



# How does the Goods and Services Tax affect the non-industrial private forest sector in the Maritimes?

Graham Savage  
Maritimes Region ● Information report M-X-179E



Forestry Forêts  
Canada Canada

## Forestry Canada

Forestry Canada is the main focus for forestry matters in the federal government. It provides national leadership through the development, coordination, and implementation of federal policies and programs to enhance long-term economic, social, and environmental benefits to Canadians from the forest sector.

The Department is a decentralized organization with six regional forestry centres, two national research institutes, and seven regional sub-offices located across Canada. Headquarters is located in the National Capital Region.

In support of its mandate, Forestry Canada carries out the following activities:

- Administers forest development agreements negotiated with the provinces
- Undertakes and supports research, development, and technology transfer in forest management and utilization.
- Compiles, analyzes, and disseminates information about national and international forest resources and related matters.
- Monitors disease and insect pests in Canada's forests.
- Provides information, analyses, and policy advice on economics, industry, markets, and trade related to the forest sector.
- Promotes employment, education, and training opportunities in the forest sector.
- Promotes public awareness of all aspects of the forest sector.

The Department interacts regularly with provincial and territorial governments, industry, labor, universities, conservationists, and the public, through such bodies as the Canadian Council of Forest Ministers, the Forest Sector Advisory Council, the Forestry Research Advisory Council of Canada, the Canadian Forest Inventory Committee, the Canadian Committee on Forest Fire Management, the Canadian Interagency Forest Fire Centre, and regional consultative committees. The Department is also active in international forestry agencies, such as the International Union of Forest Research Organizations and the Food and Agriculture Organization, as well as in technical and trade missions.

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Forêts Canada est l'organisme principal en matière de foresterie à l'intérieure du gouvernement fédéral. Chef de file sur le plan national, il assure la préparation, la coordination et la mise en œuvre des politiques et programmes fédéraux et environnementaux à long terme offerts aux Canadiens par le secteur forestier.

Le ministère est une organisation décentralisée: six centres de foresterie régionaux, deux instituts de recherche nationaux ainsi que sept sous-bureaux régionaux sont répartis dans tout le Canada. Le siège social est établi dans la région de la Capitale nationale.

Pour remplir son mandat, Forêts Canada assume les tâches suivantes:

- il administre les accords de développement forestier conclus avec les provinces
- il entreprend et appuie la recherche, la mise au point et le transfert technologique dans le domaine de la gestion et de l'utilisation des forêts
- il rassemble, analyse et diffuse de l'information sur les ressources forestières nationales et internationales et les domaines connexes
- il fait des relevés des maladies et des insectes ravageurs des forêts canadiennes
- il fournit de l'information, des analyses et des conseils (quant aux politiques) concernant l'économie, l'industrie, les marchés et le commerce reliés au secteur forestier
- il favorise les occasions d'emploi et de formation universitaire et technique dans le secteur forestier
- il encourage les Canadiens à prendre conscience de tous les aspects du secteur forestier.

Le ministère entretient des rapports sur une base régulière avec les gouvernements provinciaux et territoriaux, l'industrie, le monde du travail, les universités, les environnementalistes et le public par l'entremise d'organismes comme le Conseil canadien des ministres des Forêts, le Conseil consultatif du secteur forestier, le Conseil consultatif de la recherche forestière du Canada, le Comité de l'inventaire des forêts du Canada, le Comité canadien de gestion des incendies de forêt, le Centre interservices des feux de forêt du Canada et des comités consultatifs régionaux. Le ministère joue également un rôle actif dans des organismes internationaux de foresterie comme l'Union internationale des organisations de recherche forestière et l'Organisation pour l'alimentation et l'agriculture, de même qu'au sein de délégations de nature technique ou commerciale.

**HOW DOES THE GOODS AND SERVICES TAX AFFECT  
THE NON-INDUSTRIAL PRIVATE FOREST SECTOR  
IN THE MARITIMES?**

**By  
Graham Savage**

**Information Report M-X-179E**

This report does not necessarily reflect the views of Forestry Canada

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### **ABSTRACT**

The effect of the Goods and Services Tax on the non-industrial private forest sector is outlined from an operational perspective. The focus is on private woodlot owners and their day-to-day operations.

### **RÉSUMÉ**

L'incidence de la taxe sur les produits et services sur le secteur des forêts privées commerciales est décrite du point de vue opérationnel. L'accent est sur les propriétaires de boisé privé et leurs activités quotidiennes.

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## INTRODUCTION

The Federal Goods and Services Tax (GST), Bill C-62 of the House of Commons of Canada, came into effect January 1, 1991. The GST (referred to as "the tax"), applies to most goods and services, including property (referred to as "supplies"), purchased in Canada, although some supplies are exempted from the tax or receive special consideration under the tax. As such, the tax affects all businesses, organizations, and individuals in Canada in some fashion, depending on the definition of the supply being purchased, and on the nature of the business, organization or individual purchasing or providing the supply.

There are a variety of "operators" in the Non-Industrial Private Forest (NIPF) sector (referred to as "the private woodlot sector") including: woodlot owners; silviculture contractors; harvesting contractors; truckers; federations, marketing boards, co-operatives and group management ventures; road builders; surveyors; consulting foresters; nursery operators; Christmas tree growers; maple sugar producers; and, provincial and federal government officials involved in delivering forestry-targeted financial assistance programs. These individuals and groups have raised a variety of questions concerning how the tax will affect their operations. Many of these questions were addressed to Forestry Canada - Maritimes Region (FC-M), as the lead federal government agency in the forest sector. Despite the fact that the tax is administered by Revenue Canada - Customs and Excise, FC-M has undertaken to clarify and explain how the tax will apply to forestry operators, particularly those in the private woodlot sector, in the Maritimes region. **It is important to**

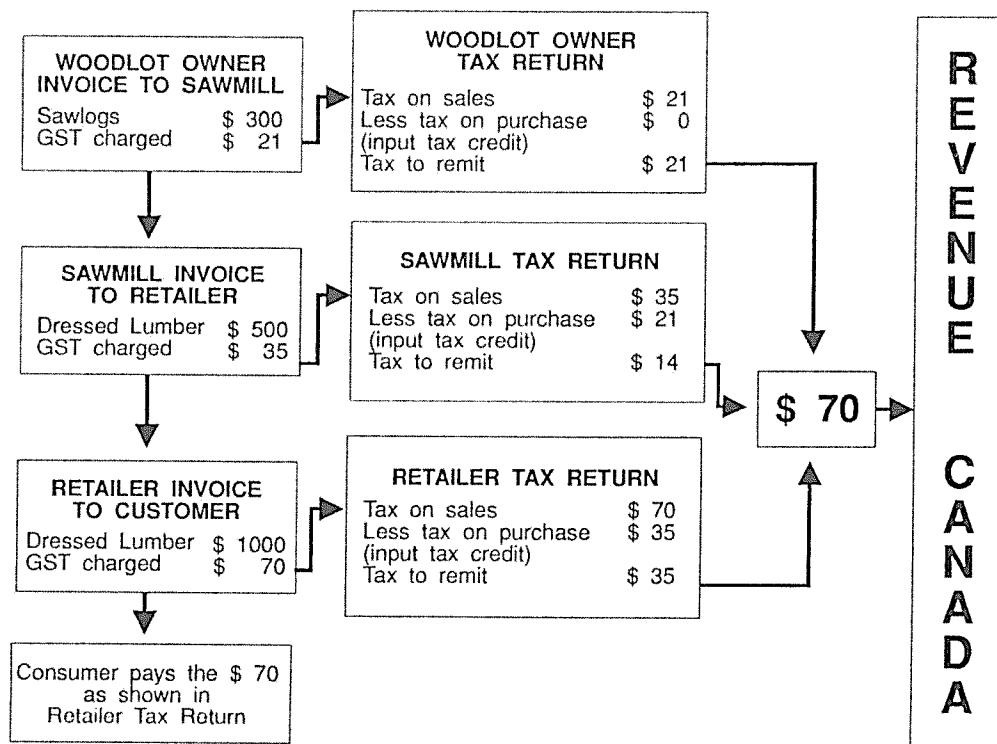
**recognize that the explanations put forth in this report do not have the status of law. Revenue Canada should be consulted directly for further clarification and determinations related to the GST and Bill C-62.**

In order to provide an overview of the tax and its effects on the private woodlot sector, the Economics Group of FC-M consulted with a number of individuals and groups in New Brunswick, Prince Edward Island, and Nova Scotia to develop a series of pertinent questions addressing the impact of the tax. These questions do not represent the full spectrum of concerns held by private woodlot operators in the Maritimes region. Rather, they represent the "starting point" for determining what operators need to know to effectively accommodate the tax in their day-to-day operations, and what governments need to know in order to maintain their active programs. The overview of the tax, and the answers to the pertinent questions, were derived from consultations with Revenue Canada - Customs and Excise personnel in Saint John, N.B. and Ottawa, and with Forestry Canada-Headquarters staff in Ottawa. **While the focus of this report is the Maritimes region, the questions and answers are equally applicable throughout Canada. Specific reference to Maritimes woodlot owner associations, etc. should be replaced by similar agencies in other provinces.**

## OVERVIEW OF THE TAX

Under the tax, all supplies purchased in Canada fall into one of three general categories:

- a) taxable supplies attracting the tax at a rate of 7 % upon which Input Tax Credits (referred to as "credits") can



Source: Adapted from GST Guide for Small Business, Revenue Canada - Customs and Exclse.

Figure 1.

- be claimed against expenses incurred related to commercial activities;
- b) taxable supplies attracting the tax at a rate of 0 % upon which credits **can** be claimed; or,
- c) tax exempt supplies which **do not** attract the tax and upon which credits **cannot** be claimed.

Any business, organization or individual engaged in a commercial activity with annual sales and revenues of taxable supplies of more than \$30,000 is required to register for the GST. All such **registered** businesses **must** charge and collect the tax on sales, and can claim a credit for any tax paid or payable on business transactions. The credit is applied against the tax collected in order to determine the amount of tax that should be remitted to Revenue

Canada. In cases where the credit exceeds the tax charged on sales, the amount of the excess can be claimed as a refund.

Any business with annual taxable sales of less than \$30,000 is considered to be a "small supplier" and is **not required** to register. Such **non-registered** businesses or individuals **can neither** collect tax on sales of supplies, **nor** claim any credits. A small supplier has the option of registering, and would then collect the tax on sales and claim credits.

Figure 1 illustrates how the GST will apply to the sale of sawlogs from a registered woodlot owner to a sawmill which produces dressed lumber for sale to a retail building supply outlet which in turn sells the lumber to a consumer. To simplify this example, it is assumed that



the woodlot owner has not accumulated any credits in producing the sawlogs. Under normal circumstances, the woodlot owner would claim credit against GST paid for gas, oil, etc.

### QUESTIONS & ANSWERS:

The Questions and Answers of principal concern as identified through consultation have been grouped into four categories of interest and applicability, as follows:

- a) Harvesting and forest products (1 to 4)
- b) Forest management activities/ programs (5 to 11)
- c) Forest land transactions (12 and 13)
- d) General questions (14 to 17)

It is useful to note that in making determinations on GST questions, Revenue Canada - Customs and Excise often refers to the Income Tax Act for clarification of existing tax treatment. As such, definitions of legitimate business expenses and activities often derive from this source. In each answer, where applicable, the specific portion of Bill C-62 that addresses the issue has been identified in brackets, *i.e.*, [Section 162(2)(a)] or [Paragraph 1(e) of Part III of Schedule VI]. This allows the reader to examine the appropriate part of Bill C-62 for further reference or exact wording of the determination. Also note that each answer provided, unless otherwise indicated, assumes that all persons, companies or agencies are **registered** and, as such, can collect the tax and claim credits. **Non-registrants** can neither collect the tax, nor claim credits.

### Harvesting and Forest Products:

#### 1) Are stumpage fees classified as taxable or exempt under the tax?

Stumpage fees are "charges for the right to cut standing timber". Stumpage fees are neither taxable nor are they exempt under the tax. Rather, such fees are not considered a supply for the purposes of the tax. In effect, these supplies are zero rated. As such, credits may be claimed by **registered** vendors in stumpage transactions [Section 162].

For example, when a forest landowner (regardless of tenure) sells the right to harvest timber on his property, he will not charge the GST to the individual or firm purchasing that right, provided the purchaser is **registered**, and the wood, once cut, will be either sold to a consumer, or will be an intermediate input to a further processed product.

There are two major exceptions to this rule for stumpage. "Where a right is supplied to an **unregistered** person to take a resource in a manner essentially equivalent to the sale of the property, then the supply will be taxable in the normal manner." This will ensure that all sales to final consumers are taxed. Therefore, if a **registered** landowner sells the right to cut timber for personal consumption, (*i.e.*, firewood) to a **non-registered** individual, then the seller must collect the tax at a rate of 7% [Section 162(2)(a)]. For example, a woodlot owner who operates a choose-and-cut Christmas tree lot sells the right to cut a Christmas tree to a customer. The woodlot owner

must collect the tax from the customer.

The second exception is when a **registrant** sells stumpage to a **non-registrant** who will cut the timber for resale to consumers. In such instances, the tax must be charged on the sale of stumpage. For example, when a **registered** woodlot owner sells the right to cut timber on his land to a small supplier, who in turn produces firewood for sale to a consumer, then the seller of the right to cut the timber (woodlot owner) must collect the tax at a rate of 7%.

**2) Does the method of marketing timber affect the application of the tax, i.e., a) timber sold "on the stump"; b) timber harvested by the woodlot owner directly and sold to a mill; c) timber harvested by contractors and sold to a mill; or d) timber sold or harvested through a marketing board or agent?**

a) In the case of timber sold "on the stump" (*i.e.*, a right to cut with stumpage fees being charged) by a **registrant** to a **registrant**, no tax is applied, providing the purchaser does not consume the wood, once cut, for personal use. The tax is charged if a registrant sells timber "on the stump" to a **non-registrant**. Refer to (1) above;

b) and c) In the case of timber harvested either by the woodlot owner directly, or by a contractor, and sold to a mill, the sale of the processed wood to a buyer is subject to the tax at 7%. The seller of the wood collects the tax from the mill;

d) In the case of timber sold and/or harvested through a marketing board or agent, the tax will be payable on each transaction between the seller, the board or agent, and the buyer.

For example, if a woodlot owner or harvesting contractor sells wood through a marketing board or agent, then he must charge the board or agent the tax at 7%. The board or agent would then charge the mill purchasing the wood the tax at 7%, with the cost of the board "check-off or levy", or "agent's fee", added into the selling price. In this example, the owner sells a cord of wood to the board or agent for \$100.00 and collects an additional \$7.00 of tax from the board or agent. The board or agent applies the "levy or check-off" or "agency fee" of \$5.00 to the price of the wood and sells the cord of wood to the mill for \$105.00, collecting an additional \$7.35 of tax. The board or agent remits the difference in tax collected and tax paid to Revenue Canada, in this case  $\$7.35 - \$7.00 = \$0.35$ . The owner or contractor also remits the \$7.00 of tax he collected less any credits he accumulated in producing the cord of wood.

**3) Does the end use of any product sold from private woodlots affect the application of the tax, and if so, what are the implications for the following products: pulpwood, fuelwood, sawlogs, Christmas trees, maple syrup, fur, wild berry crops, recreation, others?**

The end use of the product from NIPF land has an impact on the application of the tax. All forest products attract the tax except for those considered

basic groceries. Both maple syrup and wild berry crops are considered basic groceries and are taxable at a rate of 0% (zero rated goods). Maple sugar manufactured in a candy format will be considered a candy or confectionary, and thus will attract the tax at 7% [Schedule IV, Part III, Paragraph 1(e)].

Therefore, pulpwood, fuelwood, sawlogs, Christmas trees, fur, recreation (e.g., overnight camping charges, etc.), foliage, seeds, seedlings, and virtually all other forest products are subject to the tax at 7%.

Most exports are zero rated [Section 142 and Part V of Schedule VI]. As such, forest products sold to an exporter are not subject to the tax, but the seller may claim any tax accumulated in making the supply. An example of a zero rated supply would be where a Christmas tree grower sells trees to a U.S. customer in Canada who picks up the trees in his own truck, and supplies to the grower satisfactory evidence that the trees were exported to the U.S.

In situations where the Christmas tree grower cannot get satisfactory evidence of export at the time of sale, he would normally charge the buyer tax. The buyer (or the trucker carrying the trees across the border) would then file a claim for rebate of the tax paid at the Canada/US border. The person filing the claim would then have to wait until Revenue Canada mailed a refund cheque to him, thus tying up the tax paid. In order to simplify the transaction and eliminate unnecessary cash flow restrictions, the seller can "pay" the tax on behalf

of the purchaser, and claim on his tax return a full rebate on the amount of tax paid after an assignment agreement between the U.S. customer and the supplier has been signed. Since registrants file GST returns remitting the difference between tax collected and paid, no actual money need change hands as the difference in this transaction would be zero. The seller assumes any liability against the purchaser not exporting the trees in such a circumstance, i.e., if the purchaser sells the trees in Canada.

**4) Are harvesting, trucking, road construction, and survey activities (e.g., expenditures for cutting, forwarding, transporting wood to the processing facility) from and/or on, private woodlots classified as taxable or exempt?**

All of these forestry-related activities are taxable at the rate of 7%. If a woodlot owner purchases any of the above-named services to be performed on his woodlot, then the provider of the service will be obliged to charge the owner the tax. The woodlot owner can claim a credit against any such tax paid.

**Forest Management Activities/  
Programs:**

**5) Are forest management activities (e.g., expenditures for planning, planting, thinning, etc.) on private woodlots classified as taxable or exempt?**

All forest management activities purchased by a private woodlot owner from a registered contractor or consultant (supplier) are taxable at a rate

of 7%. Woodlot owners may claim a credit against any tax paid in acquiring such forest management services.

**6) If forest management activities are paid for in whole or in part by government financial assistance (e.g., grants, subsidies or contributions from Federal/Provincial Forest Resource Development Agreements (FRDAs)), does the tax treatment described in (5) above change?**

The tax treatment of such forest management expenditures can change with the use of government financial assistance to acquire the forest management activity. The tax treatment would depend upon the mechanism used to deliver the financial assistance for the forest management activity. This arises from the following determination.

Grants, subsidies, and contributions are types of transfers of money. A transfer of money for which there is absolutely no connection to the provision of a "supply" in GST terms is not subject to the tax. However, if the transfer of money is in relation to a supply, the tax will apply. The basis for this is the fact that "money" is expressly excluded from the definition of the term "service" and, therefore, is not included in the definition of "supply". Because the tax applies to supplies made or consumed in Canada, and because a completely unconditional transfer of money is not a supply, such a transfer is not subject to the tax. However, when a "grant" or "subsidy" is the direct payment for a

good or service, it is subject to the tax at 7%.

In the case of forest management, the federal or provincial government provides financial assistance to a woodlot owner who, in return for the money, carries out a forest management activity (supply) such as planting trees on part of his woodlot. Government may be considered to have received a taxable supply in exchange for its financial assistance. The federal government will pay tax on taxable supplies, while provincial governments are not subject to the GST. Contractors making a taxable supply (such as forest management) to a provincial government will treat the supply as zero rated, and will claim credits accumulated in providing the supply. Provincial governments will charge the tax on supplies they make which are considered taxable under the Act.

The principles outlined in the previous three paragraphs govern the application of the tax for forest management activities funded in whole or in part through government financial assistance. Examples of how the tax is applied in each of the mechanisms currently used in the Maritimes to deliver government financial assistance for forest management (funded through Federal/Provincial Forest Resource Development Agreements (FRDAs)) are provided in (7) below. These examples are general, and the tax may, to the best of the author's knowledge, apply as outlined.

**7) How does the delivery mechanism for providing government financial assistance for forest management activities as in (6) above affect application of the tax?**

The delivery mechanism for providing government financial assistance for forest management activities on private woodlots affects the tax treatment of the expenditure as follows, keeping in mind that any tax paid in forest management can be claimed as a credit. Flow diagrams illustrating each delivery mechanism are found in Appendix A:

**A) Federal government, through FC-M, provides financial assistance:**

*(Note: it is assumed that FC-M receives a service paid for through the financial assistance.)*

- i) Directly to a woodlot owner who retains the money and performs his own work.  
*- The woodlot owner collects the tax from FC-M.*
- ii) Directly to a woodlot owner who in turn hires a contractor or consultant (contractor refers to both contractors and consultants) to perform the work.  
*- The woodlot owner collects the tax from FC-M, then the contractor collects the tax from the woodlot owner.*
- iii) Directly to a contractor who performs the work on the woodlot owner's property.  
*- The contractor collects the tax from FC-M on the value of the assistance, and also collects the*

*tax from the woodlot owner on the owner contribution, if any.*

- B) FC-M provides financial assistance to the New Brunswick Federation of Woodlot Owners (NBFWO) (no tax charged) which in turn provides financial assistance to a marketing board or co-operative (no tax charged) which in turn delivers the financial assistance:**

*(Note: In the transfer of money to the NBFWO, and to the Marketing board or cooperative, it is assumed that no property or service is provided. If FC-M or NBFWO is purchasing a taxable supply such as administrative services with this financial assistance, tax is collectible by the recipient of the financial assistance, as outlined in (9) below. However, when the money is transferred under i), ii) and iii), a service is being purchased.)*

- i) Directly to the woodlot owner who performs his own work.  
*- The woodlot owner collects the tax from the marketing board.*
- ii) Directly to a contractor who performs the work on a woodlot owner's property.  
*- The contractor collects the tax from the marketing board on the value of the assistance, and also collects the tax from the woodlot owner on the owner contribution, if any.*
- iii) Directly to the woodlot owner who in turn hires a contractor to perform the work.  
*- The woodlot owner collects the tax from the marketing board on the value of the assistance, and the contractor*

*collects the tax from the woodlot owner.*

C) A provincial government provides financial assistance:

*(Note: in i, ii, and iii below, the recipient of financial assistance from the provincial government is entitled to claim credits.)*

- i) Directly to a woodlot owner who retains the money and performs his own work.  
*- The woodlot owner does not collect the tax from the province.*
  
- ii) Directly to a woodlot owner who in turn hires a contractor to perform the work.  
*- The woodlot owner does not collect the tax from the province, but the contractor collects the tax from the woodlot owner.*
  
- iii) Directly to a contractor who performs the work on a woodlot owner's property.  
*- The contractor does not collect the tax from the province, but does collect the tax from the woodlot owner on any owner contribution paid to the contractor; also, if the owner pays a contribution to the province to offset the costs of the treatment, then the province collects the tax from the owner on the value of such owner contribution. Note that, in most cases, the owner would be paying a contribution (if any) to **either** the contractor or the province, not both.*

D) The Government of Nova Scotia provides financial assistance to a

Group Management Venture (GMV) (**no tax charged**) which in turn:

*(Note: in i, ii, iii and iv below, the recipient of financial assistance from the provincial government is entitled to claim credits.)*

- i) Performs the work on a woodlot owner's property with its own GMV crew.  
*- The GMV collects the tax from the woodlot owner on the owner contribution, if any.*
  
  - ii) Hires a contractor to perform the work on a woodlot owner's property.  
*- The contractor collects the tax from the GMV, and also from the woodlot owner on his contribution, if any.*
  
  - iii) Provides the financial assistance to the woodlot owner which he retains and performs his own work.  
*- The woodlot owner collects the tax from the GMV.*
  
  - iv) Provides the financial assistance to the woodlot owner who in turn hires a contractor to perform the work.  
*- The woodlot owner collects the tax from the GMV, and the contractor collects the tax from the woodlot owner.*
- E) A provincial government hires a contractor to perform forest management on Crown land and pays the contractor for his services by selling the contractor stumpage.

(Note: the recipient of financial assistance from the provincial government is entitled to claim credits)

- The contractor does not charge the province the tax as the province is not subject to the GST. The province does not charge the contractor the tax on the sale of stumpage (see Question 1 above) if the contractor is **registered**. If the contractor is not registered, then the province must collect the tax on the full value of the stumpage sold to the contractor. It is critical to note that, even though contracts of this nature are recognized as "net sum", they involve two separate transactions for GST purposes, with two vendors providing two supplies. Each vendor must record and for the full value of tax on his own supply on his GST return.

For example, the province hires a registered contractor for \$200.00 to perform a stand reclamation treatment. The contractor is able to salvage \$300.00 of timber during the treatment. The contractor does not collect the tax from the province for providing the service. The province collects the difference between the value of the wood and the cost of the treatment,  $\$300 - \$200 = \$100$ . If the contractor was not registered, the province would collect an additional \$21 of tax, *i.e.*, 7% of  $\$300 = \$21$ .

**8) Are forest management activities funded entirely from stumpage**

**revenues treated any differently than as outlined in (5), (6), and (7) above?**

All forest management activities funded through stumpage revenues are subject to the tax as described in Question (5) above. The only source of funding which will change the tax treatment of forest management expenditures is as described in (6) and (7) above, *i.e.*, assistance from government.

**9) Will administrative charges by federation(s), marketing boards or group management ventures to government for delivering cost-shared forest management programs on private woodlots attract the tax?**

Any such fees paid by a provincial government are relieved from the tax because provincial governments do not pay the GST on their purchases. Any such administration paid for by an FC-M grant or contribution, on the other hand, would attract the tax at a rate of 7% because FC-M is the recipient of a supply from the marketing board or federation. The federation or marketing board administers the private land forest management program on behalf of FC-M, paid for through a financial contribution. In the absence of such administrative service from the federation and/or board, the federal government would have to provide that service itself. As such, the federation collects the tax from FC-M on the value of the contribution for administration made to the federation.

**10) Are forest management programs on private woodlots funded jointly by marketing board levies/charges and industry subject to the tax?**

Such forest management programs will attract the tax at a rate of 7% as outlined in Questions (5) and (7) above. The only time the mechanism of providing financial assistance affects the tax treatment of the expenditure is in the case of government financial assistance as outlined in (6) and (7) above.

**11) Are purchases of seedlings and/or herbicides paid for in whole or in part through federal or provincial government contributions subject to the tax?**

Seedlings and herbicides are generally considered taxable at a rate of 7% (see below). If the federal government buys either supply, then the seller collects the tax. If the province makes the same purchase, however, the tax is not collected. If either level of government, in turn, provides seedlings or herbicides at no cost to the woodlot owner, then no tax is collected from the woodlot owner. If the woodlot owner makes a contribution to either government, however, then the government in question collects the tax on the owner contribution.

It should be noted that, in some cases, pesticides (which include herbicides) are zero rated [Section 10 of Part IV of Schedule VI to the Excise Tax Act}. The provision which zero rates pesticides states:

"(4) Pesticides labelled in accordance with the Pest Control Products Regulations as having a purpose that includes agricultural use and a product class designation other than "Domestic", when supplied to a person, and the total...paid or payable by the person and included in a single invoice is at least \$500."

The tax status, therefore, of any given pesticide will be based on whether the criteria noted above have been met. The vendor of the pesticide will in most cases be able to determine the status of the transaction.

**Forest Land Transactions:**

**12) Are private woodlot land transactions classified as taxable or exempt under tax, i.e., subject to the real property provisions of the tax?**

As a general rule, supplies (or sales) of real property used in commercial activities are subject to the GST at a rate of 7%. As such, the majority of sales of private woodlots are taxable and, by extension, are subject to the real property provisions of the tax. Registrants may claim a credit against the tax paid upon acquisition of the land.

Where a farmer sells or transfers farmland to an individual related to the farmer who uses the land for the individual's own personal use or enjoyment, the supply (or sale) is exempt. The sale of farmland by a farmer to a developer or to an unrelated individual is taxable in all circumstances.



The sale of real property (including land) by an individual or trust (all the beneficiaries of which are individuals) is exempt, except in the following cases:

- a sale of capital real property which was used primarily in a business;
- real property which is sold in the course of a business;
- real property which is sold in the course of an adventure or concern in the nature of trade that is not a business where an election has been made for the sale to be taxable;
- where an individual is treated as having made a sale of property under the change of use rules and incurs a GST liability [Sections 206 and 207]; or,
- sale of a residential complex.

A **registrant**, who is an individual, is not able to claim a credit for real property acquired primarily for personal use of said individual (or any relation) even if the property is partly used as capital property in commercial activities. Thus, for example, no credit can be claimed where less than one half of a personal residence is used as an office. The individual may claim a credit where the commercial use of the property is the primary use [Section 208(1)&(2)].

**13) If a landowner has claimed credits on the tax paid in acquiring forest land, could future inactivity, or a**

**change in the use pattern of the land, result in a tax liability arising from the change of use provisions relating to real property?**

Future inactivity on forested land should not result in a tax liability under the GST, provided that the percentage use of the property in commercial activities does not change. Therefore, the tax paid on the original purchase, and credit claimed against such tax paid would not be affected.

Change of use rules apply where capital goods (such as land) used primarily in a commercial activity are then used primarily for another purpose. If the percentage of commercial use of the property does not change, then no credit liability from the original purchase would arise.

For example, where a **registrant** acquires a woodlot for use in commercial activities and then begins to use it exclusively for non-commercial purposes (90% or more), he would have paid tax on the original acquisition of the property and subsequently claimed a credit. The **registrant** is then treated as having sold the property at the time of changing use, and will be required to pay tax on its full fair market value. In this fashion, the original credit claimed is recovered by Revenue Canada. If the property was not being used entirely for commercial activities immediately before the change of use, the registrant would pay tax only on the percentage of the fair market value equal to the percentage use of the property in commercial activities [Section 206(4)].

Due to the number of different scenarios which may arise in real property transactions, particularly in multiple use properties, or change in use situations, individuals are urged to contact local Revenue Canada - Customs and Excise offices for determinations.

### **General Questions:**

#### **14) Are association membership fees subject to the tax?**

Fees paid to join or maintain membership in a forestry related association, co-operative, or GMV would generally be taxable unless the members individually do not receive benefits by reason of their membership, other than certain benefits specified in Bill C-62. It should be noted that organizations may elect to have membership fees subject to the tax if they would be otherwise considered exempt. Specific rulings related to individual organizations may be obtained from Revenue Canada.

#### **15) Are training programs improving forest worker skills classified as taxable or exempt, and does government funding of training attract the tax?**

Training programs for improving forest worker skills are exempt from tax if provided by a University or a public college. A public college is defined as an organization or part of an organization that operates as a post-secondary college or post-secondary technical institute that is funded by a government or a municipality, or that exists primarily to provide programs of instruction in

vocational, technical or general education.

Training courses for improving forest worker skills are exempt from tax if provided by a vocational school, trade association or government, provided the courses lead to, maintain or upgrade a trade accreditation or designation that is recognized by a provincial regulatory body. A provincial regulatory body, for these purposes, is a body empowered by an Act of the legislature of the province to regulate the practice of a trade in the province by setting standards of knowledge and proficiency for persons practising the trade and registering or licensing such persons to practice the trade.

Training courses for improving forest worker skills are exempt from tax if provided by a provincially or federally licenced or registered vocational school if the courses lead to certificates or licenses, or classes or ratings in respect of licenses that attest to the competence of individuals to practice a trade.

Any training courses for improving forest worker skills that do not fit any of these exemptions are taxable.

#### **16) On which of the following contractor cost components will the tax be recoverable: labor, gas and oil, equipment, administration overhead, other consumables?**

Any tax paid by a **registered** contractor in acquiring a legitimate business supply which will be used in commercial activities (that is, not exempt) of

the vendor, can be recovered by claiming a credit.

For example, if a contractor purchases insurance but pays no tax on that purchase, then he will not be able to claim a credit on that purchase. If a contractor uses his own employees for his labor component of the cost of providing a service, there is no credit claimable since direct employment labor doesn't attract the GST. If the contractor uses **registered** sub-contractors to perform the labor, then the subcontractor must collect the tax from the contractor for the service provided. The contractor would in turn charge the landowner tax on the total value of the service and recover the tax paid to the subcontractor through a credit.

For example, a subcontractor charges \$500 for his services, then he collects an additional \$35 in tax from the contractor. The contractor charges the woodlot owner \$700 for performing a thinning treatment on his land, and collects an additional \$49 in tax from the woodlot owner. The woodlot owner would claim a credit for the \$49 of tax he paid. The contractor would remit the difference between the tax collected and paid (credits), in this case  $\$49 - \$35 = \$14$  to Revenue Canada. The subcontractor would remit \$35 in tax collected from the contractor less any credits he accumulated in providing the supply to the contractor.

**17) How is GST paid in acquiring depreciable assets recovered?**

Any GST paid in acquiring a depreciable asset, such as a chain saw, trac-

tor, or skidder, can be recovered as a credit in the subsequent GST return filed by the purchaser. This means that even though some assets will be depreciated over a long period of time, in some cases many years, the GST paid in acquiring the asset is recoverable immediately.

**CONTACTS AND FURTHER ENQUIRIES**

Revenue Canada - Customs and Excise is responsible for administering the GST in Canada. They have a network of offices located in each province and in Ottawa, with staff prepared to answer any specific enquiries about the GST. In addition, a 24-hour computer inquiry system has been established. A person can dial the computer through their own microcomputer, and access the keyword searchable database. Revenue Canada also has a wide variety of publications on the GST that are available through the **TOLL FREE** numbers below. Federal government departments which have questions about the GST should contact their GST Coordinator. Forestry Canada's GST Coordinator is Hanna Ryan, 819-997-1107.

The following are the **TOLL FREE** telephone numbers for enquiries to Revenue Canada -Customs and Excise in the Maritimes region.

Nova Scotia	1-800-565-9111
Prince Edward Island	1-800-565-9111
New Brunswick	1-800-561-6656
Computer Database	1-800-267-4500
Hearing Impaired	1-800-465-5770

## **ACKNOWLEDGEMENTS:**

The author would like to take this opportunity to thank the many people who have helped prepare this report. The input of these people helped determine what questions needed to be addressed, the correct answers to those questions, and the form of the report. The Revenue Canada - Customs and Excise office in Saint John provided technical expertise on the GST and, without the efforts of Doug McLean and Sheryl Marsh, the undertaking would have been far more formidable. Revenue Canada officials in Ottawa also reviewed the paper, special thanks going to Don Orth, Derek Williams, Karen Hill, Mary-Anne McMahon, Pauline Greenblatt, and Mike Place for their efforts. Provincial government officials in New Brunswick, Nova Scotia, and Prince Edward Island provided the questions that needed to be addressed and critiqued several drafts of the report. These people included Gordon McLeod and Bob Watson, N.B.; John Smith, Peter Mac-

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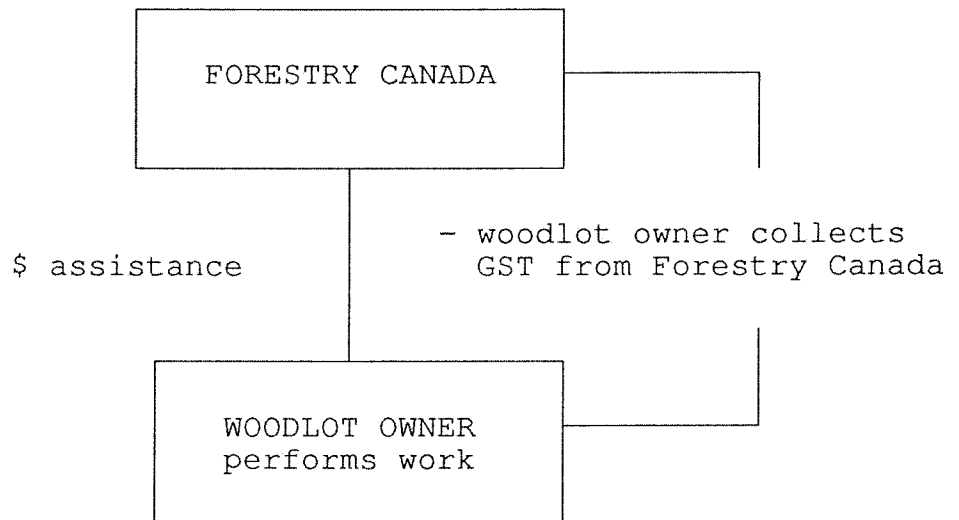
G.D.S.

APPENDIX A:

FLOW DIAGRAMS ILLUSTRATING HOW THE DELIVERY MECHANISM FOR  
PROVIDING GOVERNMENT FINANCIAL ASSISTANCE FOR FOREST MANAGEMENT  
ACTIVITIES AFFECTS THE APPLICATION OF THE GST

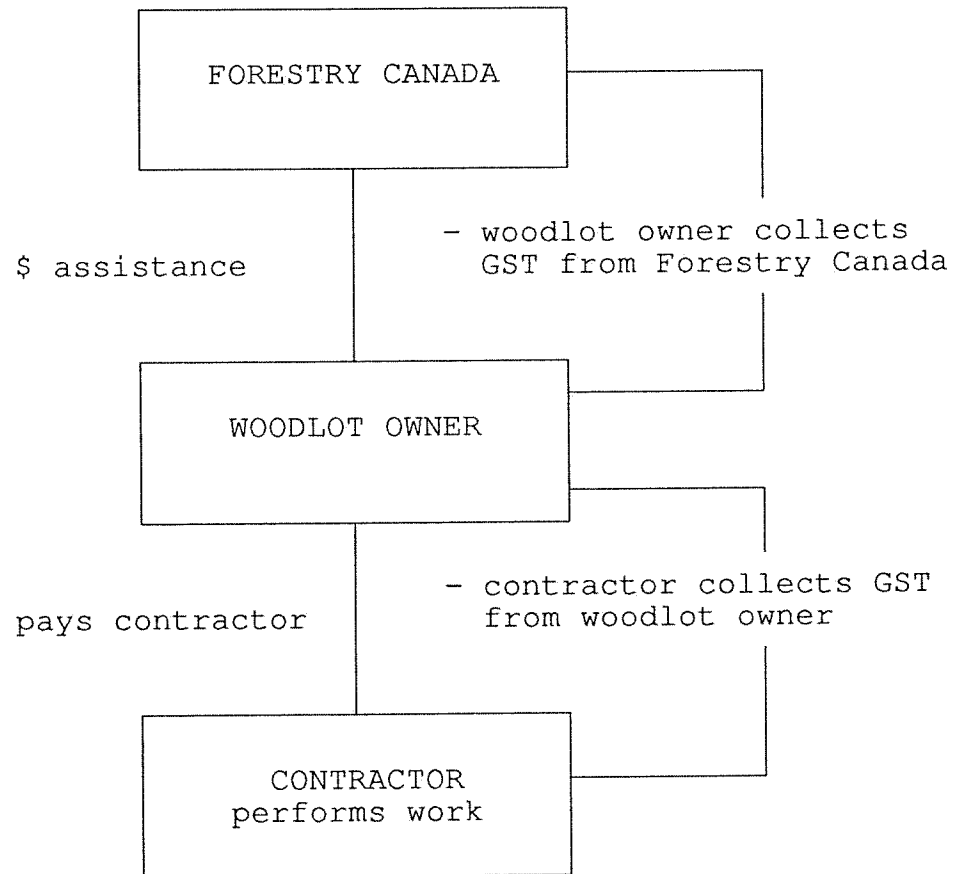
Ai: Forestry Canada provides financial assistance directly to a woodlot owner who retains the money and performs his own work.

- The woodlot owner collects the GST from Forestry Canada.



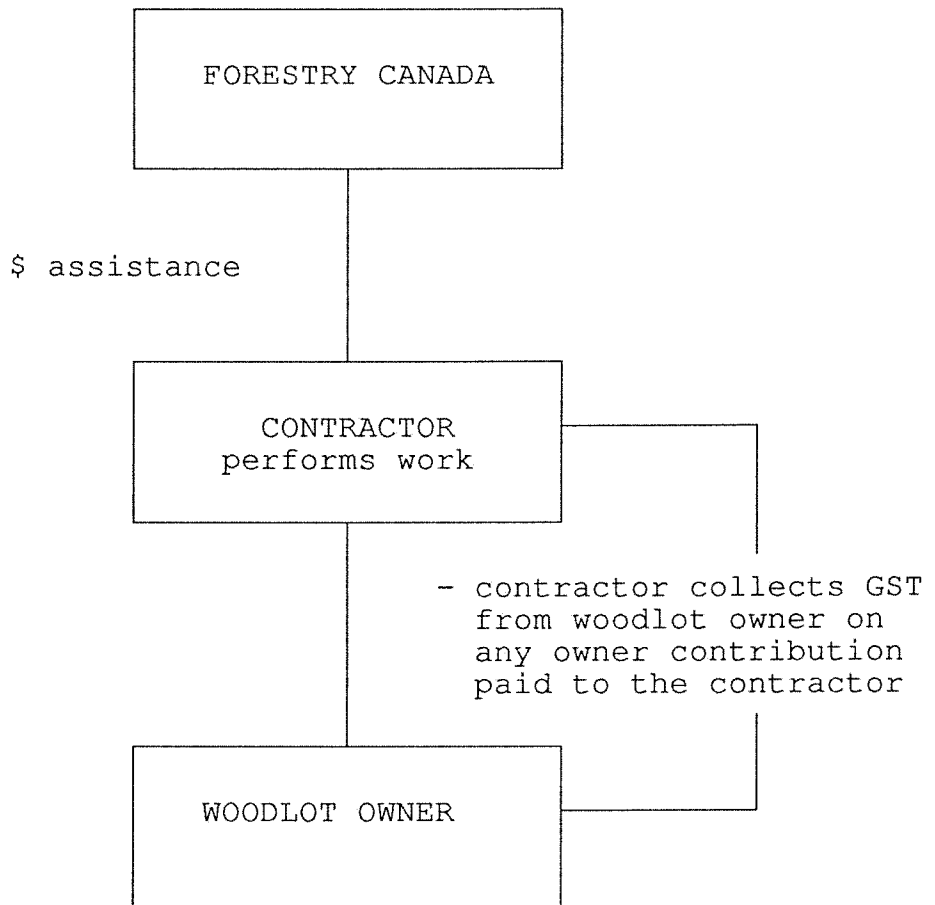
Aii: Forestry Canada provides financial assistance directly to the woodlot owner who in turn hires a contractor to perform the work.

- The woodlot owner collects the GST from Forestry Canada, then the contractor collects the GST from the Woodlot Owner.



Aiii: Forestry Canada provides financial assistance to a contractor who performs work on the woodlot owner's property.

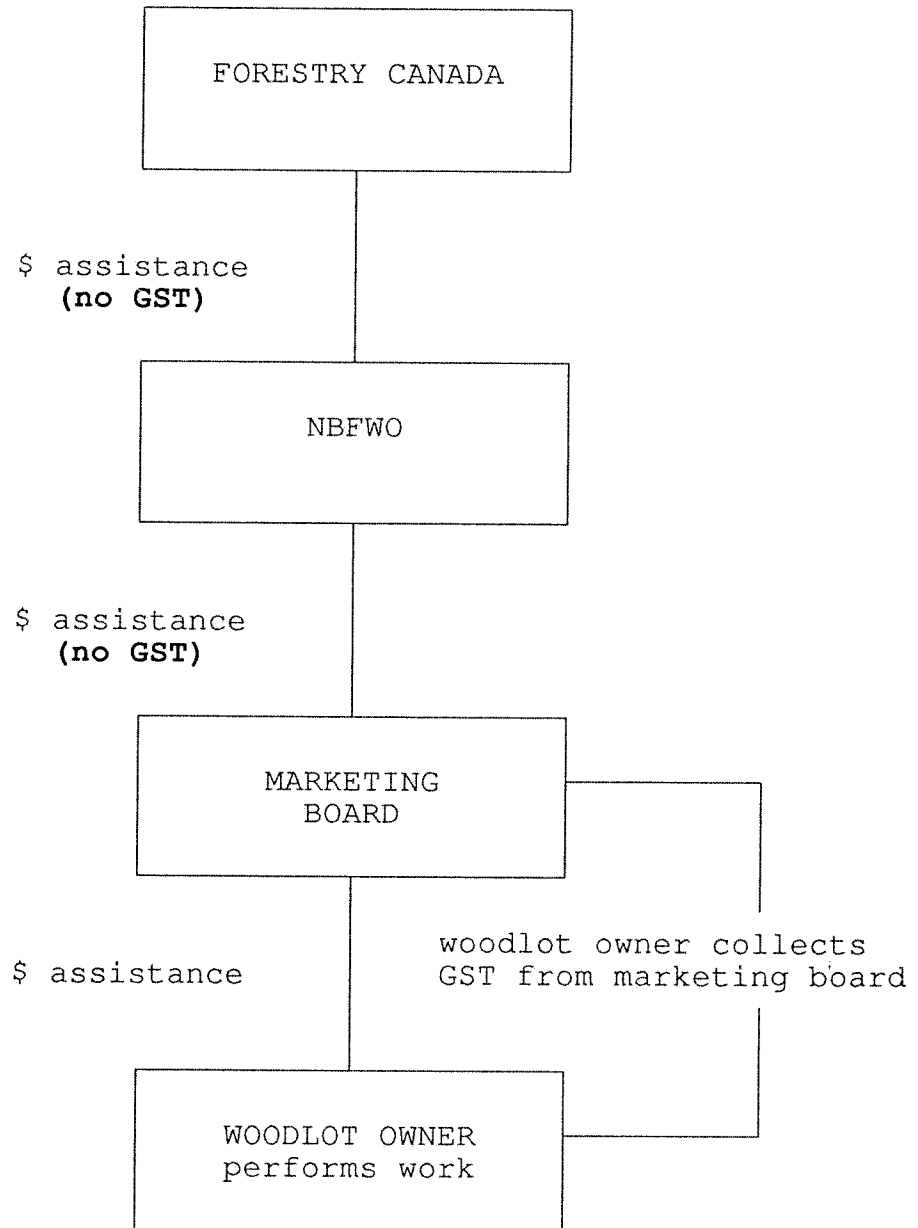
- The contractor collects the GST from Forestry Canada on the value of the assistance, and also collects GST from the woodlot owner on the owner contribution, if any.





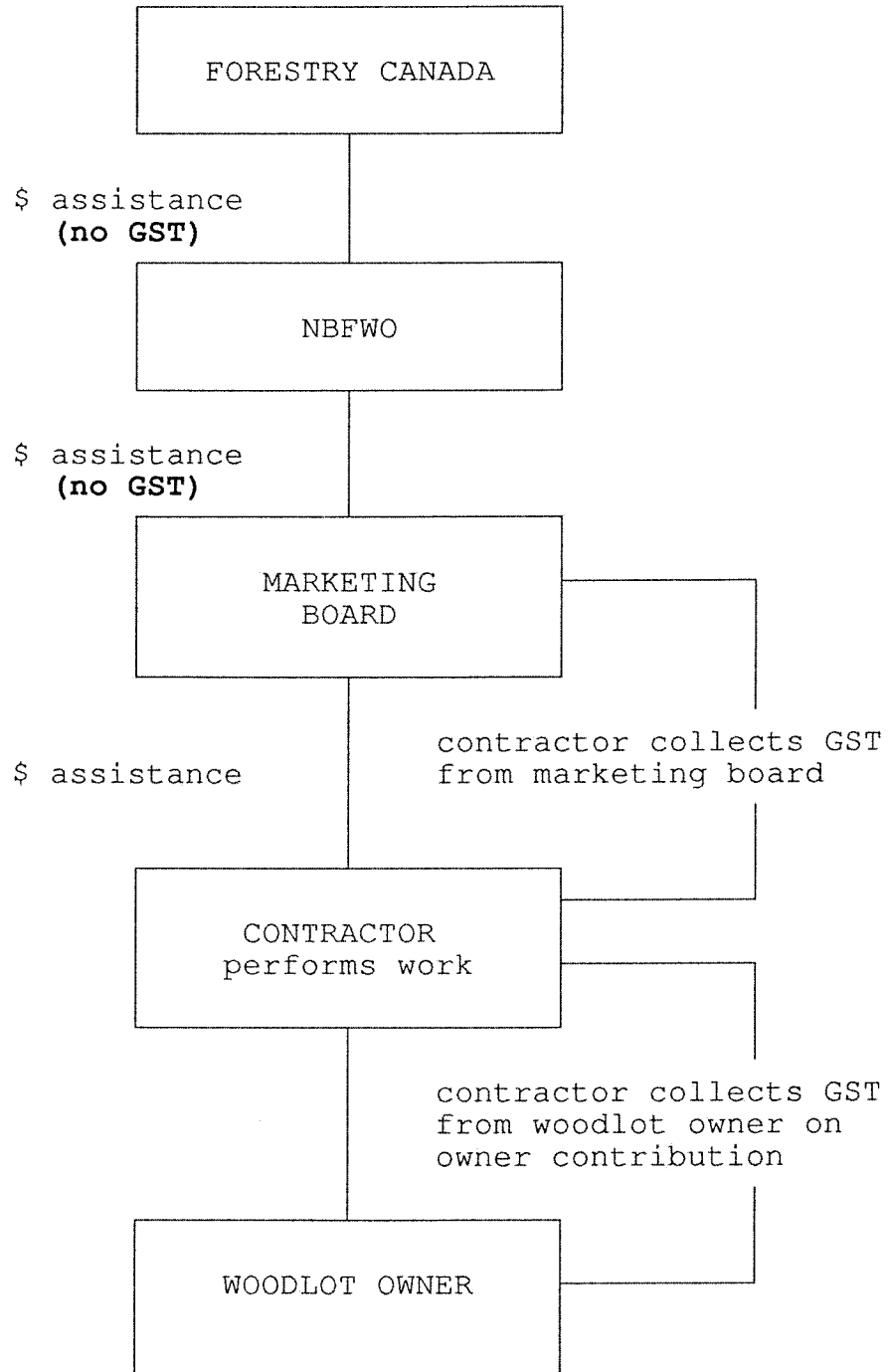
Bi: Forestry Canada provides financial assistance to NBFWO (no GST) which in turn provides financial assistance to the marketing board (no GST) which in turn delivers the financial assistance directly to the woodlot owner who performs his own work.

- The woodlot owner collects the GST from the marketing board.



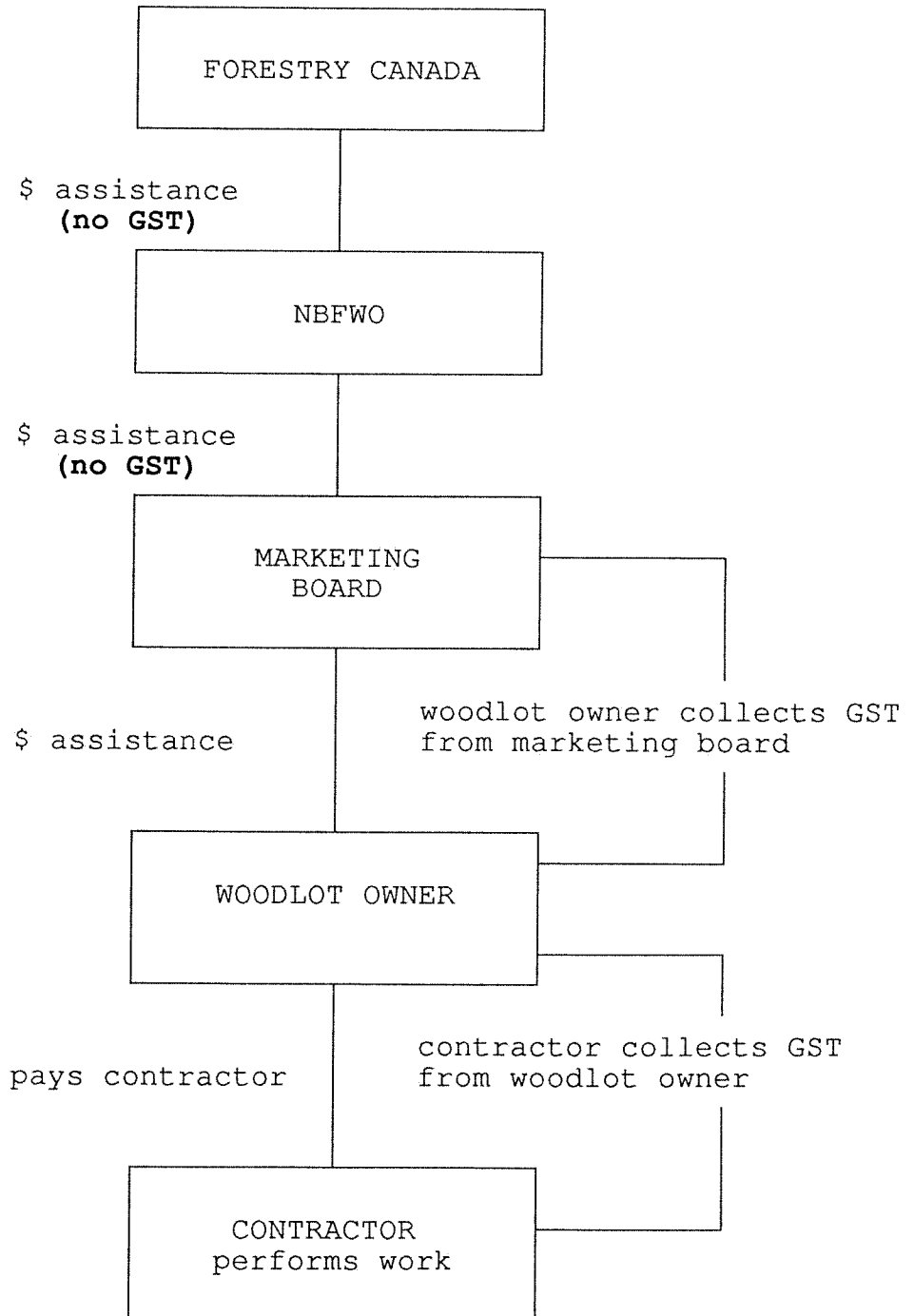
Bii: Forestry Canada provides financial assistance to NBFWO (no GST) which in turn provides financial assistance to the marketing board (no GST) which in turn delivers the financial assistance directly to a contractor who performs work on the woodlot owner's property.

- The contractor collects the GST from the marketing board on the value of the assistance, and also collects GST from the woodlot owner on the owner contribution, if any.



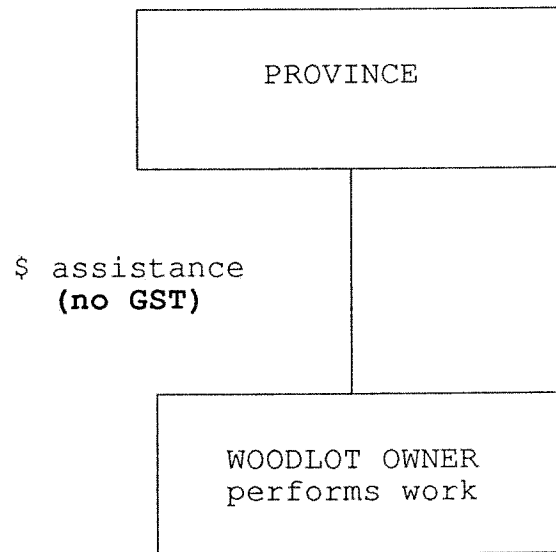
Biii: Forestry Canada provides financial assistance to NBFWO (no GST) which in turn provides financial assistance to the marketing board (no GST) which in turn delivers the financial assistance directly to the woodlot owner who in turn hires a contractor to perform the work.

- The woodlot owner collects the GST from the marketing board, then the contractor collects the GST from the woodlot owner.



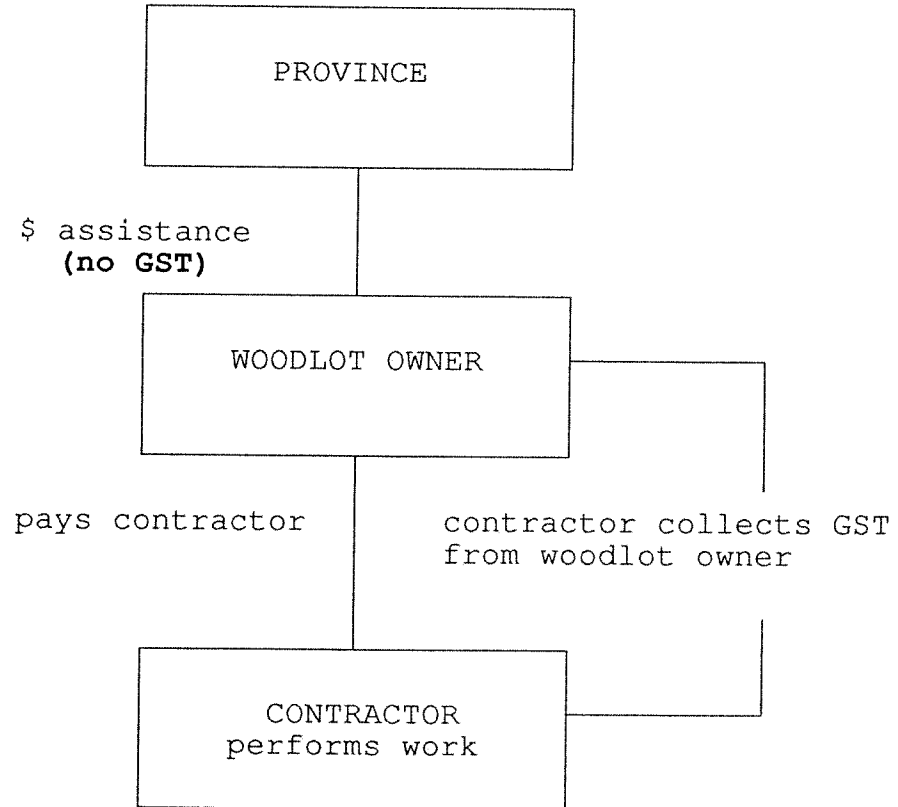
Ci: Provincial government provides financial assistance directly to the woodlot owner who retains the money and does his own work.

- The woodlot owner does not collect the GST from the province.



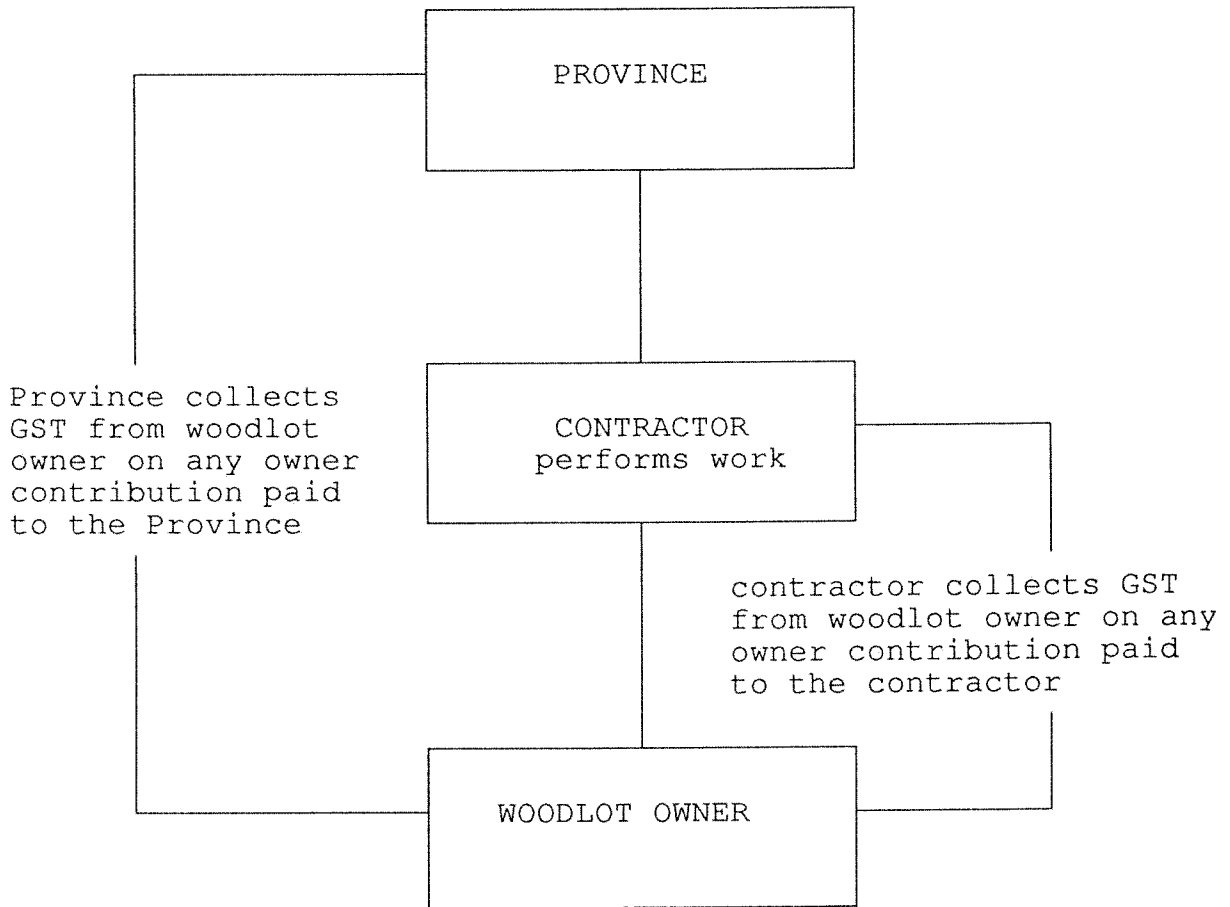
Cii: Provincial government provides financial assistance directly to the woodlot owner who in turn hires a contractor to perform the work.

- The woodlot owner does not collect the tax from the province, and the contractor collects the GST from the woodlot owner.



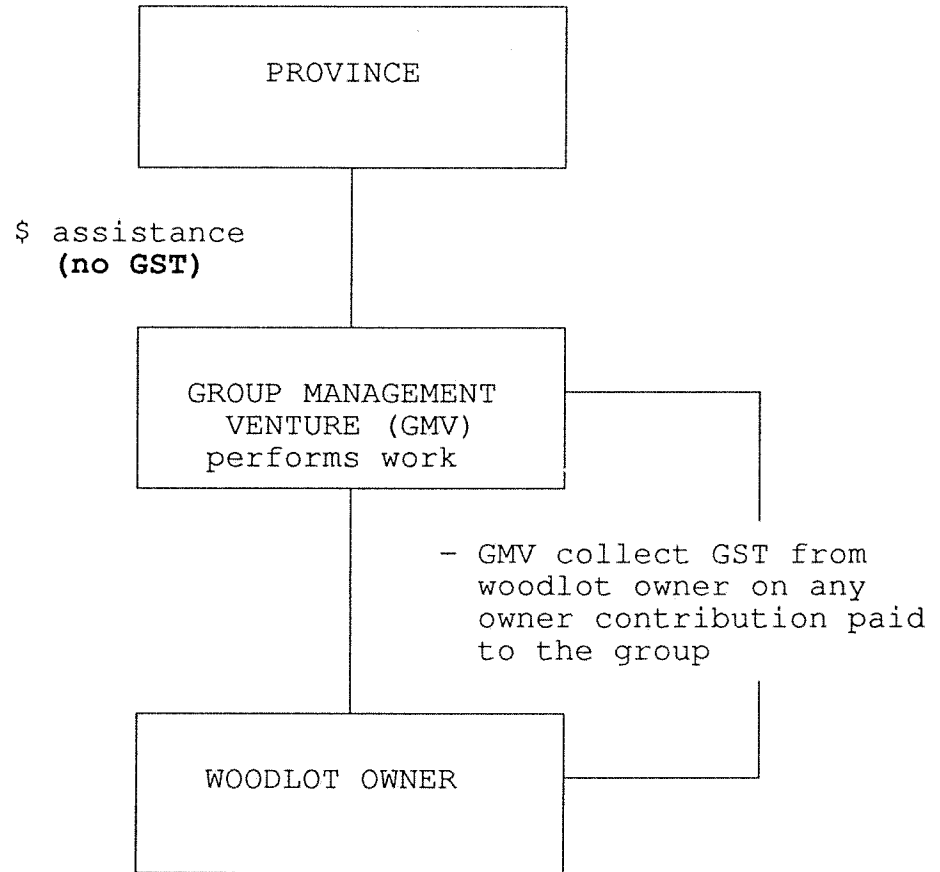
Ciii: Provincial government provides financial assistance directly to a contractor who performs work on the woodlot owner's property.

- The contractor does not collect the tax from the province, but the contractor collects the tax from the woodlot owner on the owner contribution if the owner pays the contractor an owner contribution; also, if the owner pays a contribution to the province to offset the costs of the treatment, then the province collects the tax from the owner on the value of such owner contribution.



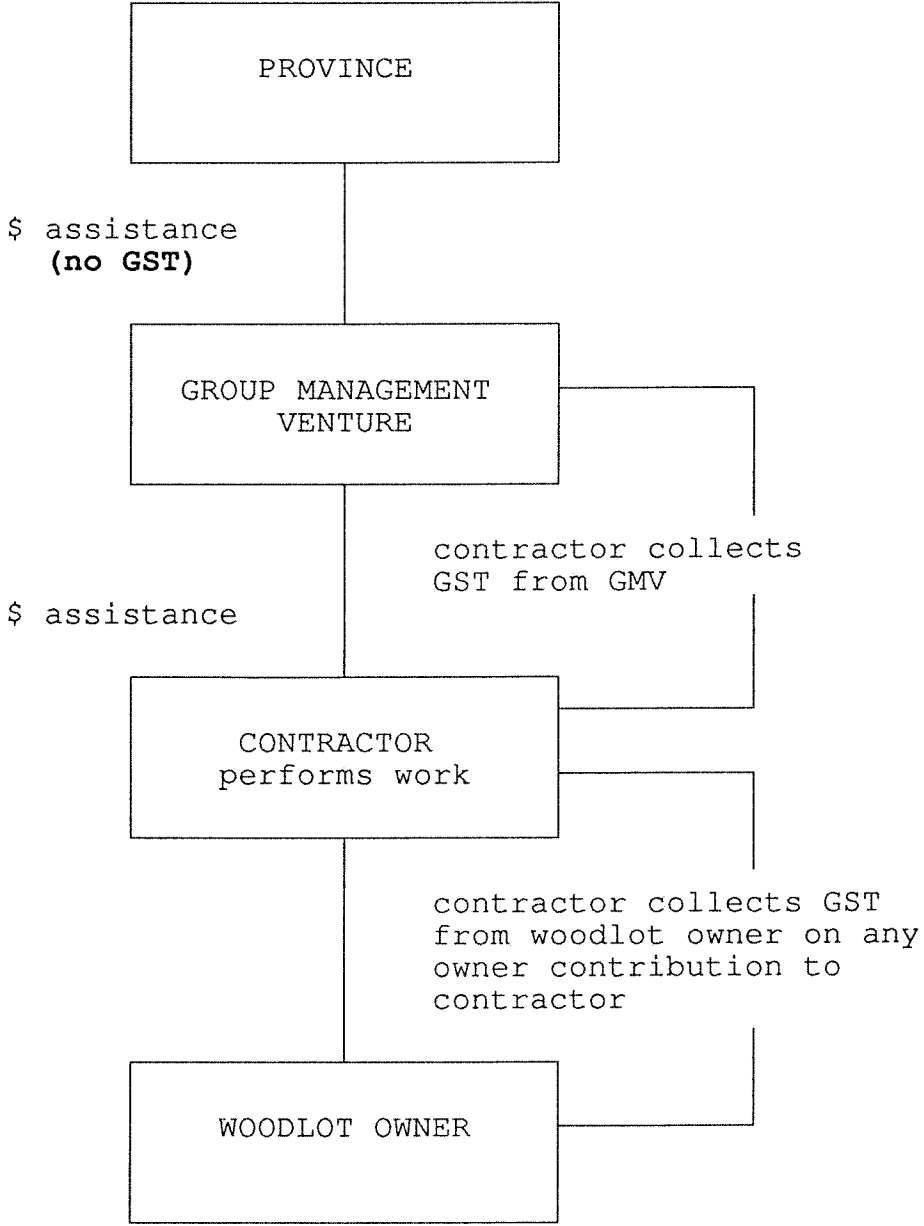
Di: Provincial government provides financial assistance to a Group Management Venture (GMV) (no GST) which in turn performs the work on a woodlot owners property with its own crew.

- The GMV collects the GST from the woodlot owner on any owner contribution paid to the GMV.



Dii: Provincial government provides financial assistance to a Group Management Venture (GMV) (no GST) which in turn hires a contractor to perform the work on the woodlot owner's property.

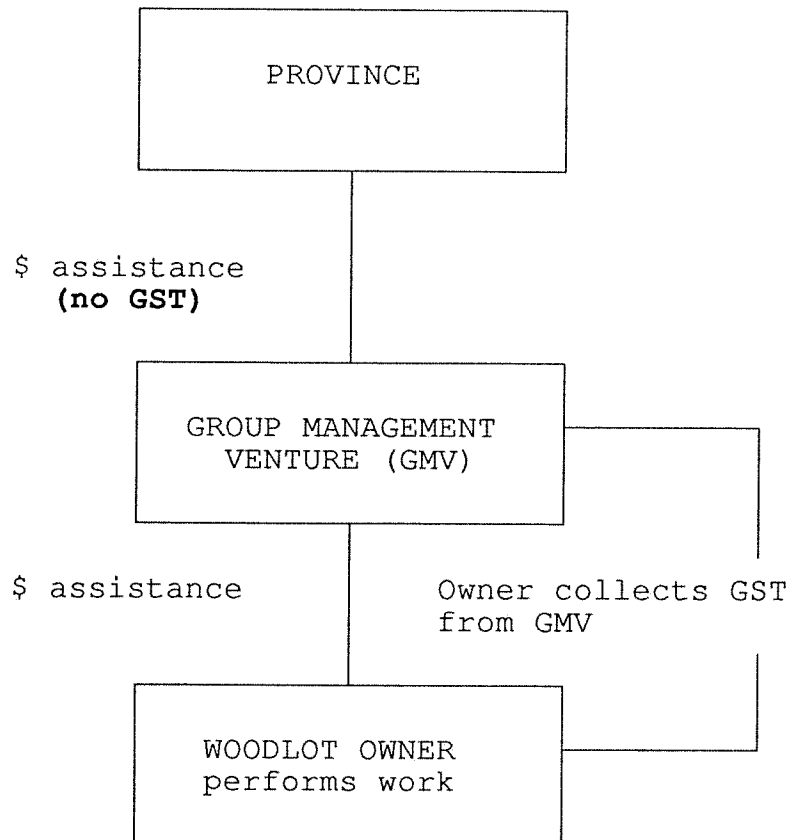
- The contractor collects the GST from the GMV, and the contractor collects the GST from the woodlot owner on any owner contribution paid to the contractor.





Diii: Provincial government provides financial assistance to a Group Management Venture (GMV) (no GST) which in turn gives the woodlot owner the financial assistance which he retains and performs the work himself.

- The woodlot owner collects the GST from the GMV.



Div: Provincial government provides financial assistance to a Group Management Venture (GMV) (no GST) which in turn gives the woodlot owner the financial assistance who in turn hires a contractor to do the work.

- The woodlot owner collects the GST from the GMV, and the contractor collects the GST from the owner.

