Taxation and the Managed Woodlot — Keeping it in the Family!

Are you concerned about the future of your woodlot? Are you worried that the many values that you and your family, friends and community have enjoyed may be lost in the future if the woodlot is sold or inherited by person who does not have the same level of interest in environmental woodlot stewardship?

In his December, 2001 Budget, the Hon. Paul Martin announced that managed woodlots would receive the same capital gains tax treatment as family farms, when passed from one generation to another within the family. The tax will be deferred indefinitely as long as ownership remains within the family.

What does this mean to the landowner, or to the woodlot owner who has practiced good management of his or her land? It means that you can keep the woodlot in the family without incurring the significant taxes that owners used to have to pay prior to this change in the Income Tax Act.

For a woodlot owner to meet the requirements of this policy, which came into effect on Dec 10, 2001, the woodlot must qualify as a "commercial farm woodlot" as defined in The Canadian Revenue Agency's **Interpretation Bulletin IT 373R2**, and the woodlot must be managed according to a management plan.

What is needed to qualify as a "commercial farm woodlot"?

1. You must demonstrate that you operate your woodlot as a business, with a "reasonable expectation of profit." The following list covers some of the ways in which you can show your intentions:
   - a management plan for the woodlot. If you don't already have one, seek the assistance of a professional forester or forest technician and put a plan in place as soon as possible.. The Federal Government is currently in the process of establishing the mandatory content of such a plan to make it qualify. Until those guidelines are officially published, the types of plans currently used will suffice.
   - ∑ a simple business plan which will estimate expected costs and revenue over time.

- records describing how these plans have been implemented, including the activities undertaken and the time you spent. Some of us are organized, some are not! But it is important in this case to keep careful records tracking the plans and any other work or activities you carry out on your woodlot.
- records of training you have taken, as well as additional technical advice you have obtained. This includes contacting your woodlot owner association or private consultant.
- records of time you spend on the business. As you work on your woodlot, make sure you record that time as an investment into your woodlot business.
- membership in a woodlot owner association.

2. The main activity of this business is caring for the woodlot through good management practices to grow trees for eventual sale. A business that mainly involves buying woodlots in order to harvest them, would not be considered a farm woodlot business.

To take advantage of this opportunity to avoid taxes and maintain family ownership of your woodlot. It is important to develop plans and begin carrying out good management practices as soon as possible. It is important to demonstrate your commitment over as long a period of time as possible. Don't wait until just before the transfer. Since every situation is different, you should contact your accountant or lawyer before making financial decisions. For more information, consider contacting your local woodlot owner association regarding the specific details for your province.

This information has been provided by the Private Woodlot Strategic Initiative, a collaboration between the Canadian Model Forest Network and the Canadian Federation of Woodlot Owners. For more information, please visit www.woodlotscanada.ca *or* www.modelforest.net