

Estimates of Taxes, Fees & Royalties Paid by the B.C. Forest Industry : 1976 ~ 1979

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ABSTRACT

Estimates of the taxes, fees and royalties imposed on the British Columbia forest industry by the provincial and federal governments are presented for the years 1976 to 1979.

The revenue collected during this period was not stable but increased each year in response to improving market conditions. The British Columbia forest industry paid \$2.54 to the federal government and \$5.13 to the provincial government per cubic metre harvested over the study period.

RESUME

L'auteur évalue des impôts, des honoraires et des redevances imposés sur les firmes de l'industrie forestière de la Colombie-Britannique par le gouvernement fédéral et le gouvernement provincial durant les années 1976 à 1979.

Des revenus collectés pendant cette période n'étaient pas stables mais ils ont augmenté chaque année en réponse aux conditions améliorantes du marché. L'industrie forestière de la Colombie-Britannique a payé \$2.54 au gouvernement fédéral par mètre cube de bois coupé et \$5.13 au gouvernement provincial par mètre cube coupé pendant la période 1976 jusqu'à 1979.

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Introduction

This report is an attempt to estimate the taxes, fees and royalties paid by the B.C. forest industry¹ to the federal and provincial governments between 1976 and 1979. The report serves to update a study by Howard (1978), which estimated government revenues for the years 1971 through 1975. Except where noted otherwise, Howard's methodology is followed.

The years covered by the study were years of recovery from the low demand for forest products experienced in 1975. Both value of shipments and log

production increased during each year of the study period. The final year of the study (1979) saw record shipments of \$7.3 billion and a record harvest of 76 million cubic metres. This report demonstrates how government revenues responded to this growth.

The next section of this report studies important taxes which the forest industry pays to the federal and provincial governments, while the third section considers data on fees and royalties paid. The final summarizes the findings.

Taxes

This section is a review of revenue accruing from major taxes paid by the forest industry. Any changes in taxation rates since 1975 will be discussed. The reader is referred to Howard (1978) for a more complete discussion of the history and nature of each of the taxes discussed.

CORPORATE INCOME TAX

The standard rate of federal corporate income tax fell to 46% from 47% on January 1, 1976. A special reduction reduces this rate to 40% on Canadian manufacturing and processing profits, while the standard rate of federal tax is 25% on the business income of small business. The small business rate is reduced to 20% on Canadian manufacturing profits.

The provincial government corporate taxation rate increased from 13% to 15% on January 1, 1976. At the same time, the rate for small business increased to 12% from 10%. These rates remained constant throughout the study period.

Estimates of corporate tax paid are presented in Table 1.

CORPORATION CAPITAL TAX

On April 1, 1978 the exemption under the *Corporation Capital Tax Act* of British Columbia increased to \$500,000 from \$100,000 and a graduated tax was implemented for paid-up capital between \$500,000 and \$600,000. The exemption was increased again on April 1, 1979 to \$1,000,000 with a graduated

¹ See Howard (1978) Appendix A for a statistical definition of the B.C. forest industry.

Table 1. Estimates of Corporate Income Tax Paid by the
B.C. Forest Industry: 1976-1979.

| | | Federal | Provincial |
|------|---------------------|------------------------|------------|
| | | ----- 000,000 \$ ----- | |
| 1976 | Logging | 6.2 | 3.9 |
| | Wood I. | 34.0 | 16.5 |
| | Paper and Allied I. | 32.4 | 15.2 |
| | Total | 72.6 | 35.6 |
| 1977 | Logging | 8.6 | 4.9 |
| | Wood I. | 48.6 | 23.0 |
| | Paper and Allied I. | 26.5 | 12.4 |
| | Total | 83.7 | 40.3 |
| 1978 | Logging | 7.8 | 5.7 |
| | Wood I. | 88.0 | 47.0 |
| | Paper and Allied I. | 34.1 | 17.5 |
| | Total | 129.9 | 70.2 |
| 1979 | Logging | 19.6 | 11.9 |
| | Wood I. | 104.1 | 55.9 |
| | Paper and Allied I. | 90.7 | 48.7 |
| | Total | 214.4 | 116.5 |

Source: Derived from Statistics Canada 61-208.

tax in effect on capital between \$1,000,000 and \$1,250,000. **Table 2** shows estimated revenues for the study period.

FEDERAL EXCISE TAX

The federal excise tax on materials and supplies, gasoline and diesel fuel fell from 12% to 9% on December 1, 1978. The tax rate on building and construction material remained a constant 5% throughout the study period.

An estimate can be made of federal excise tax paid by the forest industry by separately estimating taxes collected from purchases of materials and supplies, construction material and gasoline and diesel fuel. This estimate was based on the assumption that 10% of expenditures on materials and supplies, 50% of construction expenditures and all gasoline and diesel fuel consumed are subject to the federal excise tax. This approach is similar to that employed by Milne (1981) in his study on taxes paid by the Newfoundland forest industry and its employees.² **Table 3** presents estimates of federal excise tax paid between 1971 and 1979.

PROVINCIAL GASOLINE, MOTIVE FUEL AND FUEL OIL TAXES

Provincial taxes and applicable rebates on gasoline, diesel fuel and fuel oil remained at their 1975 levels during the period studied. **Table 4** displays estimates of gasoline, motive fuel and fuel oil taxes paid between 1976 and 1979.

OTHER TAXES

The provincial government also collected revenues from logging income tax, social services (sales) tax, forest protection tax, and land and improvement taxes. Recent changes in each of these taxes are discussed below, and **Table 5** contains estimates of the amounts collected from each.

Logging Income Tax

The logging income tax rate was reduced to 10% from 15% and the exemption increased to \$25,000

from \$10,000 retroactive to January 1, 1978. Under the authority of the *B.C. Logging Tax Act*, net income from logging in excess of \$25,000, after deducting investment and nonforestry income and a processing allowance, is taxed at a rate of 10%. Since January 1, 1978 the logging tax has been completely offset by credits against federal and provincial taxes. This means that no tax is actually paid by the forest industry but revenue accrues to the B.C. government. **Table 5** estimates gross logging income tax collected over the study period.

Social Services Tax

The Social Services tax rate varied over the study period. On March 26, 1976 it increased from 5% to 7%. On April 11, 1978 it was lowered to 5% and on April 2, 1979 it was reduced to 4% where it remained for the duration of the study period.

Forest Protection Tax

The Forest Protection Tax was abolished in 1978, although the province collected some revenue from it in 1979. Section 128 of the *Forest Act* permits the Minister to enter into agreements on behalf of the Crown to provide forest protection and fire, insect, or disease suppression services for the forest. Revenues collected from these Forest Protection Agreements must be spent on forest protection. No revenue accrued to the province from these agreements in 1979.

Land and Improvement Taxes

Before 1978, land and improvement taxes were levied on the full assessed value of land and 75% of the assessed value of improvements. These were assessed at 50% of actual values. Changes to the *Assessment Act* in 1978 meant that land and improvements were taxed on their full assessed values at the percentage of actual value fixed annually by the Lieutenant-Governor in Council. In 1978 and 1979 this rate was 30% on forestry property and 60% on tree farm property. The actual tax rates remained unchanged.

Revenues from Land and Improvement Taxes and payments received under the *Esquimalt and Nanaimo*

² The only difference is that Milne assumed 7% of materials and supplies expenditures were taxable while this study retains Howard's assumption that 10% of such expenditures are taxable.

Table 2. Estimates of Corporation Capital Tax Paid by the B.C. Forest Industry: 1976-1979.

| Year | Total Capital Tax | Forest Industry Capital & Repair Expenditures | All Industry Capital & Repair Expenditures | Forest Industry Capital Tax |
|------------------------|----------------------|---|--|--------------------------------|
| ----- 000,000 \$ ----- | | | | |
| 1976 | 37.2 | 720.6 | 2772.5 | 9.7 |
| 1977 | 42.1 | 868.6 | 3263.9 | 11.2 |
| 1978 | 43.0 | 1037.3 | 3848.7 | 11.6 |
| 1979 | 47.2 | 1200.2 | 4785.6 | 11.8 |

Source: Government of British Columbia Financial Reports and Statistics Canada 61-205.

Table 3. Estimates of Federal Excise Tax Paid by the B.C. Forest Industry: 1971-1979.

| Year | Tax on Purchases of Materials and Supplies | Tax on Purchases of Building and Construction Material | Tax on Purchases of Gasoline and Diesel Fuel | Total |
|------------------------|--|---|--|-------|
| ----- 000,000 \$ ----- | | | | |
| 1971 | 24.4 | 6.6 | 3.0 | 34.0 |
| 1972 | 24.0 | 6.2 | 3.0 | 33.2 |
| 1973 | 32.9 | 7.5 | 3.0 | 43.4 |
| 1974 | 34.1 | 9.2 | 3.0 | 46.3 |
| 1975 | 29.7 | 3.6 | 3.1 | 36.4 |
| 1976 | 42.6 | 4.5 | 4.4 | 51.5 |
| 1977 | 46.5 | 5.0 | 4.7 | 56.2 |
| 1978 | 55.1 | 5.4 | 5.3 | 65.8 |
| 1979 | 53.6 | 6.7 | 4.7 | 65.0 |

Source: Purchase data obtained from Statistics Canada 25-202 and 57-208.

Table 4. Estimates of Provincial Gasoline, Diesel Fuel and Fuel Oil Taxes Paid by the B.C. Forest Industry: 1976-1979.

| Year | | Consumption (000,000 litres) | Taxes Paid (000,000 \$) |
|-------------------|----------|---------------------------------|----------------------------|
| 1976 | Gasoline | 71.8 | 1.7 |
| | Diesel | 224.1 | 5.9 |
| | Fuel Oil | 914.2 | 1.0 |
| | Total | | 8.6 |
| 1977 | Gasoline | 72.3 | 1.7 |
| | Diesel | 215.9 | 5.7 |
| | Fuel Oil | 834.2 | .9 |
| | Total | | 8.3 |
| 1978 | Gasoline | 78.7 | 1.9 |
| | Diesel | 229.6 | 6.1 |
| | Fuel Oil | 815.1 | .9 |
| | Total | | 8.9 |
| 1979 ¹ | Gasoline | 80.3 | 1.9 |
| | Diesel | 245.0 | 6.5 |
| | Fuel Oil | 837.8 | .9 |
| | Total | | 9.3 |

Source: Consumption data from Statistics Canada 57-208.

¹ Preliminary figures.

Table 5. Estimates of Taxes Paid by the B.C. Forest Industry: 1976-1979.

| Tax | 1976 | 1977 | 1978 | 1979 |
|-------------------------|-------|-------|-------|-------|
| ----- 000,000 \$ ----- | | | | |
| Federal: | | | | |
| - Corporate Income Tax | 72.6 | 83.7 | 129.9 | 214.4 |
| - Excise Tax | 51.5 | 56.2 | 65.8 | 65.0 |
| - Total | 124.1 | 139.9 | 195.7 | 279.4 |
| Provincial: | | | | |
| - Corporate Income Tax | 35.6 | 40.3 | 70.2 | 116.5 |
| - Logging Income Tax | 13.8 | 42.0 | 54.1 | 44.8 |
| - Corporate Capital Tax | 9.7 | 11.2 | 11.6 | 11.8 |
| - Social Services Tax | 43.4 | 51.6 | 47.1 | 44.1 |
| - Forest Protection Tax | 1.4 | 1.2 | 1.0 | .1 |
| - Fuel Tax | 8.6 | 8.3 | 8.9 | 9.3 |
| - Land Taxes | 6.6 | 6.5 | 3.2 | 3.7 |
| - Total | 119.1 | 161.1 | 196.1 | 230.3 |

Railway Belt Land Tax Act were obtained from the provincial Ministry of Finance, Real Property and Taxation Branch. These have been combined and are included in **Table 5**.

TAXES SUMMARY

Table 5 displays the revenue accruing to the federal

and provincial governments from all taxes discussed earlier. The two levels of government each receive about 50% of the taxes paid each year. The total estimated taxes paid per year increased steadily over the period from \$243.2 million in 1976 to an estimated \$509.7 million in 1979 as markets improved generally over the study period.

Fees and Royalties

Table 6 summarizes revenues from fees and royalties received by the provincial government. Timber sale stumpage continued to be the most important component of this revenue source. Its responsive-

ness to market conditions saw revenues from this source increase steadily over the period to a record \$416.9 million in 1979.

Conclusion

The estimated tax, fees and royalty payments of the B.C. forest industry between 1971 and 1979 are summarized in **Table 7**. These data support Howard's conclusion that revenues received from the forest industry are not stable. As markets recovered from their poor levels of 1975, revenues increased steadily to achieve record levels in 1979. These levels coincided with record sales and earnings.

It can also be concluded that provincial revenues from the forest industry were more sensitive to market conditions than are federal revenues. This is borne

out by the fact that federal revenues received as a percentage of total revenues decreased steadily from 41% in 1975 to 31% in 1979, although gross federal revenues were increasing each year over this period of improving markets. Timber sale stumpage receipts are primarily responsible for this phenomenon.

Finally, it can be concluded that over the study period (1976-1979) the federal government collected \$2.54 per cubic metre of wood harvested while the provincial government collected \$5.13 per cubic metre harvested.

Table 6. Fees and Royalties Paid by the B.C. Forest Industry:
1976-1979.

| Fees and Royalties | 1976 | 1977 | 1978 | 1979 |
|-------------------------|------|------|-------|-------|
| ----- 000,000 \$ ----- | | | | |
| Tenure Fees and Rentals | 1.9 | 2.0 | 1.9 | 15.6 |
| Timber Sale Stumpage | 43.7 | 62.3 | 159.9 | 416.9 |
| Timber Royalties | 6.7 | 8.6 | 7.5 | 12.8 |
| Other | 9.3 | 9.4 | 13.6 | 12.4 |
| Total | 61.6 | 82.3 | 182.9 | 457.7 |

Source: B.C. Forest Service Annual Report, 1979.

Table 7. Estimates of Tax, Fee and Royalty Burden on the B.C. Forest Industry: 1971-1979.

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| ----- 000,000 \$ ----- | | | | | | | | | |
| Federal: | | | | | | | | | |
| - Taxes | 62.6 | 84.1 | 148.5 | 102.9 | 63.9 | 124.1 | 139.9 | 195.7 | 279.4 |
| Provincial: | | | | | | | | | |
| - Taxes | 31.6 | 66.6 | 100.6 | 109.5 | 89.1 | 119.1 | 161.1 | 196.1 | 230.3 |
| - Fees and Royalties | 59.8 | 101.4 | 243.3 | 196.2 | 56.7 | 61.6 | 82.3 | 182.9 | 457.7 |
| - Total | 111.4 | 168.0 | 343.9 | 305.7 | 145.8 | 180.7 | 243.4 | 379.0 | 688.0 |

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