Hello folks and thank you for having me back-it's always a pleasure to get out and talk with people who own and work the private woodlots.

For those I haven't met, my name is Michael Jodrey. I'm an accountant here in Nova Scotia, and for over 40 years I've worked with small businesses and prepared lots of personal tax returns-most of them right here in rural communities.

So, what I see, year after year, isn't just the theory-it's what actually happens when things get handed down from one generation to the next.

And I want to start with a situation I see more often than I'd like.

A few years ago, I was dealing with an estate family where the family had a woodlot that had been in their hands for decades. The intention was simple-it was always going to the children. That was never in question.

But no real planning had been done.

So, when the owner passed away, the tax rules treated that woodlot as if it had been sold at fair market value the day before death. Now, the family didn't sell it. They didn't want to sell it.

But on paper, for tax purposes, it was considered sold.

And the result was a fairly significant capital gain… and a tax bill that had to be paid out of the estate.

I remember the conversation with the family-they were surprised and frankly a bit frustrated.

They said, "We're not selling anything. We're just keeping the land in the family. Why are we paying tax?"

And it's a fair question.

The answer is: because from CRA's point of view, what your woodlot *is*-not what you called it, but what actually is for tax purposes-makes all the difference.

And that's really the starting point for everything we're going to talk about today.

Because your woodlot will fall into one of three categories:

- It’s either a personal or hobby woodlot
- A commercial woodlot
- or a commercial farm woodlot

And each one is treated very differently:

- how income is reported,
- what expenses you can claim

and most importantly for today’s discussion…

- what options you have when it comes time to pass it on.

Now here's the part I want to emphasize.

In that situation I just described, with a bit of planning ahead of time, there was a good chance that tax bill could have been reduced-or possibly avoided altogether.

But once dealing with an estate… our options are limited.

So, what I'd like to do today is give you a clearer picture of:

- where your woodlot fits in those three categories,
- what CRA expects to see for each,
- and how that classification ties directly into intergenerational transfers.

Because at the end of the day, most folks I talk to have the same goal:

They want to pass their land on to the next generation-keep it intact-and not have the tax man take a bigger piece than necessary.

And the good news is, in many cases, that can be done… but it takes a bit of understanding and a bit of planning ahead.

"So, let's start with the first question-what exactly is your woodlot, in the eyes of CRA?"

What is my woodlot?

Personal, hobby, non-commercial woodlot

-No reasonable expectation profit

-Any revenues are from an isolated transaction over a short term -

such as stumpage

-Revenue is reported on account of capital and taxed as a capital gain (subject to certain rules)

-Expenses or losses are not deductible

Commercial non-farm woodlot

-Reasonable expectation of profit

-Main focus is lumbering or logging

-Revenue is reported on account of income using accrual method of accounting

-Losses are deductible from other income and not restricted

-Intergenerational rollover to children not available

-If incorporated, possible capital gains exemption

Commercial farm woodlot

- Reasonable expectation of profit
- Able to utilize cash method of accounting when computing income eliminating the need to track and report receivables and inventory at year end
- Intergenerational rollover to children available, but is subject to certain tax regulations and rules such as following a prescribed forest management plan
- Possibly qualify for enhanced capital gain exemption but must satisfy certain requirements
- Losses restricted if farming not chief source of income. 2500 plus ½ the losses in excess of 2500 to a maximum deductible loss of 17500
- Must show that the main focus goes beyond lumbering and logging to include a significant amount of attention paid to the growth, health, quality and composition of the woodlot pursuant to a prescribed forest management plan
- Should document activity to prove farm focus through either a journal or diary

The tax savings of an intergenerational transfer of a commercial farm woodlot can be of great benefit to you or your estate, but the rules are complicated and quite rigid. I would encourage everyone to speak to your accountant or tax advisor to see if you qualify or what steps you need to take to qualify in the future.

One of the most important components of establishing and proving you have a Commercial Farm Woodlot is a Prescribed Management Plan.

Subsection 7400(1) outlines that a prescribed forest management plan is a written plan for a woodlot's management and development that fulfills specific conditions. These conditions involve either provincial approval under a sustainable forest management program or certification by a recognized forestry professional, detailing aspects like location, characteristics, yield estimates, and proposed activities for a minimum of five years. A recognized forestry professional holds credentials recognized by specific Canadian forestry accreditation boards.

I have a copy of a journal or diary of activities I picked up from the Federation of Nova Scotia Woodlot Owners. It is a great example of the information you should be documenting in the event you someday need to prove your claim to an intergenerational transfer.

Keep records of activities on your woodlot, harvesting, road maintenance, meetings with your forester, or attending organized events such as today.

Document walks through your woodlot to check on storm damage. Note any magazines or newsletters you subscribe to. There is no such thing as having too much evidence on your side when dealing with CRA.

I have brought, hopefully, enough copies of the section of the income tax act along with a copy of the woodlot journal for those who would like to take one.

I have included my email address. If you email a request I will send you a copy of the slides we looked at today.

So just to wrap things up…

If you think back to the example I started with-the family that ended up with a tax bill on a woodlot they never intended to sell-that situation is not unusual.

I see it regularly.

And it doesn’t happen because people did something wrong. It usually happens because no one ever sat down and explained how the rules actually work.

What we’ve talked about today is really the other side of that.

We’ve looked at how your woodlot is viewed from CRA’s perspective-whether it’s:

- a personal or hobby property,
- a commercial woodlot,
- or a commercial farm woodlot

And that classification isn't just technical-it drives everything:

- how you report income,
- what deduction you can claim,
- and most importantly… what options you have when it comes time to pass it on.

Because when it comes to intergenerational transfer, timing is everything.

If the first real discussion about this happens when the will is being carried out… then most of the planning opportunities are already behind, you.

But if those conversations happen while you still own the property-while you still have control-then you have options.

Options to:

- reduce or defer tax,
- keep the land intact,
- and make sure it ends up where you want it to go.

And in many cases, those options are not complicated… but they do require a bit of understanding and a decision to act early.

Don’t leave the future of your woodlot to your will alone.

Make it part of your plan while you’re still here to guide it.

That way, instead of your family dealing with surprises later… they’re simply carrying out what you’ve already put in place.

And that’s usually a much better outcome for everyone involved.

Presentation Handouts

Income Tax Regulations

Version of section 7400 from 2008-01-01 to 2019-03-12:

Previous Version of Section

7400 (1) For the purposes of subsections 70(9), (9.3) and (10) and 73(3) of the Act, a prescribed forest management plan in respect of a woodlot of a taxpayer is a written plan for the management and development of the woodlot that

(a) describes the composition of the woodlot, provides for the attention necessary for growth, health and quality of the trees on the woodlot and is approved in accordance with the requirements od a provincial program established for the sustainable management and conservation of forests; or

(b) has been certified in writing by a recognized forestry professional to be a plan that describes the composition of the woodlot, provides for the attention necessary for the growth, health and quality of the trees on the woodlot and includes

- (i) a description of, or a map indicating, the location of the woodlot,
- (ii) a description of the characteristics of the woodlot, including a map of the woodlot site that shows those characteristics
- (iii) a description of the development of the woodlot, including the activities carried out on the woodlot, since the taxpayer acquired it,
- (iv) information acceptable to the recognized forestry professional estimating

- **(A)** the ages and heights of the trees on the woodlot, and their species,
- **(B)** the quantity of wood on the woodlot,
- **(C)** the quality and composition of the spoil underlying the woodlot, and
- **(D)** the quantity of wood that the woodlot could yield as a result of the implementation of the plan,

- **(v)** a description of, and timing for, the activities proposed to be carried out on the woodlot under the plan, including and of those activities that deal with
  - **(A)** harvesting,
  - **(B)** renewal and regeneration,
  - **(C)** the application of silviculture techniques, and
  - **(D)** responsible stewardship and the protection of the environment, and
- **(vi)** a description of the objectives and strategies for the management and development of the woodlot over a period of at least five years.

(2) A recognized forestry professional referred to in subsection (1) is a forestry professional who has a degree, diploma or certificate recognized by the Canadian Foresty Accreditation Board, the Canadian Institute of Foresty or the Canadian Council of Technicians and Technologists.

(3) A recognized forestry professional referred to in subsection (1) is not required to express an opinion to the completeness or correctness of a description of past activities referred to in subparagraph (1)(b)(iii) or information refereed to in subparagraph (1)(b)(iv) if the information was not prepared by that recognized forestry professional.

NOTE: Application provisions are not included in the consolidated text;

See relevant regulation. SOR/2007-35,s. 1.

Date modified:

2019-03-26

Woodlot Management Journal

2010 - 2020

Woodlot Management Journal 2020

Harvesting

Stand(s) _____
Harvest Type: _____
Volumes: Softwood _____ Hardwood _____
Harvest Costs: _____
Revenues: _____
Completed by: _____
Regeneration Plan: _____
Notes: _____
_____
_____

Forest Condition Monitoring

Major Changes: _____
_____

Results of Changes to Management
Strategy: _____

2020

Silviculture

Stand(s) _____
Treatment Type: _____
Area Treated: _____
Volumes: Softwood _____Hardwood _____
Treatment Costs: _____
Revenues: _____
Completed by: _____
Notes: _____
_____
_____

Road Building

Type of Work: _____
_____
Costs: _____
Completed by: _____
Notes: _____
_____

2020

Non-Timber Forest Products

Products Harvested: _____
Volumes: _____
Revenues: _____
Tending Work: _____
_____
Costs: _____

Communications with Community

Topics of Interest: _____
_____
Persons Involved: _____
_____
Results: _____
_____
_____

2020

Continuing Education

Training Courses: _____
_____
Meetings/Seminars: _____
_____
Courses/Readings: _____
_____

Woodlot Improvements (Trails, Boundary Lines, Ponds, etc.)

Activities: _____
_____
Time/Costs: _____
_____
Financial Summary: _____
Total of all Revenues: _____
Total of all Expenses: _____
Total Person Time (Hours): _____
Profit/Loss: _____

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