

# Woodlot Economics - Fiscal Measures Capital Gains

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What is the value of a good  
or a service?

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Consider supply and demand

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The cost method

The comparison method

The residual method

Can Woodlot owners  
benefit from existing  
fiscal measures?

# Plan

- \* Capital Gains Treatment
- \* Intergenerational Transfer

# What is a business income revenue?

## What is capital gain?

### Business Income

- \* Income from business operations (operations investment).

### Capital Gains

- ◆ Income from the sales of goods, property, real estate. (capital investment)
  - intent
  - duration
  - frequency

# Revenues

- \* Regular timber sales to mills
- \* PRTF Property tax refund
- \* PMVFP Silviculture program subsidies ???
- \* Land rental for agriculture / AirBnB
- \* Hunting revenues/ Outfitting
- \* Maple Syrup/Christmas trees/Firewood
- \* Carbon Credits

# Eligibility of expenses

## Expenses are deductible when:

- \* Intent to generate revenue and profit
- \* Needed for business operations
- \* Reasonable under the circumstances

# Classify expenses

## Two types of expenses

### Operations

- \* Only deductible in the fiscal year when incurred
- \* 100%

### Capital investment

- ◆ Goods, machinery, road, culverts, buildings invested for many years
- ◆ Depreciation on set rate
  - Road
  - Computers
  - Trailer
  - Chain saws

# Expenses

## Operations

- \* Equipment Maintenance
- \* Salaries
- \* Oil, gas, diesel fuel
- \* Taxes, insurance
- \* Rental
- \* Interests paid
- \* Roadwork incurred for current operations.

# Expenses

## Capital investments

- \* Sustainability
  - \* Immobilization / long term
  - \* Roads, culverts, gates, fence, skidder, tractor
- \* Tools > 500 \$
  - \* Computer
  - \* Electric generator
  - \* Chain saw

# Expenses

## Capital Cost Allowance Depreciation schedule

- \* Cost of capital allocation
- \* Categories
- \* Rate/rate
- \* Half-rate rule
- \* Commissioning rule

# Expenses

## Forest / Standing timber depreciation

(appendix VI of the income tax regulations)

- \* Why do you want to do this? To recover the cost of the woodlot
- \* When the property is sold:
  - \* Recovery
  - \* Not eligible for DGC

# Expenses

## Two methods

- \* \$100 (lump sum)
- \* Formula:  $(C.C. - V.R.) / \text{Units to be sold}$ 
  - \* C.C. = capital cost
  - \* R.V. = residual value

# Treatment of results

## Income statements

- \* Summary of company activities
- \* Classification by origin
- \* Amortization
- \* Depletion

# Identifying Your Revenues

## Notions of capital gain

- \* The capital gain is the profit realized between the proceeds of disposition (sale) and the cost (purchase).
- \* Distinction from capital gain
  - \* Intention
  - \* Length of holding period
  - \* Frequency of sales

## Taxation of Capital gain

- \* Since 1972
- \* Inclusion rate: 50%



# Knowing and Identifying Revenues

## Applicable Capital gains tax

Product disposition / Sale	\$120 000
Coût Costs / Cumulative / 80 Undepreciated cost +(20-10)	\$90 000
Capital gain (CG)	<hr/> \$30 000
GCI / CG Taxable (\$30 000 x 50%)	<hr/> \$15 000
Tax payable for a 45% tax bracket	<hr/> \$6 750



# Capital Gains Exemption

- \* \$900,000 capital gains deduction on the disposition of farm property used in a farming business (section 110.6 of the Act)
  
- \* Eligible farm property:
  - \* Land base
  - \* Farm buildings
  - \* Other capital investments
  - \* Shares
  - \* Interest in a family farm partnership



# Capital Gains Exemption

- \* Real property or eligible capital property
  - \* It must have been held by an individual, his or her spouse, child, parent, a family farm partnership or certain trusts or beneficiaries of trusts for a period of at least 24 months preceding the disposition

# Capital Gains Exemption

- \* Real estate (agriculture or forestry) acquired before June 1987 and used by a taxpayer, individual, his/her life partner, his/her children, his/her parent, his/her grandparent, a farming family society, a trust fund or a farm corporation involved in the operations of a farm in Canada .
- \* Farm and or woodlot operations must happen during the year of sale or disposal or during five years (no need for consecutive years).



# Capital Gains Exemption

- \* Woodlot acquired after June 1987:

During at least two years, the gross revenue of the woodlot operations where the eligible taxpayer has been active has had to be greater than revenue from other sources.

# Capital Gains Exemption

## Registered or non registered, non operated woodlot

- \* Exceptionnally, the income from a unique harvest from a woodlot to include the sale of standing timber can be considered as capital gain.

# Capital Gains Exemption

**Special circumstances to be met  
(IT-373 R2, par. 12)**

- \* Initial intention not to sell wood or land
- \* Isolated transaction
- \* Fixed price
- \* Cutting over a short period
  
- \* Not eligible for DGC

# Intergenerational transfer

## Possibility of woodland transfer (articles 70 et 73 de la Loi de l'impôt)

Since December 2001

- \* Allows woodlot transfer to children at set price other than FMV  
Fair Market Value

# Intergenerational transfer

## Transfer - child

- \* The property may also have been used in the operation of a woodlot to the extent that the taxpayer, the taxpayer's spouse, child or parent participated to the extent required by a forest management plan.

# Intergenerational transfer

## Donation or Sale

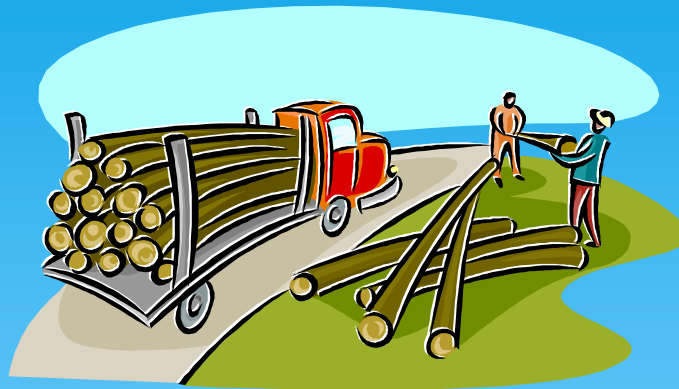
- \* Donation: Sale income is considered to be the fiscal cost
- \* Conterpart (amount received) considered to be the set price

# Intergenerational transfer

<b>Fair Market Price</b>	<b>\$100 000</b>	<b>\$100 000</b>	<b>\$100 000</b>	<b>\$100 000</b>
<b>Tax evaluation</b>	<b>\$70 000</b>	<b>\$70 000</b>	<b>\$70 000</b>	<b>\$70 000</b>
<b>Effective payment Shows on notary's contract</b>	<b>None</b>	<b>\$60 000</b>	<b>\$80 000</b>	<b>\$120 000</b>
<b>Parent's deemed proceeds of disposition</b>	<b>\$70 000</b>	<b>\$70 000</b>	<b>\$80 000</b>	<b>\$100 000</b>
<b>Deemed acquisition cost for the child</b>	<b>\$70 000</b>	<b>\$70 000</b>	<b>\$80 000</b>	<b>\$100 000</b>

# Forest Operations Tax

- \* Provincial tax at 10% rate
- \* Net income from forestry operations of \$65,000 or more
- \* Eligible for 33.33% provincial credit and 66.67% federal credit



**Questions**