

A Commercial Woodlot is a Farm

By Dick Lalonde

Few woodlot owners take advantage of operating a commercial woodlot as a farm, and each owner and their own situation is unique. This article will focus on a theoretical woodlot, Harry's Commercial Woodlot, which is a forested, 400-acre mixed forest, some planted trees, swamp and field mix, situated in eastern Ontario.



Dick's cabin

Harry is passionate about managing his woodlot in order to leave it as a better place for the future. Harry also wishes to run his woodlot as a business so it will grow in value and become profitable. Once it has positive income, it becomes a much more valuable property and can be sold as an investment or passed on without burden to others. Therefore, he is treating his woodlot as a business venture and wishes to take full advantage of the provincial and federal incentives that are available to him.

Provincial Program: Managed Forest Tax Incentive Program

The OWA, Ontario Forestry Association, and Ministry of Natural Resources have made substantial inroads to promote the Managed Forest Tax Incentive Program (MFTIP). Currently, some 6,000 woodlot owners participate in the MFTIP. The main benefit of participating in MFTIP is that the woodlot owner receives a 75-percent reduction in provincial property taxes for as long as the owner stays in the program.

The owner can opt out or stay in the program as long as he owns the property. The next owner can decide to apply for MFTIP or not.

Harry found that joining MFTIP was straightforward. First, Harry joined a woodlot association, such as the OWA. He obtained information on MFTIP and received assistance in finding a forester to help him prepare a stewardship managed forest plan that met his personal needs. Once that was done, Harry had the forestry professional sign the plan and then he submitted it for approval.

Harry received his 10-year approved plan from the Ministry of Natural Resources; MNR also notified the Ontario Assessment Office (MPAC) to reclassify his property as a managed forest. On the next property tax bill, Harry noticed the new managed forest classification and significant tax savings.

Example of cost saving

Prior to applying for MFTIP, Harry's 400 acres was classed as rural residential rate (.00039) on assessment	
His annual property tax bill was	\$4,000
Harry received his MFTIP approval and his 400 acres is classified at the managed forest rate (0001) on assessment.	
His property tax bill is now	\$1,000
Harry's annual property tax savings is	\$3,000

It is important to note that MFTIP was introduced to achieve objectives of the government, by encouraging private woodlot owners of Ontario to become involved with managing their woodlots in a sustainable manner. It is not a free gift, and each woodlot owner is responsible to provide good stewardship practices in their woodlots.

Let's Not Drop the Ball

by Dolf Harmsen



Federal Programs: Tax incentives

Harry took the time and effort to obtain a provincial MFTIP stewardship forest management plan. He had already developed a business plan as part of his forest management plan with a 10-year budget forecast of revenues and expenditures. He knew that he would be losing money for several years, but that the property would grow in value and that he would receive income in the future from activities on the woodlot.

Harry studied federal income tax bulletins and became very familiar with the tax system. He found that the Canada Revenue Agency's (CRA) view was that if the main focus of the woodlot business plan is not lumbering or logging, but is planting, nurturing and harvesting trees pursuant to a forest management plan, and significant attention is put into the growth, health, quality and composition of the forest, it is then generally considered a farming business and called a commercial farm woodlot.

Harry also found that farming businesses included such activities as tree farming, Christmas tree growing, sugar bush, firewood, forest products, fruit growing and beekeeping, among others that qualified as accepted business activities allowed on a commercial farm woodlot.

He also discovered that he was not a full-time farmer since his principal source of income was not from farming activity. He was a part-time farmer and was allowed only a restricted loss of \$8,750 per year for several years. In the case of new tree plantings on his property, it would take some 30 to 40 years for the trees to reach full market revenues. Harry also realized that his maximum allowable loss could be claimed against his other yearly income to reduce his taxable income amount, similar to how an RRSP contribution reduces taxable income.

The Champion Donor Program needs your donation. If each OWA member becomes a Woodlot Champion, the reduction in the OWA's revenue stream that resulted from the loss of the administration of the MFTIP program can be overcome, leading to the continued ability of the OWA to promote the sustainable management of Ontario's privately owned forests by providing its members with guidance and advice, and by representing their interests through a united provincial voice.

Donors will be recognized at one of six levels as shown in the table below. Recognition of Woodlot Champions will be shown in the OWA quarterly *S&W Report* newsletter, on the OWA website and by display at the OWA Annual General Meeting. Thanks in advance to all those who donated.

You can make donations using our website www.ont-woodlot-assoc.org or call us at (613) 258-0110. ☎

Champion Donor Program – Donor Levels	
Cumulative Level of Donations	Champion Category
\$25 to \$199	White Birch
\$200 to \$499	Red Pine
\$500 to \$999	Sugar Maple
\$1,000 to \$9,999	Red Oak
\$10,000 to \$24,999	White Pine
\$25,000+	Black Cherry



The Champion Donor Committee: l-r; Tom Brownell, Pieter Leenbouts, Eric Thompson (Ex. Dir.), Dick Lalande (Chair, CDP), Dolf Harmsen and Gaëtan Poitras.

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Harry was excited about the fact that he could save federal income tax dollars. However, in digging deeper he realized that this was the acid test — the result being that his woodlot business plan did in fact have a reasonable expectation of profit in the future.

Harry was able to find the following criteria to determine that his woodlot business plan would satisfy CRA's requirements:

1. His planting trees allowed him a lengthy startup period of several years.
2. His plan would indicate movement from losses to revenues over a reasonable time.
3. The plan would show how the woodlot is to grow and develop over time.
4. Time spent on the woodlot would be acceptable to eventually produce a profit.

5. He would join a woodlot association and spend time to educate himself on sustainable managed woodlot practices.
6. He would keep appropriate accounting and business records.

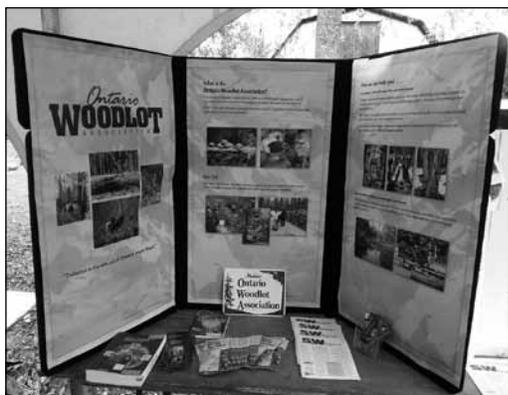
Harry also found that only expenses that were used in any normal business activity for the purpose of producing income for the business or woodlot were expenses such as property taxes, interest on loans, insurance (woodlot and equipment), equipment (ATV, tractors, trailers, etc.), tools (chainsaws, pruners, wood splitter, etc.), electricity, fuel, and travel and lodging costs.

Example of tax savings	
Harry's yearly income from woodlot	\$500
Harry's yearly expense from woodlot	\$15,500
Total Loss	(\$15,000)
Allowance for Tax Calculations:	
100% on first \$2,500.00 loss	(\$2,500)
50% on balance \$12,500.00 loss	(\$6,250)
Total allowable farming loss on line 141 of the T-1 General	(\$8,750)
Based on Harry's net marginal tax rate	40%
Harry's federal tax savings	\$4,725
50% restricted farm loss not used can be carried back 3 years or forward up to 20 years on woodlot revenues or may be added to adjusted cost base of the woodlot to reduce future capital gains upon disposition.	\$6,250

Harry was able to deduct \$8,750 against his yearly personal income and saved \$4,725 in income tax because he qualifies as a commercial woodlot as a farm. He also could use his unused restricted loss in the future.

OWA Display

A reminder the OWA display and various pamphlets can be available at your next Chapter event. Please let us know and we will do our best to ensure it gets there. For more information, you can contact the OWA office by phone at (613) 258-0110 or email info@ont-woodlot-assoc.org



Winning Over New Members — One at a Time by Brian Paradoski

With any organized group or association, there is an ongoing attempt to increase membership, and at the very least, keep the initial base numbers.

My personal objective, as Kawartha Chapter President, has been to expand our woodlot membership by five percent each year.

Whether we're at an OMSPA meeting, Fur Harvester's Carnival or WoodMizer Open House, the board promotes the OWA for all its benefits.

At the **Eastern Ontario Farm Show** (Lindsay 2012) the Kawartha Chapter held its first contest at our display booth. Any non-member could fill out a ballot and have a chance to win one year's free subscription with OWA. We also held the contest at our Lindsay Woodlot Conference in February of 2013.

To date, our three winners have chosen to join us as woodlot members. 🐾

Harry realized that there are also other potential benefits of being a commercial woodlot as a farm:

1. The ability to roll over the commercial woodlot to children; however, this may prove to be difficult.
2. The ability to access \$500,000 of capital gain exemption on disposition of the commercial woodlot.
3. HST paid on commercial woodlot expenses can be offset against HST charged on other HST personal income received by Harry.

Each woodlot owner has very specific objectives, goals and different accounting circumstances. The above article using Harry's situation was a simplified theoretical example. If any woodlot owner is interested in their property becoming a commercial woodlot as a farm, discuss it with an accounting professional first. 🐾

A reminder to renew your 2014 membership

Don't let your membership lapse and miss out on the many benefits of belonging to the Ontario Woodlot Association.

As a member, you receive the association's quarterly newsletter, the *S&W Report* and the monthly e-Letter, News From Around the Woodlot. Our newsletter and e-Letter provide practical information on all aspects of woodlot management, as well as news about people, events and issues affecting the management of private forests. In addition, you don't want to miss the opportunity to participate in one of the many workshops and events provided by our regional chapters.

Tracking your membership renewal date is easy. Check your membership expiry date by looking at your mailing address label on the back cover of the newsletter. Your membership expiry date will be shown on a line above your name (e.g., Exp. Sept. 2013 means your membership has expired)!

Renew Now!

You can renew your membership by MasterCard or Visa by calling Rhonda at the OWA office at 613-258-0110 ext. #221.

Or,

Renew your membership 24/7 using our secure online payment feature on the OWA website (look in the "About Us" section under "Join the OWA & Membership Information Package" page. Payments online can be made using PayPal, MasterCard or Visa.