

Woodlot Economics Fiscal Measures

Fiscal Status

Victor Brunette, ing.f. (ret.)
19 février 2023

Federal Fiscal Status

- * The state of existence and operation of a woodlot business can be evaluated by Revenue Canada to assess whether a woodlot or woodlot operations are submitted to tax obligations, dues, subsidies, deductions, etc.

Quebec Woodlot Owner Status

- * Registered Quebec woodlot owner status
- * Requirements :
 - * 4 hectares
 - * Woodlot management plan drafted by a professional forester
 - * Registered woodlot owner and registered land area with Status Registration Office.
 - * Enables access to programs and fiscal benefits

Purchasing a woodlot \$\$\$\$

- * Establish values and objectives/Short and long term
- * Woodlots in the Outaouais sell for 1000\$ + per acre
- * Which tenure mode is OK for you? Zoning white or green?
Acquire with family, with a friend, alone, in a corporation?
How far from the city?
- * You can get a value assessment from a professional forest consultant.
- * Does the seller have a GST QST number ? Costs 15% more!
- * Downpayment? Forest Credit? 1st and 2nd mortgage?

Fiscal Status of a Woodlot Owner

- * Commercial woodlot?
- * Non commercial woodlot?

Fiscal Status of a Woodlot Owner

For a business to exist.....

- Establishing a business takes time, money, care.
- The time it takes to bring a business to break-even varies according to the nature of the business.
- The legal status of a business.... makes it a business!

Fiscal Status of a Woodlot Owner

Notion of the existence of a business:

- * A business has to be operated with a reasonable expectation of profit*

Fiscal Status of a Woodlot Owner

Criteria for Reasonable Expectation of Profit:

- Importance of planning – **Do you have a management plan?**
- **Management efforts**
- **Time spent**
- **Investments**
- **Keep track of revenues and expenses – profits and losses**
- **Forestry expertise and experience**

Fiscal Status of a Woodlot Owner

Cumulated work done:

- * Silviculture work
- * Tree planting
- * Harvesting
- * Thinnings
- * Roadwork

Fiscal Status of a Woodlot Owner

The forest owner must be able to prove on an annual basis the existence and operation of a business.

Fiscal Status of a Woodlot Owner

For a commercial woodlot:

- * One can account for expenses engaged to generate revenue
- * Operating losses are deductible 100% in the year incurred

Fiscal Status of a Woodlot Owner

A non commercial woodlot:

- * It is a personal venture
- * No expenses deductible

Fiscal Status of a Woodlot Owner

My Case: I operate a commercial woodlot

- * I have a management plan
- * I detain a woodlot owner status
- * My lot is registered with « le Bureau d'enregistrement »
- * I have GST and QST tax numbers and I produce an annual report
- * I declare woodlot revenues and losses on my annual income tax return
- * I have paid capital gains tax on the sale of woodlots before
- * I have declared income on the sale of standing timber
- * I have an annual revenue from my farm fields.
- * I have claimed expenses and depreciation on machinery, roads, culverts

Fiscal Status of a Woodlot Owner

Canada Revenue Agency

* Interpretation bulletin [it373r2-consolid-e.html](https://www.cra-arc.gc.ca/rr/it/it373r2-consolid-e.html)

Income statement

Period from _____ to _____

REVENUES

Wood sales
Tax refunds
Interest refunds
Grants
Other revenues

TOTAL REVENUES

EXPENSES

Salaries and benefits
Chainsaw expenses
Equipment maintenance
Machinery rental
Wood transportation
Roads and drainage
Materials and supplies
Insurance
Banking fees
Property taxes
Loan interest

TOTAL EXPENSES

**NET INCOME (LOSS) BEFORE DEDUCTION OF
DEPRECIATION**

AMORTIZATION

DEPRECIATION

NET INCOME (LOSS)

Treatment of results

- * 100% deductible loss
- * Partially deductible loss
- * Restricted farm loss
- * Non-deductible loss

Fiscal treatment of losses

If the woodlot provides a secondary revenue you could be limited to a restricted farm loss

- * If agriculture (or forestry) or a combination of those are not the main source of income, the tax law will restrict farm losses.
- * In all cases, depreciation can not increase losses .

Treatment of results

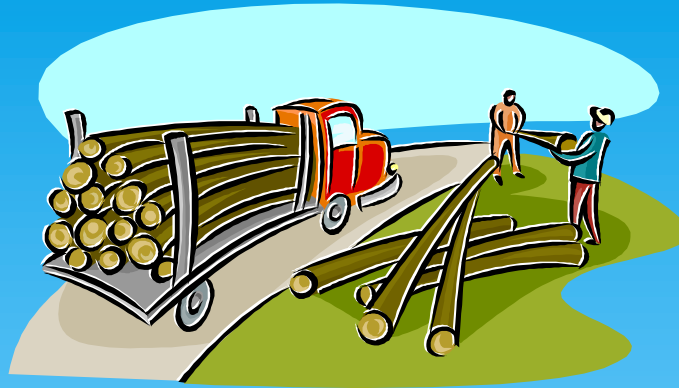
Example:

- * Farm loss of \$3,100
- * Result? What can be deducted if farming is not the main source of income?

Treatment of results

March 21, 2013 federal budget:

- * Pre-Craig restricted farm loss rule maintained
- * Other sources of income will have to be subordinate to farm income to deduct the full loss
- * $2,500 + (\frac{1}{2} (\text{farm loss} - \$2,500))$
- * For a maximum deductible of \$16,250



Questions