key Canadian Forest Service Programs (NRCan).

Recommendation 1 That the government recognize the importance of investment, job creation in the forest sector and rural economic development by implementing a *Personal Silvicultural Savings and Investment Plan for Canadian forest owners.*

Background There are roughly 450,000 private forest landowners in Canada. Improving the management of private family forests incurs numerous socio-economic benefits by supporting a range of industries and gives rise to environmental benefits. However, various factors, including the low profitability of forest management activities, have discouraged many forest owners from further investing in their lands.

The Government has a number of tools available to encourage owners to more intensively manage their land, creating additional jobs in the forest sector and further stimulating rural community development.

Current Challenges Income tax measures can be used as an important tool to encourage active forest management by a greater number of forest owners, further increasing supplies of forest products.

Today, there is no income tax mechanism in Canada to encourage forest owners to further invest in the management of their forests. This is an unfortunate situation since harvested wood leads to significant socio-economic activity in the forest products industry, and is especially important in rural communities with few other industries.

Canadian income tax policy does not take into account:

1. An uncertain and long-term expectation of profit.

The decades-long production period is unique to the forest sector. The discounting of revenues reduces (or eliminates) the profitability of silvicultural activities. Furthermore, the odds of damage or destruction of the forest due to natural disasters increase with the length of the production period.

2. Most forestry revenue tends to be sporadic rather than regular and sustained in nature.

Very few forest owners draw any revenue from the sale of wood every year. Harvesting is carried out only in occasional years. In those scattered years, owners may see a large increase in overall revenue and are taxed accordingly.

3. Costs and revenues occur in widely separated years.

The costs associated with silviculture (e.g., planting, tending plantations, and thinning young stands) are incurred at the beginning or early in the production period, while the revenues arise from harvesting mature trees. Silvicultural costs occur during several years at the early stage of the production period, while all revenues are generated during a single fiscal year several decades later.

- At the start of the production period, revenues are insufficient to cover the costs of forest management.
- At the end of the production period, the deductible expenses are low compared to the revenue from the sale of wood. This leads to high taxable revenue in a single tax year.
- The time discrepancy between costs and revenues disables the use of either cash accounting or accrual accounting systems to smooth out the issue. Time gaps are too long to enable forest owners to time expenses and revenues within a particular fiscal year.

4. Existing provincial cost-shared programs are an important tool, but have a number of limitations.

- Not all provinces have these programs;
- Many forest owners do not have the financial assets needed to cover the owner share of the costs;
- The programs provide important support for active owners but offer little incentive for inactive owners to become active managers;
- Depending on the province, existing programs may be quite limited in scope and do not provide assistance for the full range of essential forest management activities.

The Solution: Creation of a Personal Silvicultural Savings and Investment Plan

In 2021, the Standing Committee on Finance of the House of Commons¹ in their 2021 Pre-Budget Report to Parliament recommended that the government of Canada:

- introduce a registered savings plan for the forestry industry to allow private logging income, under certain conditions, to be tax-sheltered and that its use for forest management purposes remains nontaxable. (Recommendation 103); and,

¹ Standing Committee on Finance of the House of Commons 2021. Investing in tomorrow: Canadian priorities for economic growth and recovery: 362 p. (p.47)

- introduce a logging income averaging regime for private loggers to divide occasional felling income over several years and prevent forest management costs over the years from being higher than the net income generated in the logging year. (Recommendation 104)

In addition, the Standing Committee on Natural Resources of the House of Commons² and the Standing Senate Committee on Agriculture and Forestry³ both recommended in 2008 that the Federal Government encourage forest owners to practice sustainable forest management through changes in Income tax policy.

The recommendations would result in the creation of a *Personal Silvicultural Savings and Investment Plan* to ensure Canadian forest owners could put aside part of their forest income to be used for future investments to manage and smartly invest in their land.

Income tax policy can be judiciously used to foster the enhancement of private forests, to contribute to the development of forestry-related industries, to enhance environmental services sought after by society, and to favour the growth of rural communities. To that end, we recommend adjusting the tax treatment to the reality of forest owners.

We therefore request that the Government implement a *Personal Silvicultural Savings and Investment Plan* (PSSIP). This will stimulate investments in intensive management of private forests using revenues generated by forest owners themselves.

Description of the approach

It will allow a taxpayer to protect part of his/her revenue from taxation in anticipation of forest management. The term “forest owner” designates all taxpaying Canadians who own in whole or in part a woodlot consisting of over four (4) hectares

Investments include all expenses required to improve the quality of forest stands and to ensure their sustainable management, as well as to harvest forest stands following prescriptions described in a forest

² Standing Committee on Natural Resources of the House of Commons 2008. Canada’s Forest Industry: Recognizing the Challenges and Opportunities: 63 p. (p.40)

³ Senate Committee on Agriculture and Forestry. 2008. Beyond Freefall: Halting Rural Poverty: 365 p. (p.91)

management plan that meets the requirements of the Income tax regulations.⁴

Spending these funds for silvicultural purposes or other non-forestry purposes would render them taxable in the year they are withdrawn from the account. Thus, if a PSSIP withdrawal in a given year concurs with forest management activities, the incurred expenses could lessen the forest owner's tax burden.

To reduce tax evasion, an additional tax would be applied to PSSIP funds used for non silvicultural purposes. This tax would be levied on the interest gains earned on the PSSIP funds in a similar manner as the Registered Education Saving Plans.

PSSIP could be managed by any financial institution that provides services directly to individuals. Administration fees would be paid by the contributors.

Advantages of the approach

As described, this will boost economic activity in rural communities, further create additional direct and indirect jobs in the forest sector, reduce uncertainty and enhance investment, create innovative tools to continue fighting climate change, improve the value of the forest stands, products and assets, as well as help Canada remain a global forestry leader. It is important to remember that private forests already supply 18% of the wood processed in Canadian mills⁵.

This approach would have the effect of:

1. Persuading forest owners to actively manage their forests and harvest wood that generates economic activities.
2. Investing money from the sale of wood in planting and improving forest stands which results in withholding money in rural communities.
3. Synchronizing forest management expenses with revenues from forests.

⁴ As described in Section LXXIV of the Income Tax Regulations (Forest management plans for woodlot owners).

⁵ National Forestry Database. Net merchantable volume of roundwood harvested by jurisdiction, tenure, category and species group in 2020.

4. Boosting more affluent forest owners investments in forest management to avoid being taxed on this extra income.
5. Reducing the uncertainty of reasonable expectation of profit from silvicultural investments.
6. Supporting the forest management industry by increasing the work carried out in private forests.
7. Transferring revenues from urban to rural communities through the additional silviculture undertaken by forest owners who make a living in the city.
8. Improving the value of the forest products and assets.
9. Reducing tax avoidance by encouraging forest owners to declare all of their forest revenues in order to benefit from this program.

Tax costs of the program

In Quebec, the gross income stemming from wood sales from private forests is approximately \$230 million per year.⁶ Expenses make up about 70% of this figure. The net taxable income is therefore \$69 million per year.

Taking into account the higher marginal tax rate as well as the fact that a portion of forest owners carry forest management activities every year, it is plausible to estimate that an upper limit of about \$17 million per year⁷ could be invested in PSSIP. This would represent an estimated maximum reduction in tax revenue of \$7 million. In fact, the carry forward will most surely be less and would take many years to materialize, enough time for wood producers to become familiar with this program. An increase in harvesting and forest management activities would compensate for these investments thanks to economic repercussions from wood manufacturing.

The previous calculation is based on wood production in Quebec where forest revenues are better documented. The total figure for Canada as a whole is about three times greater since Quebec's gross revenue from wood sales is 30-35% which accounts for a third of Canadian sales

⁶ Since 2002, gross revenues of Quebec's producers ranged between \$120 million and \$315 million on an annual basis, with an average of \$230 million.

⁷ \$230 million/year X 25% (\$20,000/year and less) X 30% (net revenue) = \$17 million.

Recommendation 2 *That the government confirms the leadership and competitiveness of the Canadian forest sector, its contribution to economic growth and innovation with the renewal of key Canadian Forest Service programs (NRCan).*

Maintaining Canadian forest owner's strong leadership position in the world is essential to continue our contribution to economic growth for workers, businesses and communities.

Federal financing programs and policies must remain responsive, predictable and stable to meet the needs of our owners and to ensure our sector remains innovative, successful and continues to contribute to Canada's public policy priorities including the transition to a low carbon economy, to rural economies that depend on our forest owners, and to increase investment to compete effectively in the global marketplace.

Over the last years, the Canadian Forest Service has been successfully implementing key programs in support of the Canadian forest sector, which help diversify forest products, markets and to support the competitiveness of Canada's forest sector.

Canadian Forest Owners supports the renewal and expansion of existing programs such as:

- Expanding Market Opportunities Program;
- Forest Innovation Program;
- Green Construction through Wood (GCWood) Program;
- 2 Billion Trees program;
- Indigenous Forestry Initiative;
- Investments in Forest Industry Transformation Program.

**About the
Canadian Forest
Owners:
LOCAL FORESTS FOR
A HEALTHY CLIMATE**

Canadian Forest Owners (CFO) represents 450,000 forest landowners, large and small, who are committed to long-term sustainable forest management for a healthy climate and thriving communities.

The 450,000 forest owners include small and medium-sized businesses, large companies, pension funds, diverse communities, families, First Nations and female-led businesses from coast to coast.



Forest owners are your neighbours who supply fresh drinking water, important fish, wildlife and plant habitats, forest products and other social and environmental services that support local businesses and our communities.

CFO is committed to the sustainable management of private forest resources to ensure they continue to contribute to the economic, social, environmental and cultural well-being of rural communities across Canada.

