Fri., next mtg.

Aug. 15 - target

TF: Budget report, notes for

Re TT.

Crown charges for timber Δd greatly, 1966-72, and more later, probably (until 1975).

But property taxes did not rise as much — even though they are keyed to appraisals. Why?

ALL DISTS. COMBINED RURAL PROPERTY TAX INCIDENCE - 1975 CURRENT LEVY

ASSESS. DIST.	INDUSTRY	-TAXATION ACT- NET TAXABLE VALUE	-- TAXES	-PUBLIC SCHOOLS ACT- NET TAXABLE VALUE	-- TAXES	-WATER ACT- TAX	TOTAL TAXES	NO. OF FOLIOS
	FORESTRY							
	TIMBERLAND	20 109,781,312	1646,720.81	109,781,312	4521,082.82	1027,671.31	7195,474.94	492
	WILD LAND - USED FOR FORESTRY	21 12,188,427	365,652.81	12,188,427	478,361.66	107,188.10	951,202.57	1,149
	LOGGING OPERATIONS	22 52,126,848	521,285.78	57,793,820	2338,903.18	417,231.68	3277,420.64	3,441
	SAWMILLS	23 28,209,959	282,102.11	69,246,088	2922,939.95	646,452.06	3851,494.12	589
	PULP AND PAPER MILLS	24 19,182,193	191,822.38	40,287,187	1455,506.16	261,619.98	1908,948.52	66
	OTHER FOREST INDUSTRIES	25 1,957,136	19,571.36	2,117,674	83,744.33	12,278.42	115,594.11	51
	TREE FARM LAND	26 59,107,652	591,090.06	59,107,802	2415,103.08	497,150.13	3503,343.27	2,675
	FOREST LAND	27 98,077,520	980,775.20				980,775.20	1,235
	TOTAL *	380,631,047	4599,020.51	350,522,310	14215,641.18	2969,591.68	21784,253.37	9,698

J.O.M.

Incorp. in report

REVISED PARAGRAPH 4, PAGE 5 OF DRAFT REPORT
BY THE TAXATION ACT TREE FARM TAX COMMITTEE

The tree farm legislation fails to provide a precise basis for determining the valuation of lands certified as tree farms. The lack of a precise valuation method was referred to during the second Sloan Commission by the Canadian Institute of Forests (page 151, Sloan-Forest Inquiry).

While Sloan states that the procedures for assessment of tree farm 'is defined in great detail in the Act' , I believe that the real reason for the recommendation for clarification of the Institute was the lack of a precise method of valuation appearing in the legislation.

The Act leaves the fundamentals as to the method of tree farm valuation open to interpretation by the appraiser. If the principal set down in the Sloan-Forest Inquiry as to the method of determining the capitalization rate are still applicable, (Page 139), it is evident that the rate itself, in terms of todays conditions, is in need of further revision. The current capitalization rate is 14%.

Assessment levels for most classes of properties subject to taxation under the Taxation Act have for the past number of years been governed by the assessment level set under the Assessment Equalization Act (Assessment Act). The actual value of tree farm land has not been reduced to the same level of assessment applicable to other categories of property . Tree farms are assessed at the full 100% value as determined under the Taxation Act. The explanation for this stems from the statutory provisions which existed when the tree farm legislation was first introduced into the Taxation Act. At that time all classes of property other than tree farm were required to be assessed at actual value. ("Land and improvements shall be assessed at thir actual value"). In practise, actual value was determined by the Assessors at approximately 50% of current market value. It was not until 1959 when legislation was introduced specifying the assessment level for most classes of properties other than tree farms that an inconsistency appeared to be developing.

In order to maintain the assessment relationship that had previously existed with other properties, the assessment of tree farm was continued on the same basis as hitherto applied in the absence statutory directive to the contrary. Conversely, the 50% level was applied to 'farm lands' which fell under the same vague assessment directive. In the result, the Assessor may be imposing a level of taxation on tree farms double that which the legislation intended be applied to tree farms when compared to other categories of properties assessed and taxed using the 50% of actual value standard.

The significance of this relationship in assessment levels of tree farm as compared to other categories of property becomes much more apparent if one considers the effect of the proposed conversion of assessment of properties to the 100% of actual value standard which may occur under the provisions of the recently enacted Assessment Act. Implementation of the conversion would have the effect of reducing the present incidence of taxation on tree farms to approximately one-half the present level.

It is also evident that the present method of assessing tree farms in effect grants full tax exemption to all "Non-Productive" areas within the tree farm simply because these lands do not contribute any growth of timber in determining the annual allowable cut upon which the assessment is based. Many of these non-productive areas may have substantial value in uses other than tree farming were they permitted to be developed for the alternative purpose. For the foregoing reasons, continuation of tree farm tax classification should be accompanied by a thorough and objective review of the valuation methods applied in the variety of situations found under the working plans of each tree farm.

Probably farm land

Seed Orchard Planned For Lost Lake Farm



Assistant forester Chio Woon with grafted trees

How treat these? Farm land.

. Known trees are T.F.s.

Pastoral green of Blenkinsop valley in two years will start turning forest green with the planting of 45 acres of spruce, hemlock and Douglas fir.

Land acquired over a year ago on the north-west side of Lost Lake will become a seed orchard for Rayonier Canada, and ultimately may be made available for public recreational needs of Saanich Peninsula residents.

A total 67 acres is in the parcel, which for many years was known as Lost Lake Farm. Existing trees and waterfrontage will remain undisturbed for recreational purposes, said Rayonier forester Bill McMullan.

The company has laid 30,000 feet of drainage tiles in the fields in preparation for planting in formal rows of young seedlings that are being raised in nearby greenhouses and shade sheds.

McMullan said the trees will be nurtured, irrigated, given limited amounts of fertilizer and carefully pruned to produce ideal shaped seed trees that will be ready for harvesting in 10 years.

Unlike a reforestation project, where seedlings are planted at random, the seedling rows will be laid out for easy access when cuttings or seed cones are reaped.

It is hoped to produce enough seed to plant three million seedlings a year in Rayonier forests on Vancouver Island and the Queen Charlottes.

McMillan said they will be superior trees because the original cuttings have been selected from the most promising stock, and their growth will be controlled to higher silvicultural standards.

	High	Low	Close
FLAX			
May	825	825	820
Jly	816	806¼	816
Oct	796	788	796
Nov	790	778	778
RAPESEED THUNDER BAY			
May	565	562	558
Jly	—	—	563
Oct	—	—	551
Nov	—	—	545
RAPESEED VANCOUVER			
Jun	600	592¼	592¼
Sep	570	559¼	559¼
Nov	549	539½	539½
Jan	537	531	531
RYE			
May	213	212¼	212
Jly	215	214¼	214¾
Oct	—	—	208¼
Dec	—	—	204
BARLEY			
May	239½	236	236
Jly	232	229¼	229¼
Oct	221	221	221
Dec	—	—	220
OATS			
May	169¾	167	167¾
Jly	165½	163½	164
Oct	163	162½	162½
Dec	—	—	160
CORN (basis Montreal)			
May	—	—	312
Jly	—	—	313
FEED WHEAT			
May	343½	343	343½
Jly	—	—	331

of the corn and soybeans in the U.S. are planted. A private statistician came out with an estimate of this year's winter wheat crop, which he said would total a record 1.7 billion bushels. He also estimated farmers would plant more acreage to corn and soybeans than they said they would in March.

Also adding to the bearish tone was a U.S. government report indicating stocks of the soybean end-products had grown, compared to a year ago.

Despite the wide price swings, ie appeared that volume was light because sellers were scarce.

At the close, soybeans were 16½ to 20 cents a bushel lower, May 5.15½; wheat 7½ to 10 lower, May 3.13; corn 2 to 6¼ lower, May 2.75 and oats 3 to 6 lower, May 1.55½.

Wheat—	High	Low	Close
March	318½	313	320¾
June	316	309	309½
September	320	315	315
Corn—			
March	280	274½	275¼
June	275	270¾	271¾
September	262	257½	258½
Oats—			
March	160½	155	155½
June	149	144¼	144¼
September	145½	139½	139½
Soybeans—			
March	532	515½	515½
June	519	501¾	502
August	512	497½	497½
September	505½	492	492½

U.S. Funds, Wpg.

400-Ounce Contracts	Open	High	Low	Close
Jly 75	165.50	165.50	164.30	164.70
Oct 75	168.00	168.10	167.50	167.70
Jan 76	170.90	171.10	170.70	170.90
Apr 76	174.30	174.50	174.20	174.50

Friday's volume: 95 contracts.

100-Ounce Contracts				
May 75	163.40	163.40	163.00	163.00
Aug 75	166.50	166.50	165.65	165.80
Nov 75	169.90	169.90	169.10	169.10
Feb 76	172.20	172.20	172.00	172.20
May 76	177.30	—	—	176.00

Friday's volume: 114 contracts.

Chicago Silver—	High	Low	Close
May	—	—	435.00
June	439.00	428.50	439.00
July	441.50	431.00	441.50
New York Copper—			
May	543.00	540.00	541.00
June	543.00	543.00	545.00
July	551.00	545.50	550.00
Chicago Lumber—			
May	149.20	144.70	145.30
June	162.50	158.70	158.80
September	157.80	154.60	155.70
Chicago Pork Bellies—			
May	75.10	73.75	73.90
June	75.80	74.30	74.70
August	74.60	73.20	73.80
Chicago Plywood—			
May	138.90	135.50	137.50
June	141.70	137.50	138.30
September	143.00	138.20	138.50
November	139.00	134.20	135.20
January	139.50	134.00	136.00

$ EXCHANGE

In Victoria today purchase of U.S. funds in terms of Canadian dollars at the Royal Bank was 1.0170 for cash, 1.0175 for cheques, 1.0070 for coins. Selling rates were 1.0275 for cheques and 1.0280 for cash.

MONTREAL (CP)—U.S. dollar in terms of Canadian funds at noon today was up 29-100 to $1.0274. Pound sterling was up 1 47-100 at $2.4067.

In New York, the Canadian dollar was down 29-100 at $0.9732. Pound sterling was up ¾ at $2.3425.

Alcan	22⅜	Ches-Ohio	35⅛	Homestake	45			
Alcoa	48⅜	Chrys	10⅝	Honeywell	29⅞	Polaroid	30½	
Allied Chem	39⅜	Coca-Cola	87½	Ini Stl	44	Proc Gamble	97¼	
Allic-Chalm	10¼	Col Bcast	48⅞	IBM	207½	RCA	16⅛	
Amer Air	8⅞	Col-Palm	29⅝	Int Harv	27¾	Repub Steel	33¾	
Amer Br	38½	Comsat	35	Int Nickel	27¼	Revlon	71⅜	
Amer Bcast	19¾	Con Data	20⅜	Int Pap	52¾	Safeway	49	
Amer Can	29⅞	Con Ed	12⅛	Int Tl T	21⅜	Scott Paper	17⅛	
Amer Elec	16¾	Cons Oil-Gas	7⅜	Johns-Mann	23¼	Sears Roe	67¼	
Amer Met	48⅞	Crown Cork	20⅜	Kaiser Alum	32	Shell Oil	44½	
Amer Mo	5¼	Crown Zell	37½	Kennecott	37	Singer	14	
Amer Smelt	17⅞	Delta	27⅝	Kraft	40⅛	Sperry	43⅞	
Amer Tel	50¼	Disney	48⅛	Kresges	28⅝	Stand Cal	26⅜	
AMF Inc	20¾	Dow Chem	86⅝	Ling-Tem	17¾	Sun Oil	30⅞	
Ampex	4⅝	Du Pont	132½	Lit Ind	6	Southern Pac	27⅜	
Anaconda	16¾	East Air	5⅝	Lock Air	7⅞	Talley Ind	7⅛	
Ash Oil	22	East Kodak	108	Magnavox	8½	Teledyne	153¼	
Atl Rich	88¼	El Paso	12¼	MDon Dg	17⅛	Telex	17⅞	
Avco	5⅛	Exxon	85¼	Merck	76⅝	Texaco	23⅞	
Avon	45⅞	Fiar Cam	41¼	Minn M M	62¾	Texas Gulf	31⅞	
Bell Howell	17	Fed Mtge	16¼	Mobil Oil	41	TWA	10½	
Bendix	34¾	Firestone	18⅜	Monsanto	69¾	Union Carb	66⅛	
Beth Steel	39⅞	Ford Mo	36⅜	Mont Ward	26⅞	Union Pac	79¾	
Boeing	27⅝	Gen Elec	47⅜	Motorola	54⅛	Union Oil	35¾	
Boise Casc	20	Gen Foods	23¾	Nat Ch R	32¾	Uniroyal	7⅜	
Borden	25¼	Gen Motors	44⅜	Natomas	46⅛	United Brands	4⅞	
Borg-Warner	16	Gen Tel	21½	Newmont	23⅞	U.S. Steel	63⅜	
Bris Myers	61½	Gen Tire	13¾	Owens-Ill	38½	Western Air	7⅜	
Bruns	14⅞	Georgia Pac	43¼	Pac Gas	18⅜	Westinghouse	15½	
Burl In	26	Gillette	33⅜	Pan Am	4	Weyerhauser	39⅝	
Burl North	39	Goodyear	18⅜	Penn Cent	1¾	Woolworth	16⅜	
Burroughs	99¼	Greyhound	11⅛	Pepsi	65¾	Wometco	12⅞	
Caterpillar	69	Gulf Oil	19	Phil Morrois	55⅜	Xerox	80⅛	
Celanese	34	Gen Dyn	40¼	Phillips Pete	49½	Zenith	19⅞	
Chs Man	33¼	Hilt Htls	21⅞					

CALGARY LIVESTOCK

CALGARY (CP) — Receipts to 11 a.m. today at the Calgary Public Stockyards totalled 75 head, mostly slaughter cows. Trade was moderately active.

There were no slaughter steers or heifers on offer. All classes of cows sold steady. Good bulls were steady.

Cows, D1, D1: 25-17. D3: 23-25. Dr: 14-23.

Bull, good: 21-23.50.

A few feeder steers under 750 pounds sold at $38.50.

Most cost of ... ments are pegged to the co... sumer price index.

COLA clauses were inclu... ed in 147 major union co... tracts signed in Canada la... year. Only about 20 per ce... previously had cost-of-livi... clauses and almost all were ... manufacturing. Constructi... was excluded from the su... vey.

In manufacturing, t... direct wage increas... averaged eight per cent ... contracts which previou... had a COLA clause and 1... per cent in those including ... COLA clause for the fi... time.

Contracts which alrea... had COLA clauses were lon... er on average.

London Metals

LONDON (AP) — Closing meta... Monday in pounds sterling per me... ric ton; silver in pence per tro... ounce:

Copper — spot 527.5-528; future... 546-546.5.

Tin — spot 2,957-2,962; future... 2,994-2,996.

Lead — spot 190-191; futures... 185.5-186.

Zinc — spot 319-321; futures... 309-310.

Silver — spot 183.7-184; 3 months... 188.7-188.8.

May 14

JOM

Wants severance tax imposed on buyer, like retail sales tax at point of sale.

Internal sales, levy on pulp division, valuations by assr.

At time of sale.

Tax 100% borne by buyer, hence no effect on forest mgmt.

---

1. Form of tax. Site tax, yes; yield tax, maybe; prop. tax, probably no. sales tax, no?
1A. Place in local revenue system. 1.B. Effect on forest mgmt.
2. Lands subject to tax. 1.C, Tax re Δ of transfer
3. Level of tax
4. Distribn. of revs. (Stability of local rev.) (School, general, hospital.) Some to province, & some to local.
~~5. Stability of tax~~
5. Uniformity
6.

Work out example of capn. of site tax on timber, for J.O.M. & T.K.

$$V = \frac{a}{i + t}$$

$$T = tV$$

---

2. Land subject to tax

TK Compromise: (Solomon's solution?)

Crown

"Occupied" land, has cutting permit.

~~Reduce the area~~

Be subject to tax. TFLs only.

Only areas having current cutting permits.

Agenda for next mtg.

Occupiers of Crown land, pay possessory int.

May 14

Royalty for timber is ~~now~~ due on some pvt. land — but how much?

If there is bi-grading, Crown legally could ~~it~~ go in & "scale it up" — but unn clear.

Jack Moore

Which Vancouver assmt role — school or general.

Jack Moore.

20 % of pop.
30 % of assd. value.

$1/100 m levies. 7 m for schools.

District of Bene

Farm $ 4.5 %
Forestry

Xpta Comm. Ut.	21
Comm	5
Resid	27
Vacant	10

Land taxed at full imp. at 75 %
Wild land 3 %
Timber 1½ %
Farm ½

? — Rate are fixed, so levy varies w. assmt.

"Improved" land ~~income got~~ gets 1/3 the rate of "wild" land but defn. is unclear.

Rates are related to use & class.

Utilities based on gross sales. Other classes ad val.

Unorgd. owners share disprop. in benefits of public services, ~~those~~ Those on fringe of munic. get more than those who are remote.

For Gen. purposes, farm improvements are exempt. $5000 exemption — ? Farm def. in munic.

Def. of farm - easier to qualify in U.T.

Forestry use

"Timber land".

"Forest land" Exempt from Pub. Sch. Elect, PSA, tax 1970

Improved land, ~~10~~ 10 mills

Munic. ranges from ~~1.5% to 5%~~ 15 mills to 50

PSA ~~does~~ has $1,000 exempt. per farm, on land.

Imp. on TPL land, exempt

Petrol. dev. roads on Crown lands are exempt.

RR prop. exempt

Land leased from Govt. is exempt.

Wants single statute, all taxing provisions are consolidated.

Mark - 2 eg. one only taxable for schools

May 16

II A

(1) Site tax.

Granted lands, assessed value

Timber land	$105 m	(at 50% value)
IT	56 m	(at 100%)
Wild	13 m	(at 50%)
	174 m	

On 2.2 m.a., (including non productive)

Base l.v. at present levels, ca. $20/a.,
or $40 m.

Agenda: describe criteria for appropr. rate
a. Maintaining levs.
b. " p.v. of trees.
c. Reducing taxes on forests — philosophy needed

(2). Phasing-in.
a. Yield tax on timber cut for next 20 yrs. to replace tax on inventory?

b. Phase out inventory tax over years

c. Change immediately. This is the practise in B.C.

(3) Old growth ~~cutting~~ harvest tax

With consideration for royalties & other special imports ~~tax~~ paid & payable.

Premised on light prop. tax load over recent history (except there was some reversion in depression.)

(4) Flat exemption, per owner ?

I. If TT continues

II. If abolish TT
A. Narrowly construed

B. Broadly construed -- total rev. system.

Occupancies are taxable

"Possessory int." is not. P.L. means quarries or cutting rts. not fixed to one area of land. Sect. 26(3) 24 N

When mineral land tax act was ~~vote~~ passed 2 yrs. ago, Mineral Res. Div. moved to Dept. of Mines from S.O.T., under H. Horn, (Wm. Roy reports to HH) Mainly affected coal lands.

Timber on "farm land" is exempt, except value of timber "for farming purposes" — in practice, 50% of mkt. value.

Interior land is in farm class, so no need for TT class. (& also take cap. gains.)

Uniformity

Old c-granted lands have diff. royalty rates. Royalty-free is oldest, highest.

Fluctuation — recommend stability of values (& note weakness of yield tax)

Under T.T. assmt., higher forestry costs result in lower taxes; other property, adding costs results in higher taxes.

Fri Agenda

I. Issues to resolve.

A. Tax on buyer -- we agreed not to mention

B. Development rts., deferrn. fee.
Owner forfeited them
Give him option of buying them back for back taxes plus interest, i compounded, & paying future taxes, .
Otherwise, Crown retains, & develops when values says higher use is better.

C. Provincial regmts -- only keeping in forest cover is defensible, or needed. Handle by sharing planting costs. Then tax away.
Thus I propose subsidy to regeneration, in lieu of other ~~xxxx~~ measures, in addition to what they already get

D. Timber shd. be taxed uniformly w. other propty. & that implies other propty. shd. be taxed uniformly.

E. Alt. packages. Maximizing re Uniformity
1. Site tax plus "land tax" at harvest.
2. Timberland tax plus regen. subsidy.
3.

DRAFT 18 April, 1975

J. O. Moore

Taxation Act Tree Farm Tax Committee

Amended

The Honourable Robert Williams, Minister of Lands, Forests, and Water Resources appointed a committee in June of 1974 to examine the taxation of lands certified as tree farms under the provisions of the Taxation Act.

The Tree Farm Tax Committee was established as follows:

Chairman	-	Dr. Mason Gaffney Executive Director B. C. Institute for Analysis of Economic Policy
Member	-	Mr. E. [redacted] Knight Forester-in-Charge Reforestation Division B. C. Forest Service Department of Lands, Forests & Water Resource
Member	-	Mr. J. O. Moore Surveyor of Taxes Department of Finance

The terms of reference of the Committee were outlined by the Minister through discussion with the Committee. The discussion was held in the Minister's office in ~~June~~ July of 1974 at which time he indicated which aspects of tree farm tax policy he would like the Committee to consider in the course of their study. These were as follows:-

- To consider evolving a better policy for dealing with the capitalized value of reduced taxes on tree farm lands.
- Is the tree farm tax class providing an unnecessary incentive to encourage owners of forest land to manage their lands on a sustained yield basis?
- What course of action can be taken to prevent tree farm owners from taking advantage of lower taxes under tree farm land class and subsequently removing land for conversion to other uses ?
- What should be done with pending tree farm applications and requests for additions to existing tree farms?
- ~~And~~ such other matters as the Committee deems necessary properly to fulfill its commission

In order to keep the Taxation Act tree farm legislation in perspective, the Committee found it necessary to examine and compare the alternative methods of assessment and incidence of taxation on forest lands in other tax classifications. The wide differences in incidence of taxation on lands under forest cover and the variations in assessment and taxation policies related to the peculiarities of the land tenure system in British Columbia led to consideration of issues ~~outside the terms of reference.~~ relating to other ~~forest~~ land classes.

In considering the matters specified in the terms of reference, the Committee proceeded on two basic assumptions, namely:

- that the tree-farm land tax class in the Taxation Act would continue; and
- that the tree-farm land tax class in the Taxation Act would be discontinued and an alternative method of taxing forest lands substituted.

The Committee in examining the overall problem of assessment and taxation of forest lands in British Columbia, is drawn to the conclusion that the taxation policy /to be applied to tree farms/ should be developed as part of a broader comprehensive study of forest land taxation and revenue policies in B.C. /in the future/ This approach will tend to ensure that the policy applied in taxing forest lands is /more likely to be/ equitable with the taxing policies applied to other classes of real property.

Assuming that the tree farm tax class is to continue, the Committee reports as follows:

(1) The tree farm tax class which provides a preferential method of valuing lands with timber thereon and a lower rate of tax under the Taxation Act than similar lands in 'timberland' or 'wild land' tax classes was introduced as a means of encouraging private owners of lands which find their best economic use under forest crops to manage their lands cooperatively with the Province so as to achieve harvesting on a sustained yield basis. Lower valuations for TF also reduce amt taxes for school (i.e. local govt) purposes.

Vague

If this incentive programme is to continue, then the reduced taxation which results from the application of the policy gives some indication of the direct cost of the sustained yield programme to the Province.

The benefits vary from one tree farm owner /to another/ due to the difference in volumes and age classes of timber and to the rates of harvest approved under the working plans.

Benefits (apparently unintended) under the tree farm land tax class accrue to the property owner where the tree farm lands are removed from the tree farm class for conversion to some other use. The benefit, in direct cost to the Province, is the amount of tax dollars saved by the property over the period of time the lands have been taxed as tree farm. Such lands would otherwise be classified as 'timber land' or 'wild land' under the Taxation Act if they had not been placed in a tree farm / in which case the mature merchantable timber located thereon would have been assessed on the basis of the timber inventory by species with some addition value increment to reflect the value of land itself.

Lands classified as tree farm land may be removed from the tree farm at any time by the owner or by the Minister of Lands, Forests & Water Resources if it is determined that such lands are no longer being managed in accordance with the approved working plan.

There are many reasons why lands are removed from tree farms. The owner may wish to sell all, or a portion, of his tree farm for conversion to a different use, presumably providing a higher economic return than growing trees. Removal of a portion of the tree farm from the tax class is accomplished by surveying out the area and registering the new parcel in the Land Registry Office. The owner may not want to sell but may be compelled to give up a portion of his holdings to meet some public requirement such as watershed, hydro right-of-way, highway, gravel pit, park, exchange of Indian reserve lands, public work, etc. The owner may wish to exchange certain of his forest lands with another company or the Crown in order to improve the management of the holdings. In such cases, the parcels involved in the trade continue in forest production but under different owners and under different management. Under the Taxation Act, removal of lands from the tree farm or a change in the use of the lands resulting in decertification does not result in the owner being required to repay any property tax benefit which he may have received during the period the land was taxes as tree farm land.

Many deletions of portions of parcels from tree farms are required to meet public needs. In such cases, the owner likely receives payment for his lands based on the current market value of the land but no attempt to

disagree. Owner gives up development rights, by electing not to pay tax on them.

recapture any tax benefit appears desirable unless - - - as the property owner has fulfilled his commitment under the terms of the working plan to the date of removal.

Consideration shd. be given to degree of voluntarism, & treatment of parallel cases. E.K. wants to tax TFs bcs commitment was voluntary.

The principle defects in the present tree farm legislation in the Taxation Act are:-

(1) The tree farmer may remove all or any portion of his property from the class without restriction. In most instances of removal a return is realized on land which has been taxed during the period the tree farm tax class has been in effect at about half of what it would otherwise have been if classed and taxed as timberland.

Removal of this defect could be achieved by requiring registration of the tree farm certificate as an encumbrance against the land in the Land Registry Office and to permit a change of ownership only upon issuance of a discharge by the Minister granted by him upon receipt of a satisfactory reason. money is better

X

(2) The present legislation does not permit uses other than tree farming to occur within the tree farm. When a use different than tree farming occurs or is contemplated, the area of land is required to be removed from the tree farm so that it can be taxed in accordance with the tax classification applicable to the other use. This requirement tends to discourage tree farmers from developing alternate and harmonious uses within the tree farms.

Good

The requirements of the Province, the public and the tree farmer in meeting revenue, recreational and tree production could all be met through introduction of a system of taxing areas of land within tree farms which are used for other than tree farm purposes to be taxed separately in the name of the occupier. A condition of approval of the working plan would be that such areas as are needed to meet the needs of the public be permitted to occur without the balance of tree farm area being removed from the tree farm tax class. JOM wd. elim. survey-out requir. E.K. not so sure.

(3) The tree farm legislation fails to recognize that there is no practical way of ascertaining whether the lands identified in the tree farm application find their highest economic use under forest cover or will continue todo so after certification. In most instances

the development of a higher economic use takes place over a period of time during which the land owner benefits from the lower taxes imposed under tree farm tax class. Conversion to a use different than tree farming may never occur so long as the taxes continue to be based on the tree farm valuation method. Where conversion is indicated in the public interest, provision should be made to provide substitute lands to replace the areas upon which conversion is imposed.

(4) The tree farm legislation fails to provide a precise basis for determining the valuation of lands certified as tree farms. The present method, in effect, grants full tax exemption to all 'non-productive' areas within the tree farm simply because they do not contribute any growth of timber in determining the annual allowable cut. Notwithstanding the omission of non-productive areas from the assessment, the procedures used in determining the valuation of the productive tree farm lands may be producing assessments and tax levies higher than those ~~desired by~~ the legislation or those compatable with long term forestry. Continuation of the class should be accompanied by a thorough and objective review of the valuation methods applied in the case of each tree farm working plan.

(5) If tree farms are to continue, all applications presently in hand should be re-examined and, if in order, approved. The following applications for tree farm class or additions to tree farms were known to exist in early 1974:-

NEW

1. Kootenay Forest Products Ltd. - 40,350 acres on Kootenay Lake.
2. Hearn Brothers Lumber Co. Ltd. - 14,080 acres, east of Castlegar.
3. Birch Creek Timber Ltd. - 3,644 acres, south of Rossland.
4. Rayonier Canada (B.C.) Ltd. - 3,183 acres, Tsable River Valley.
5. Rayonier Canada (B.C.) Ltd. - 5,435 acres, San Josef River Valley.
6. B. C. Forest Products Ltd, - 37,954 acres, Cowichan Valley.

ADDITIONS

1. T.F. 8, Crown Zellerbach (Canada) Ltd. - 44,970 acres, E&N Belt and Johnstone Strait
2. T.F. 19, MacMillan Bloedel Ltd. - 1,220 acres, Maurelle Island & Sayward Land District
3. T.F. 27, Crows Nest Industries Ltd. - 8,100 acres, Fernie area
4. T.F. 29, Rayonier Canada (B.C.) Ltd. - 611 acres, Koprino Harbour
5. T.F. 30, Rayonier Canada (B.C.) Ltd. - 32 acres, Renfrew

Assuming the tree farm class is to be discontinued, the Committee reports as follows:-

> In the narrow sense, the repeal of the tree farm tax class in the Taxation Act would result in the lands being reclassified for taxation purposes, primarily as 'timber land' and 'wild land'. The methods of valuation would change from capitalization of the returns from the annual allowable cut to an inventory of standing timber plus a basic land value.

Too inconclusive

This course of action is not recommended at least until the question as to whether the inventory methods of assessment used in the cost of 'timber land' and 'wild land' tax classes has been thoroughly examined. It may well be that the inventory method of assessment for taxation may have created the need for a special 'tree farm tax class' to enable the practice of long term forestry on privately held lands in the first instance. The introduction of the tree farm tax class may have been / necessary as a means overcoming deficiencies only in historic methods of assessing and taxing forest lands.

It is also evident from examination of present property tax legislation that most of the forest lands in the Province under the control of the forest industry are totally exempt from property taxation. It is only the privately owned forest lands and the temporary tenures ('forest land' Taxation Act) located outside tree farm licences are subject to property taxation. It is additionally evident that several different tax rates and methods of valuation apply to the taxable forest lands. Temporary tenure are taxed only for general provincial revenue purposes when located outside tree farm licences and the privately owned are taxed for school, hospital, regional district and other local government purposes, notwithstanding that both / the lands' capability to produce a forest crop and the Crown royalty reservations may be identical.

It is abundantly clear that the variation in assessment and taxation practice and policies applicable in the case of forest lands coupled with the peculiarities of the forest land tenure system in this Province suggest that it might be more prudent to embark on a comprehensive study of forest land taxation and revenue policies in British Columbia than to abandon the tree farm land tax class at this time. The object of such a study would be to develop a forest land property taxation system devoid of obvious inconsistencies and / to integrate desired forest land tax policies with the tax policies applicable in the case of other land uses.

we undertook to do the study

Suggested alternatives to the present system of forest land taxation include the concept of assessing all privately held and Crown occupied lands at their actual value exclusive of the timber located thereon. This approach would include for the first time, all Crown owned lands held under Tree Farm Licence Agreements as well as all timber leases and licences located inside Tree Farm Licence areas. This approach would also necessitate the repeal of the 'Forest Land' tax class in the Taxation Act and the assessment of timber leases and licences outside Tree Farm Licences at their actual value exclusive of any timber located thereon. The assessed values so developed would become part of the rate base for all local government tax purposes within the jurisdiction in which the lands are located. Levies for general Provincial purposes (Taxation Act), schools (Public Schools Act), hospitals (Regional Hospital District Act), regional district purposes (Municipal Act), improvement districts (Water Act), etc. would result. All tenure classes and all privately owned lands would be assessed on exactly the same basis. The need for special classes to encourage sustained yield management would no longer be required.

Coincident with implementation of such a charge, consideration would also have to be given to the revenue sources provided under present Crown royalty and stumpage charges with a view to determining whether it would not be better in the long term interests of the Province to abandon the deficiencies in existing systems in favor of a system of taxation which could be applied uniformly to all tenure classes regardless of royalty or stumpage reservations at the moment of harvest of the forest crop.

A tax at the time of harvest could be levied against the land owner under legislation providing specific authority to utilize the volume cut annually as a component in determining the assessed value. The procedure would be similar to that used in the assessment and taxation of mineral lands in British Columbia covering properties for which no royalty was reserved at the time of Crown grant.

Depending on the incidence of tax desired and the resolution of the question as to whether the harvest tax should be substituted for or integrated with Crown royalties and stumpage revenues, the revenue gathering systems of the Province could be applied equitably to all privately held and Crown occupied forest lands. This approach would eliminate the disparities between and within the tax classes occasioned by the present differences in royalty

and stumpage reservations. In effect, all owners and occupiers of forest lands in B. C. would pay an annual property tax with the major impact of the revenue systems becoming operative at the time of harvest.

As an alternative to a land tax based on annual harvest, consideration could be given to the introduction of a severance or separation tax imposed on the purchaser. This approach would be particularly effective where sale prices reflecting free and open competition for timber were used to provide the basis of valuation. We agreed to drop this.

The study of taxation of forest lands should also consider procedures designed to facilitate and encourage compatable uses of forest lands for other than forestry purposes. The procedures to be broad enough to include both Crown and private forest lands. Multiple uses of forest lands under certain conditions appears not to seriously interfere with the production and harvest of forest crops and should be permitted to occur wherever desired.

Free use of forest land by the public should only be permitted where no costs to the land owner are incurred, otherwise the costs incurred in making possible that use should be borne by the user rather than being paid by the Province through reduced taxation.

Draft by E. Knight?

The Honourable Robert Williams, Minister of Lands, Forests and Water Resources appointed a committee in June of 1974 to examine the taxation of lands certified as tree farms under the provisions of the Taxation Act.

The Tree Farm Tax Committee was established as follows:

Chairman -	Dr. Mason Gaffney Executive Director B.C. Institute for Analysis of Economic Policy
Member -	Mr. E. Knight Forester-in-Charge Reforestation Division B.C. Forest Service Department of Lands, Forests & Water Resources
Member -	Mr. J.O. Moore Surveyor of Taxes Department of Finance

The terms of reference of the Committee were outlined by the Minister through discussion with the Committee. The discussion was held in the Minister's office in June of 1974 at which time he indicated which aspects of tree farm tax policy he would like the Committee to consider in the course of their study. These were as follows:

- To consider evolving a better policy for dealing with the capitalized value of reduced taxes on tree farm lands.
- Is the tree farm tax class providing an unnecessary incentive to encourage owners of forest land to manage their lands on a sustained yield basis?
- What course of action can be taken to prevent tree farm owners from taking advantage of lower taxes under tree farm land class and subsequently removing land for conversion to other uses?
- What should be done with pending tree farm applications and requests for additions to existing tree farms?

The tree farm land classification was established by amendments to the Taxation Act in 1951.

Tree farm land is defined as any land which will find its best economic use under forest crop on which:

"(a) There is a stock of young growth in numbers of trees per

acres, not less than the minimum standards established by the Forest Service; or

(b) An approved working plan provides a reforestation programme which is designed to establish a growing stock in numbers of trees per acre, not less than the minimum standards established by the Forest Service; or

(c) There is a stock of mature timber which, according to an approved working plan, will be harvested on a sustained yield basis; or

(d) There is any combination of the foregoing."

The 1951 amendments to the Taxation Act were introduced to encourage the practice of sustained tree crop production on privately owned forest lands and reflects the private forest land owners concerns that the property tax applied conventionally acts as a discouragement to forest growing and can adversely affect the utilization of mature forests.

Forest land owners who make application for a tree farm classification and demonstrate by their completed returns and continuing land use, that they are practising the basic principles of forest management as follows:

(a) Protect the forest crop from destruction by fire, insects, disease, or grazing damage;

(b) Keep the land fully occupied at all times with a stand of thrifty trees;

(c) Balance the cut against the ability of the land to produce so that the annual or periodic harvests may continue indefinitely in regular sequence;

(d) Harvest the timber by working with nature and constantly improving the forest:

will receive a tree farm classification for valuation and annual property taxation purposes.

Tree farm land will be valued in accordance with the annual or periodic crop obtainable from the growth capacity of its site.

This valuation method contrasts sharply with the annual valuation of lands

classified as timberland and wild land which is based on the standing inventory of trees and site characteristics as of the date of inspection.

Moreover, the general taxation rate will be one per cent per annum of the assessed value on tree farm land in place of one and a half per cent on timberland and three per cent on wild land.

The tree farm land classification is designed to encourage scientific farming and harvesting of second and successive tree crops through a reasonable land tax burden applicable to such lands as are farmed in accordance with recognized standards of forestry."

It may be significant that in 1953 the Forest Act was amended to provide that the Minister may classify as forest land those privately owned lands which he has ascertained as having their best economic use under forest crop. When lands so classified are unsatisfactorily stocked with forest growth of commercially valuable species of trees the Minister may, by direction in writing, require the owner to stock the lands in the manner, to the extent and at the time specified, in the direction.

This would suggest that the public has a vital interest in the conservative management of forest land regardless of ownership.

Although this section has not been enforced it could be taken as an incentive for land owners to put their lands into the tree farm category.

In order to keep the Taxation Act tree farm legislation in perspective, the Committee found it necessary to examine and compare the alternative methods of assessment and incidence of taxation on forest lands in other tax classifications. The wide differences in incidence of taxation on privately owned lands under forest cover and the variations in assessment and taxation policies related to the peculiarities of the land tenure system in British Columbia led to consideration of issues outside the terms of reference.

In considering the matters specified in the terms of reference, the Committee proceeded on two basic assumptions, namely:

- that the tree farm land tax class in the Taxation Act would continue; and
- that the tree farm land tax class in the Taxation Act would be discontinued and an alternative method of taxing forest lands substituted.

(1) Assuming that the tree farm tax class is to continue, the Committee reports as follows:

The tree farm tax class which provides a preferential method of valuing lands with timber thereon and a lower rate of tax under the Taxation Act than similar lands in 'timberland' or 'wild land' tax classes was introduced as a means of encouraging private owners of lands which find their best economic use under forest crops to manage their lands cooperatively with the Province so as to achieve harvesting on a sustained yield basis.

The difference between the taxes that would otherwise be paid and the taxes payable on those lands when classified as a tree farm is a tax subsidy that the public is prepared (required) to pay for the conservative management of private forest lands.

The benefits vary from one tree farm owner to another due to the difference in volumes and age classes of timber and to the rates of harvest approved under the working plans.

Benefits (apparently unintended) under the tree farm land tax class will accrue to the property owner where the tree farm lands are removed from the tree farm class for conversion to some other use. The benefit, in direct cost to the Province, is the amount of tax dollars saved by the property over the period of time the lands have been taxed as tree farm. Such lands would otherwise be classified as 'timber land' or 'wild land' under the Taxation Act if they had not been placed in a tree farm, in which case the mature merchantable timber located thereon would have been assessed on the basis of the timber inventory by species with some addition value increment to reflect the value of land itself.

sell but may be compelled to give up a portion of his holdings to meet some public requirement such as watershed, hydro right-of-way, highway, gravel pit, park, exchange of Indian reserve lands, public work, etc. The owner may wish to exchange certain of his forest lands with another company or the Crown in order to improve the management of the holdings. In such cases, the parcels involved in the trade continue in forest production but under different owners and under different management.

Under the Taxation Act, removal of lands from the tree farm or a change in the use of the lands resulting in decertification does not result in the owner being required to repay any of the property tax benefit which he may have received during the period the land was taxed as tree farm land.

Many deletions of portions of parcels from tree farms are required to meet public needs. In such cases, the owner likely receives payment for his lands based on the current market value of the land but no attempt to recapture any tax benefit appears desirable as the property owner has fulfilled his commitment under the terms of the working plan to the date of removal.

The principle defects in the present tree farm legislation in the Taxation Act are:

(1) The tree farmer may remove all or any portion of his property from the class without restriction. In most instances of removal a return is realized on land which has been taxed during the period the tree farm tax class has been in effect at about half of what it would otherwise have been if classed and taxed as timberland.

Removal of this defect could be achieved by requiring registration of the tree farm certificate as an encumbrance against the land in the Land Registry Office and to permit a change of ownership only upon issuance of a discharge by the Minister granted by him

upon receipt of a ~~satisfactory reason.~~ money

The Act could specify that the payment of a decertification fee would be necessary in the event that the land owner wished to take from the tree farm lands which had ripened to some higher use.

(2) The present legislation does not permit compatible uses other than tree farming to occur within the tree farm. When a use different than tree farming occurs or is contemplated, the area of land is required to be removed from the tree farm so that it can be taxed in accordance with the tax classification applicable to the other use. This requirement tends to discourage tree farmers from developing alternate and harmonious uses within the tree farms.

The requirements of the Province, the public and the tree farmer in meeting revenue, recreational and tree production could all be met through introduction of a system of taxing areas of land within tree farms which are used for other than tree farm purposes to be taxed separately in the name of the occupier. A condition of approval of the working plan would be that such areas are needed to meet the needs of the public be permitted to occur without the balance of tree farm area being removed from the tree farm tax class.

(3) By specifying a beneficial assessment procedure which protects the owner from tax increases in the event that any of the lands classified as tree farm land ripens to some further use, it might delay efficient land use. The tree farm legislation fails to recognize that there is no practical way of ascertaining whether the lands identified in the tree farm application find their highest economic use under forest cover or will continue to do so after certification. In most instances the development of a higher economic use takes place over a period of time during which the land owner benefits from the lower taxes imposed under

tree farm tax class. Conversion to a use different than tree farming may never occur so long as the taxes continue to be based on the tree farm valuation method. So?

(4) The tree farm legislation fails to provide a precise basis for determining the valuation of lands certified as tree farms. The present method, in effect, grants full tax exemption to all 'non-productive' areas within the tree farm simply because they do not contribute any growth of timber in determining the annual allowable cut. Notwithstanding the omission of non-productive areas from the assessment, the procedures used in determining the valuation of the productive tree farm lands may be producing assessments and tax levies higher than those desired by the legislation or those compatible with long term forestry. Continuation of the class should be accompanied by a thorough and objective review of the valuation methods applied in the case of each tree farm working plan.

Because of the requirement that tree farm lands be managed to sustain an annual or periodic yield under reasonably close government control, with the administrative requirements that such control entails, the small acreage forest land owners have been effectively excluded from being able to take advantage of the beneficial tax rate. Solution: remove requirement of S.7.

If the objective is to encourage conservative forest management then such land owners should be able to qualify as long as they undertake to maintain their lands under forest cover, taking whatever limited production develops from the lands consistent with good silvicultural practice.

Ones under 40 a. are not assd. anyway.

A forest property that can be managed on a sustained yield as a going concern, where tax as an expense item can be met from earnings, can stand a tax burden equivalent to that of any comparable business. ?

To the extent that the tree farm tax classification is only available to forest lands that are being managed on sustained yield, the tax benefit is only made available to those owners least in need of tax relief.

Ok, so remove this requirement. Just keep it green.

It would appear from the foregoing that we are prepared to pay a subsidy, not so much to facilitate private forestry as to encourage private land owners to excercise the restraint implied by sustained yield. In that the contribution to the Provincial annual cut from private land is quite minor, there is some question whether such a subsidy can be justified.

non seq.

If tree farms are to continue, all applications presently in hand should be re-examined and, if in order, approved. The following applications for tee farm class or additions to tree farms were known to exist in early 1974:

NEW

1. Kootenay Forest Products Ltd. - 40,350 acres on Kootenay Lake.
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ADDITIONS

1. T.F. 8, Crown Zellerbach (Canada) Ltd. - 44,970 acres, E & N Belt and Johnstone Strait.
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3. T.F. 27, Crows Nest Industries Ltd. - 8,100 acres, Fernie area.
4. T.F. 29, Rayonier Canada (B.C.) Ltd. - 611 acres, Koprino Harbour.
5. T.F. 30, Rayonier Canada (B.C.) Ltd. - 32 acres, Renfrew.

Idea:

To encourage reforestn. while retaining prop. tax, give a tax credit for inv. in planting. Thus get old-growth cut, while directly subsidizing planting.

Idea is to keep B.C. green, not ~~top-heavy~~ decadent.

GOVERNMENT OF BRITISH COLUMBIA

MEMORANDUM

TO Dr. Mason Gaffney
Chairman
Tree-farm Tax Committee

FROM J. O. Moore

July 24 19 74

SUBJECT Taxation Act - Wild Land Tax

OUR FILE

YOUR FILE

1. I would recommend that the wild land tax class be repealed.

2. The 'wild land' tax class was first introduced as a land tax deterent designed to discourage the holding of undeveloped land for speculative purposes. The tax rate for general Provincial purposes has varied over the years ranging from 3% to 5% of the assessed value. The tax rate on the undeveloped lands was reduced to 1% if modest expenditures were made by way of improvements to or on the land.

In today's scene the wild land tax class is ineffective and illogical in application.

The expenditures required to qualify for a change in the tax class are small in relation to the tax savings which can occur with the drop in rate from 3% to 1%. Neither the rates of tax nor the expenditures per acre influence land development and in any event can be easily circumvented in the case of highly speculative lands by making token expenditures.

In the case of lands which find their highest economic use under forest crop the application of the wild land tax produces the illogical side effect of imposing the highest rate of tax on land for which no change in land use is contemplated or desired during the period when no timber is available for harvest and management costs of growing and protecting are being incurred.

J. O. Moore
Surveyor of Taxes.

JOM:jh

i.e. wild land tax hits mainly land w. immature timber.

Report, draft

1. Shd. be removable. - land shd. - from TF class.

2. Assess land & timber separately?

3. Yield tax. ~~&~~ JOM favors site tax + ~~yield~~ periodic "land tax" based on assessed value, ~~(?)~~ of cut.

~~JOM~~ JOM "Asd value" = Cut x value x Factor

Factor =? $\frac{\text{Levy} \cdot \text{~~t.s.~~}}{t.v.}$ Figure this out.

Like mineral land tax. (Not yet adjudicated in B.C.)
You can't apply royalty to land for which there is no royalty reserve. Must be a land tax, to be constl. This formula has been held to be a land tax.

But his recommendation depends on whether it is just for TFs, or all forest land — including crown land.

M.S. copy

TREE FARMS

Draft Proposals

1. The direct cost of the TF tax abatement is the excess of normal tax (based on assessing timber as "inventory") over the lower TF basis tax, (based on assessing timber and land by capitalizing cash flow). This cost is a "tax subsidy".

A minimum estimate is the excess of $5.5 m. over $2.5 m., or $3.0 m. This is basing the normal assessment on inventory value of timber.

The true estimate is larger, because inventory assessment of timber omits most, if not all, of the amenity value of timber sites. By current B. C. law and practise, timber is included in "land", and they are reported together. The assessor includes a site value in his own calculation, but it is generally based on the value of land for growing timber. It generally omits the amenity value of the site, and other non-timber values. There may be an exception with certain water front sites, but in general amenity value is omitted.

In some cases there is an amenity value in standing timber, too, higher than its stumpage value, and this has been omitted as well.

also, there is capl. used in forestry – how treated? Roads, garages, mach. & eq.

2. The following table shows how the tax subsidy is divided among the 32 Certified TFs ranked by size. For practical purposes, we are concerned almost entirely with the tax treatment of 3 firms: M & B, Rayonier and BCFP, who have 80% of the TF assets.

3. Benefits to the Province from this tax subsidy are to be found in the owner's agreement to practise good forestry on his land. The meaning of "good forestry" is determined in practise by the Chief Forester when he certifies the Tree Farm. The criteria might be changed, but have mainly been the following.

a. Keeping the land in forest cover, i.e. immediate reforestation after cutting, by the private owner. The C.F. has power to require this anyway, on all granted lands, by direct regulation, but the TF abatement is designed to make this profitable, hence easier to administer. However, reforestation is required regardless of profitability. (Question: Are property taxes deductible as current expense for Fed. inc. tax?)

A correlative objective is to keep forest land in private hands, and let private land, which is taxable, compete with crown land, which is generally not, (with a minor exception).

b. Reduced annual cut of old-growth, based on the Hanzlik formula, geared to create a normalized even flow or S.Y. forest by the time the last old-growth is cut. The last old-growth must therefore stand until the first second-growth is mature.

The Chief Forester might in his discretion change his concept of good forestry. However, the financial incentives of the TF class are clearly tailored to undergird the slowed-cut emphasis that has prevailed historically in the Forest Service. The advantage to the owner consists in a lower assessment based on reducing his annual cut.

c. Maturity of second-growth is based on maximizing m a i, a somewhat longer time than an economical or financial or Faustmann rotation using compound interest. This rotation is the basis for regulating the cut of old-growth under the Hanzlik formula (b).

d. Spacing of 8 X 8, standard on Crown land plantings, is not required. 10 X 10 and 12 X 12 are acceptable, and normal.

e. Single-purpose use. Grazing or extensive recreational use would lead to decertification.

Certification is by legal parcels which may be large, so a motel on one corner of 200 acres would decertify the whole. This is solved by surveying out the non-conforming parcel.

4. There are serious doubts as to the social value of these arrangements.

a. Taxation should bear as uniformly as possible on the tax base, for reasons of efficiency and equity. This end is defeated by creating special classes of owners. The TF abatement is a regressive element in the tax system (see Table). Only large owners can internalize SY schedules, so they are the ones which have mainly qualified. Only large owners have the waiting power to hold old-growth under the Hanzlik and m a i concepts. All timber and timberland should be treated the same, unless indeed, taxes are made progressive to encourage subdivision and small business competition.

b. Tree farmers are not monitored by any provincial agency effectively enough to guarantee that they comply with their agreed upon forest practises. In addition it appears most probable that companies which control timber both inside and outside of tree farms will cut the outside timber faster to compensate for the slower cut inside tree farms, thus receiving a tax benefit without having to alter their overall cutting rate as intended by the legislation.

ACE?

c. The social and economic value of inducing owners to reduce their annual cut needs to be re-examined. At the time the tree farm programme was established it was taken for granted that reduced rate of cut was desirable and a component of "good forestry". Today however, the social and economic cost of holding large inventories of uncut mature timber is much higher than in the past owing to an acute and prolonged world-wide shortage of capital reflected in much higher interest rates.

Timber culture is capital intensive by nature but slow turning makes it more so and by very large factors. The capital in a forest doubles every seven years it is held uncut at a 10% rate of interest since money doubles in seven years at 10%. Conversely, timber culture can be made much less capital intensive by reducing inventories of old growth and holding down inventories of second growth by keeping rotations shorter.

The Minister of Lands and Forests has several times indicated his concern with capital costs, most recently in respect to the disadvantage of hydro electric plants compared with coal-fired power plants on the grounds that the coal-fired plants use less capital. Presumably this same policy direction would lead him to favour shorter cutting cycles.

Putting it another way, there is an invisible cost of holding timber which is the hidden cost of interest on its capital value. At modern rates of interest this cost is escalating to seriously high levels and calls for re-examination of historical policies which have ignored interest cost or treated it as unimportant.

d. The social value of sustained yield is material but should not be treated as an absolute. For a whole market area supporting one community sustained yield has a value. How much the value is bears study, especially in areas where labour turns over rapidly anyway for other reasons. But sustained yield for a market area need not call for sustained yield from each small tract. One owner cuts while another holds back.

As to the large tree farms, some are split into many parts in different community areas. Sustained yield on such tree farms, regarded as units, might provide even flow to the company that owns them but not to any specific community.

e. The self-interest of timber holders should lead them toward, although not all the way to, sustained yield since each one tries to hold back from glutted markets and reserve sales for lean markets. There are many historical and on-going examples of how nature abhors a vacuum in economics so that the existence of surplus labour owing to seasonal or cyclical variations in need attracts employers by its mere existence. Thus diversified agriculture is developed in Southern California in response to the peak harvest demands for labour of specialty crops. Presumably timber owners forseeing a shortage of timber and a glut of harvest labour ten years in the future would schedule their cutting so as to be in the market for labour during this advantageous period. Thus to some degree the market is self-correcting, in this respect. Mobility of labour is another corrective which might seem harsh in some cases, less so when one considers that labour in the woods is exceedingly mobile in any event. Extremely high rates of labour turnover also characterize saw mills and pulp mills, especially is more isolated communities.

f. The concept of "good forestry" used by the Chief Forester appears to be one which maximizes total annual output rather than maximizing the bottom line or net profit from forestry. This appears to be a case of defining "standards" without regard to costs. The forest service has a defined monetary budget but its larger budget is the hidden cost of interest on the capital value of standing timber. All professions are subject to the temptation of professional aggrandizement where allowed to operate with an unconstrained budget. In this particular case the hidden interest budget is unconstrained by virtue of its invisibility and "standards" have been correspondingly inflated in this dimension.

An alternative concept of "good forestry", one which is found in standard forestry textbooks, is that of maximizing the soil expectation value according to the

Faustmann formula which takes into account the cost of interest as well as the cost of land. This formula is meaningful both to foresters and economists. In reviewing the meaning of "good forestry" for purposes of maximizing the welfare of the people of British Columbia this formula might be given great weight.

g. Single-purpose use is certainly not a desirable goal. As recreational demands for forest lands increase it would clearly be desirable to satisfy these without sacrificing timber culture and to this end the tree farm legislation, if retained, should be modified to accept the compatibility of recreational use with timber culture.

There are known to be social conflicts between forest companies interested in wood production and local groups interested in amenities. It is likely however that these conflicts bear some element of "class struggle" and might best be resolved by devising means to give local people more of an ownership interest in the timber resource which would make them more sensitive to its value when cut.

B. C. Tree Farms, 1974 Assessment Year, Ranked by Assessed Value as Tree Farm

Ranking	Decile No.	Ass'd Value as T.F. ($000,000)	% of Total	Assessed Value as Timberland				1974 Estimated Taxes			
				Trees	% Total	Land	% Total	As T.F.	As Timb.	Tax Rebate	T.R. % Total
29 - 32	1	.023	< .1	.067	< .1	.054	.4	.001	.004	.003	.1
25 - 28	2	.068	.1	.075	< .1	.088	.6	.003	.008	.005	.2
22 - 24	3	.111	.2	.032	< .1	.056	.4	.005	.004	- .001	> -.1
19 - 21	4	.301	.5	.003	< .1	1.486	11.4	.013	.074	.061	2.1
16 - 18	5	.558	1.0	.117	.1	.156	1.2	.024	.013	- .011	- .4
13 - 15	6	.684	1.2	.562	.6	.916	7.0	.031	.092	.061	2.1
10 - 12	7	1.004	1.7	.067	< .1	1.285	9.8	.042	.065	.023	.8
7 - 9	8	2.322	4.0	2.480	2.5	.850	6.5	.091	.147	.056	1.9
4 - 6	9	6.364	11.1	15.407	15.8	3.056	23.4	.283	.912	.629	21.6
1 - 3	10	46.001	80.0	78.786	80.7	5.135	39.3	1.982	4.063	2.081	71.6
TOTAL		57.436	100.0	97.596	100.2*	13.082	100.0	2.475	5.382	2.907	99.9*

* Note: Any discrepancies in %age total are a result from rounding off.

Gaffney

TREE FARMS

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(and allegedly are being reviewed in mind of Ted Young)

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The Chief Forester might in his discretion change his concept of good forestry. However, the financial incentives of the TF class are clearly tailored to undergird the slowed-cut emphasis that has prevailed historically in the Forest Service. The advantage to the owner consists in a lower assessment based on reducing his annual cut.

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b. Tree farmers are not monitored by any provincial agency effectively enough to guarantee that they comply with their agreed upon forest practises. In addition it appears most probable that companies which control timber both inside and outside of tree farms will cut the outside timber faster to compensate for the slower cut inside tree farms, thus receiving a tax benefit without having to alter their overall cutting rate as intended by the legislation.

c. The social and economic value of inducing owners to reduce their annual cut needs to be re-examined. At the time the tree farm programme was established it was taken for granted that reduced rate of cut was desirable and a component of "good forestry". Today however, the social and economic cost of holding large inventories of uncut mature timber is much higher than in the past owing to an acute and prolonged world-wide shortage of capital reflected in much higher interest rates.

Timber culture is capital intensive by nature but slow turning makes it more so and by very large factors. The capital in a forest doubles every seven years it is held uncut at a 10% rate of interest since money doubles in seven years at 10%. Conversely, timber culture can be made much less capital intensive by reducing inventories of old growth and holding down inventories of second growth by keeping rotations shorter.

The Minister of Lands and Forests has several times indicated his concern with capital costs, most recently in respect to the disadvantage of hydro electric plants compared with coal-fired power plants on the grounds that the coal-fired plants use less capital. Presumably this same policy direction would lead him to favour shorter cutting cycles.

Putting it another way, there is an invisible cost of holding timber which is the hidden cost of interest on its capital value. At modern rates of interest this cost is escalating to seriously high levels and calls for re-examination of historical policies which have ignored interest cost or treated it as unimportant.

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Ranking	Decile No.	Ass'd Value as T.F. ($000,000)	% of Total	Assessed Value as Timberland				1974 Estimated Taxes			
				Trees	% Total	Land	% Total	As T.F.	As Timb.	Tax Rebate	T.R. % Total
29 - 32	1	.023	< .1	.067	< .1	.054	.4	.001	.004	.003	.1
25 - 28	2	.068	.1	.075	< .1	.088	.6	.003	.008	.005	.2
22 - 24	3	.111	.2	.032	< .1	.056	.4	.005	.004	- .001	-< .1
19 - 21	4	.301	.5	.003	< .1	1.486	11.4	.013	.074	.061	2.1
16 - 18	5	.558	1.0	.117	.1	.156	1.2	.024	.013	- .011	- .4
13 - 15	6	.684	1.2	.562	.6	.916	7.0	.031	.092	.061	2.1
10 - 12	7	1.004	1.7	.067	< .1	1.285	9.8	.042	.065	.023	.8
7 - 9	8	2.322	4.0	2.480	2.5	.850	6.5	.091	.147	.056	1.9
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April 30 1975 TRee Farm

M E M O

Ted Knight, RPF,
Forester in Charge
Reforestation Division
Parliament Buildings
Victoria

Jack Moore,
Surveyor of Taxes
Parliament Buildings
Victoria, B.C.

Dear Subject: Federal Income Tax Treatment of Timber and Logging

I just talked with Mr. Keith Prowse of the Department of Finance and he suggested some important modifications of the rule that income from logging is treated as ordinary for Federal tax purposes.

An investor who is not normally in the logging business or the business of buying and selling standing timber as an inventory would be regarded as receiving a capital gain if he sold standing timber to someone else and did not log it. This would seem to open a considerable loophole of tax avoidance and in addition, it would seem to encourage sales of timber, and timber land with mature timber on it from individuals to corporations. (The corporations, having a lower tax rate than high income individuals, would be able to take the ordinary income at a lower tax rate, as well)

a ski resort opr.

Another interesting feature is that when a firm acquires timber over a period of years, the cost of inventory, when inventory is logged off, is not necessarily or even probably the specific cost of the specific logs logged off, but rather the average in the "bank" of all the timber acquired by the firm in question. In the normal course of events, what with inflation, this would result in a substantially smaller taxable profit than would be found if each sale had to be tied to its own cost of acquisition. By this device it would be fair to say that the effective rate of tax on income from holding timber inventories is substantially less than that applied to income generally.

The B.C. logging tax operates in the same way and in general follows the Federal Income Tax procedure step by step. However, there is one important difference, especially for our present purposes. When a logging company sells off recreational homesites

..... 2

See Farm Cite

this would probably be a capital gain for Federal tax purposes. However, for Provincial logging tax purposes, it is taxable so long as more than $10,000 of timber value is involved within a year. It would appear that "logging tax" is a misnomer, since the transaction will be taxed even though the land is not logged.

I failed to ask Mr. Prowse how the logging tax applies when timber land is sold from one firm to another. This is an important point to follow up on. Is there double, triple and quadruple taxation when land is transferred several times while the timber is standing?

MG:jm

TREE FARMS

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SOME EFFECTS OF SPACING ON JACK-PINE DEVELOPMENT IN LOWER MICHIGAN AFTER TWENTY-FIVE YEARS

ROBERT A. RALSTON

IN STARTING a plantation the initial spacing interval between trees is of prime importance and is a factor that can be controlled. Other things being equal, the planting density which is best depends mainly upon expected growth, mortality, and the size of the material to be harvested in the first thinning. Inasmuch as mortality, future markets, and, to some extent, growth are difficult to predict accurately, it is often a real problem to select the right planting interval for a given species and site.

In lower Michigan most of the land which should be planted to jack pine (*Pinus Banksiana* Lamb.) is of relatively poor site quality. Pulpwood will probably continue to be one of the main raw materials produced because of industrial needs and the slow growth on the poorer sandy soils in this region. Low yields and low-value products militate against noncommercial thinnings even though they may be silviculturally desirable. Under these conditions, the need for providing adequate growing space in plantations should coincide with the attainment of merchantability of the trees to be removed.

Successful timing of the first commercial thinning is not always possible if nature is imitated in artificial reforestation. As a direct result of slow growth and the delayed expression of dominance, well-stocked natural stands on poor sites normally carry more stems per acre at a given age than those on good sites. This delayed expression of dominance may be even more pronounced in regularly spaced even-aged plantations than in irregularly spaced less-even-aged natural stands. For example, a jack-pine plantation in Vermont on sandy loam soil was planted at the rate of 10,890, 2,720, 1,210, and 681 seedlings per acre. Twenty-eight years later there were 6,000, 2,100, 1,000, and 520 trees per acre still living (2). According to a yield table for well-stocked stands of natural jack pine on average sites in the Lake States, there should be only 875

stems per acre left after thirty years out of 1,700 stems present at twenty years (3).

European practice is to space planted trees very closely, especially on the poorer soils, to insure full utilization of the site in a short time. Needed thinnings are made when the plantations are very young, since a market exists in Europe for material of almost any size. The opportunity for commercial thinnings does not usually arise in lower Michigan, however, until from three to four cords of pulpwood per acre can be cut from two-stick trees. Moreover, present returns from these less-productive timberlands do not justify noncommercial thinnings regardless of the silvicultural need. If a market should develop for smaller material, such as that used for posts, the situation would be somewhat improved.

To provide more specific knowledge about spacing planted jack pine, several long-time studies are being carried on in the Lake States region. Ten-year results have been reported recently (4; 5). The present paper describes one test established by members of the Huron National Forest staff to investigate the growth, yield, and value of jack pine at three different spacings. The results of this administrative study, now twenty-five years old, provide a limited opportunity to evaluate spacing standards for jack pine on poor sites in lower Michigan.

The Experiment

In the spring of 1925 a three-acre jack-pine plantation was established on Grayling sand along the south bank of the Au Sable River, about six miles west of the Lumberman's Monument in Iosco County, Michigan. This site is typical of the poorer, sandy, jack-pine planting "chances" on the outwash plains of lower Michigan. Jack pine, 1–0 stock, was bar-planted in furrows at three spacings—4 × 4, 6 × 6, and 8 × 8 feet. A one-acre-square plot was devoted to each spacing. The unreplicated plots were laid out side by side on a site occupied by a sparse stand of scrubby northern pin oak (*Quercus ellipsoidalis* Hill). Preplanting release was not necessary, but all overtopping oaks were removed in 1939.

Survival at the end of the first growing season was 78, 71, and 59 per cent for the 4 × 4, 6 × 6, and 8 × 8 foot spacings, respectively. All fail spots were replanted the following spring with 2–0 stock. Some replanting was also done in the spring of 1927. Meas-

urements in the fall of 1936 showed survival percentages similar to those of 1925 before the original replanting. It appears that the plots developed at average spacings of about 5 × 5, 7 × 7, and 9 × 9 feet during much of the early, formative period.

Effect of Spacing

After twenty-five years of growth at three densities of stocking, significant differences in stand development are evident (Table I). Diameter growth, as would be expected, increased with spacing interval, averaging 3.1, 4.1, and 4.6 inches d.b.h. for the original

TABLE I

Stand Development per Acre, 1925–51

Spacing between trees, in feet			Total number of stems			Basal area, in sq. ft., 1951	Volume, 1951	
1925	1936	1951	1925	1936	1951		Cu. ft.	Cords*
4 × 4	5 × 5	5 × 6	2,722	1,620	1,500	78	800	3.9
6 × 6	7 × 8	8 × 8	1,210	780	730	67	740	7.8
8 × 8	10 × 10	10 × 11	681	425	390	45	540	5.4

* One hundred inches long to a 3-inch top d.i.b. from trees 3.6 inches d.b.h. and up.

4 × 4, 6 × 6, and 8 × 8 foot plots, respectively (Table II). The distribution of stems by diameter classes is limited to a narrow range; most of the trees are within one inch class of the average size (Table III).

Height growth has been unaffected by differences in spacing. The stand has grown about one foot in height annually regardless of density of stocking during the twenty-five-year period (Table II). These results have generally been substantiated by the findings of others working with jack pine in several regions (1; 4; 5).

Present stockings are 1,500, 730, and 390 trees per acre for the original 4 × 4, 6 × 6, and 8 × 8 foot spacings, so that the present spacings are about 5 × 6, 8 × 8, and 10 × 11 feet. The causes of mortality cannot be definitely determined since early records are nonexistent. The plantation has come through several very dry years, though, which must have exacted a heavy toll; it is probably safe to assume that much of the early mortality was caused by

drought and heat. There is visual evidence, however, of white-pine weevil damage and loss through competition.

Volume growth has amounted to 3.9, 7.8, and 5.4 cords per acre of 100-inch pulpwood to a 3-inch top d.i.b.[1] in the original spacings

TABLE II

AVERAGE HEIGHT AND DIAMETER GROWTH OF JACK PINE TEN AND TWENTY-FIVE YEARS AFTER PLANTING

Original spacing, in feet, 1925	Average height of dominants, in feet		Average d.b.h., in inches, 1951
	1936	1951	
4 × 4	7.4	25.7	3.1
6 × 6	7.5	25.6	4.1
8 × 8	7.8	25.2	4.6

TABLE III

DISTRIBUTION OF TREES PER ACRE BY DIAMETER CLASSES, 1951

D.B.H. class, in inches	Average spacing, 1951					
	5 × 6 ft.		8 × 8 ft.		10 × 11 ft.	
	Trees	Percentage	Trees	Percentage	Trees	Percentage
1	135	9	9	1	. . .	. .
2	375	25	42	6	8	2
3	615	41	118	16	46	12
4	355	24	354	49	137	35
5	20	1	198	27	191	49
6	. . .	. .	9	1	8	2
Total	1,500	100	730	100	390	100

of 4 × 4, 6 × 6, and 8 × 8 feet. About 35 per cent of the trees of the original 4 × 4 foot spacing (now 5 × 6) have slowed down almost to a standstill in growth, and only about 25 per cent of the stand can be considered good growing stock. Nearly 80 per cent of the trees of the 6 × 6 foot spacing (now 8 × 8) are still growing as well as could

[1] All trees 3.6 inches d.b.h. and up are considered merchantable.

be expected considering the site, and should provide adequate stocking for one or two commercial thinnings before the final harvest. The 8 × 8 foot spacing (now 10 × 11) is too open and "orchard-like," and cannot possibly produce maximum yields on this site. Only 25 per cent, 375 trees, at the 4 × 4 foot spacing are of commercial size, and all but 20 of these trees are in the 4-inch diameter class (Table III). The area with 6 × 6 foot spacing has 561 merchantable trees per acre, while that with the 8 × 8 foot spacing has only 336 per acre.

Field observations show that the trees planted at 4 × 4 foot spacings, which are now about 5 × 6 feet apart, are in need of thinning, but that on the average they are too small to justify a commercial operation. The plot originally started at a 6 × 6 foot spacing and now at about an 8 × 8 foot spacing looks the best and should be ready both silviculturally and economically for a light thinning in five years. The area that was planted at an 8 × 8 foot spacing, which is now 10 × 11, has too many excessively limby, open-grown trees. This plot probably will not be thinned on a rotation of fifty years.

Discussion

Under existing conditions in lower Michigan, noncommercial thinnings are not feasible in jack-pine-plantation management. Even though it might be possible to grow more wood per acre by close spacings requiring one or more thinnings before the stand reaches merchantable size, this practice cannot be justified at present. It is valuable to know, however, just how stand density affects the growth and development of jack pine on various sites. The test reported here indicates that early crown closure on poor sites can be secured only at the expense of volume growth. Perhaps it should be recognized that spacing on both good and poor sites should be about the same, after expected mortality is discounted. If size alone is considered and age is disregarded, poorer sites usually have fewer trees per acre than better sites for any given average stand diameter. For example, a yield table for well-stocked natural jack-pine stands in the Lake States shows that on good sites after forty years there should be 435 trees per acre averaging 8 inches d.b.h. On poor sites, however, only 330 stems per acre, averaging 8 inches d.b.h., can be expected at the end of eighty years

(3). The question immediately arises as to the value of close spacing, early crown closure, and noncommercial thinning as compared with wider spacing, delayed closure, and commercial thinning.

The quantitative and qualitative results of this planting test show that spacings for jack-pine plantations on poor sites should be about 6 × 6 feet if there is reason to expect no more than 50 per cent mortality. Even assuming such a relatively high rate of loss, 600 trees per acre will be available when the first commercial thinning is considered, after about thirty years. Another factor to be taken into account in reforestation is the cost of planting. The cost of 6 × 6 foot spacing in machine planting can be less than one half that of 4 × 4 foot spacing (6). A 6 × 8 foot spacing with the furrows 8 feet apart will reduce costs even further.

Summary

A twenty-five-year-old jack-pine spacing test in the Huron National Forest in lower Michigan furnishes evidence that plantations on poor sites with an initial spacing of about 6 × 6 feet will yield sufficient merchantable products for a commercial thinning when thinning is needed silviculturally. Height growth is unaffected by density of stocking, but diameter increment increases with wider spacing. Trees in spacings wider than 8 × 8 feet, however, although attaining larger diameters, are limby, "orchard-like," and will not fully occupy the site. A total of from about 600 to 700 stems per acre at this age—twenty-five years—looks like the best stocking for maximum return. Spacings of 6 × 6 feet with 50 per cent survival, or 6 × 8 with 70 per cent survival, should provide enough trees for a beneficial commercial thinning after about thirty years.

Forest Service, Department of Agriculture
Lake States Forest Experiment Station
East Lansing, Michigan

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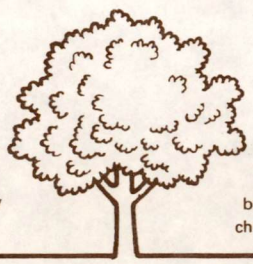
1. Pvt. land is best land
2. Transitional land is big problem — Islands Trust
3. Pvt. land must be consistent w. comm, & also w. other pvt. prop.

and we are looking at whole exempt land.

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7. Royal Comm.

Re mineral assmts, new B.C. law is masterstroke.

Either pay taxes on them, or forfeit to Crown.

Same cd. be used for dev. rts.

Trouble is, Crown isn't then very enterprising

Aug. 1, '75

1. Ask J.J. if they subtract prop. tax on timber in apprais'g stumpage.
Can a use prop. shifted into stumpage.

2. Side-effects of hi tax-rate on land

Lands w. non-forest potential

A. Classify as ~~forest~~ T.F. land. Base assmt. on forest use only. 1) as is
2) Highest forest use

B. Tax at market & raise money.
(They wd. remove land from TF if of hi value.)

Let Minister decide

C. Announce transition ~~to~~ from A to B.

(X years)

Aug. 1 '71

A.

1) As is

- no solution to conversion?
- dedication w. a lock-in -- prevent selling. Charge for conversion.

Recapture

Slow down conversion? Maybe not avoidable via non-sale?

Option of owner, option of owner

(Land of no forest use has had pure fee title special case)

2) Highest forest use, ~~ex~~ including multiple use

Also requires recapture charge.

3) Same, including multiple use

Cottages can be "separately identified"

w/o being surveyed out.

Aug. 1, '75

3. Occupiers of Crown lands

A. Leases & licences

If in TFL, exempt totally

If not in TFL, pay prop. tax. "Taxed" land.

He requires cutting permit to cut, so TK compromise is apply ~~f~~ to ⅔ "land under cutting permit" -- ca. 1% of all TFL.

British Columbia Institute for Economic Policy Analysis

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November 25 1975

MEMO

TO: Property Tax Commissioners

FROM: Mason Gaffney M.G.

This is a postscript to my report on Tree Farm taxation. In the body of the report it was noted that there is a class of Crown land called "forest land" comprising 833,000 acres, mostly in mature timber which is subject to a property tax for provincial purposes only. That is, it is exempt from the schools tax. This class of land is in the "old temporary tenures", the part which is outside of Tree Farm licenses only.

The question may now be raised, "Why is this class of land subject to a property tax when other forested Crown land is not?" The answer appears to be that property tax policy has been subordinated to and made an instrument of overall Forest Service policy designed to slow down cutting rates. The idea of proposing a property tax on timber outside of Tree Farm Licenses while exempting timber inside Tree Farm Licenses was and remains to induce owners to put their lands into the Tree Farm Licenses, where they are subject to Forest Service control over rate of cut and other things.

Recall that the Tree Farm tax class is also designed to induce private landowners to subject themselves to Forest Service regulation over rate of cut.

The thrust of provincial property tax policy in respect to timber then seems to be that the Forest Service knows best and property taxation should be used to persuade individuals to submit to Forest Service regulation. The difficult issue posed for us, then, is: Does the Forest Service really know best? I don't know many economists who think so. On the other hand, I don't know many professional foresters who think not.

A traditional economic route out of this dilemma for people who don't have time to try to resolve the issue directly is to say that uniformity of treatment should prevail and if the legislature wants to take other measures to subject timber to forest service regulation it should do so directly. A second way out is the recommendation which I made in the body of the report to exempt the timber from the tax and apply a higher rate to the site value. This just might be the best way to keep everybody happy.

MG:jm

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