The Taxation of Privately Owned Forest Land in Canada
A review of the taxation systems in all ten provinces

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March 21, 2015

Table Of Contents:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>2</td>
</tr>
<tr>
<td>0. Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Property Rights</td>
<td>4</td>
</tr>
<tr>
<td>1. Area of Privately Owned forest land in each province.</td>
<td>5</td>
</tr>
<tr>
<td>2. Provincial Reports</td>
<td>6</td>
</tr>
<tr>
<td>- British Columbia</td>
<td>6</td>
</tr>
<tr>
<td>- Alberta</td>
<td>7</td>
</tr>
<tr>
<td>- Saskatchewan</td>
<td>7</td>
</tr>
<tr>
<td>- Manitoba</td>
<td>8</td>
</tr>
<tr>
<td>- Ontario</td>
<td>8</td>
</tr>
<tr>
<td>- Quebec</td>
<td>9</td>
</tr>
<tr>
<td>- New Brunswick</td>
<td>10</td>
</tr>
<tr>
<td>- Prince Edward Island</td>
<td>11</td>
</tr>
<tr>
<td>- Nova Scotia</td>
<td>11</td>
</tr>
<tr>
<td>- Newfoundland &amp; Labrador</td>
<td>12</td>
</tr>
<tr>
<td>3. Comments</td>
<td>13</td>
</tr>
<tr>
<td>- Property tax systems</td>
<td>13</td>
</tr>
<tr>
<td>- Recommendations on taxation of privately owned forest land and rural</td>
<td>15</td>
</tr>
<tr>
<td>prosperity</td>
<td></td>
</tr>
<tr>
<td>- Jobs supported by timber harvesting and processing</td>
<td>16</td>
</tr>
<tr>
<td>4. Sources of information</td>
<td>17</td>
</tr>
</tbody>
</table>
Note to the reader:
I am indebted to the people across the country who provided information on the property tax systems used by each province. In some cases it is quite complicated. We have done our best to be brief and correct.
I take full responsibility for the information, comments and opinions expressed in all other sections of this report. Tony Rotherham

Executive Summary

It is in the long-term interests of rural communities that agricultural land remains in production and that forested land is managed to maintain the forest in a healthy condition and produce both forest-related environmental goods & services (EG&S) and timber to support the rural economy. A well-designed property tax structure based on incentives, that is accepted as fair and is supported by taxpayers, can help to achieve these objectives.
The survey of provincial property tax systems shows the following examples of property tax systems applied to forest lands:
1 - Explicit incentives for active forest management and timber production - BC, NS and N-L.
2 - Tax incentives to promote active forest management but not necessarily timber production, coupled with a tree planting program - Ontario.
3 - Low taxes on forest land that helps to support active forest management but no specific requirement or incentive to actively manage and produce timber. There is also a tree planting program - NB.
4 - No property tax incentives but a comprehensive woodlot management program that has a linkage with the property and income tax regimes - Quebec.

Property tax systems applied to forest land that are based on incentives and are coupled with financial assistance for tree planting on idle land offer simple and practical ways to: Keep agricultural land in production and ensure that forested land is managed to maintain the forest in a healthy condition and produce forest-related EG&S as well as timber to support the rural economy.

0. Introduction

Regional Distribution of Private Forest Land in Canada

Rivers and Lakes
Private Forest Land

Troy Lifford / CAFO
The location of privately owned forest land in Canada follows the pattern of agricultural settlement and railway construction during the period 1700 to 1900.

It is estimated that 188 million ha (47%) of Canada's 402 million ha forest is actively managed for timber production. Approximately 163 million ha (87%) of the 188 million ha is publicly owned (by provincial governments) and produces about 80% of the national timber supply.

Approximately 24.3 million ha (13%) of Canada's 188 million ha of forest land under active management, is in private ownership and produces about 20% of the national timber supply. (See Table 1 on page 5- note that the land ownership and harvest figures are for a period before the recent recession).

This is a much smaller proportion than in most industrialized countries. In the USA approximately 75-80% of forest land is in private ownership.

Private forest land is found throughout the southern regions of Canada on soils that are generally more productive than the soils in the vast tracts of publicly owned forest.

These private forests are usually divided into two categories:

**Private Woodlots** are associated with areas that were settled and cleared for agriculture during the period 1700-1900. These woodlots cover an estimated 19-20 million ha and are owned by an estimated 450,000 landowners. The average size of these private woodlots is 40 ha. These forest lands produce about 14% of the national timber supply.

'Private Industrial' Forest Land covering an estimated 4.5 to 5 million ha. Much of this category of private forest land is a legacy of the railroad construction era, 1850-1900. In the recent past this land was mainly owned by forest products companies but it is now owned by a very diverse group of investors. The present owners include; public and private pension funds, foundations, groups of investors, private companies, as well as forest products companies. These forest lands produce about 6% of the national timber supply.

Together these two categories of private forest land produce about 20% of the national wood supply - from 13% of the forest land base under active management.

**A brief historical snapshot of rural land use**

Large areas of private land in rural Canada are going out of production. These lands were settled during the period 1700 to 1900. Settlers were allocated areas of land under the condition that they build houses and clear land for farming. If they fulfilled these obligations they received title to the land. The areas with good soil were cleared for agriculture. Other areas were left in forest. Many of these settlers' homesteads were located in areas with poor soils, lots of stones and difficult topography. In some cases lands not taken up by homesteaders were retained in large blocks of forested land and later sold to lumber companies.

The practice of agriculture on these marginal soils (Land Capability for Agriculture Class 4, 5, 6 and 7) will generally not meet the socio-economic expectations of the landowners. Agriculture is being abandoned on these marginal/sub-marginal soils and the cleared land reverts to forest. In many cases the old farms and woodlots are being sold to a new generation of landowners with an urban background who lack the skills, knowledge and interest in maintaining production on these lands. Many of these new owners are more interested in conservation than timber production. Properties close to urban centers are often divided into residential lots.

**1. Area and productivity of Privately Owned forest land in each province.**

See Table 1 for data on the area and timber productivity of the three categories of forest land (public, private industrial and woodlots) in each province. This information was drawn from the CCFM National Forestry
Database maintained by the Canadian Forest Service. The data originates from provincial, federal and territorial forestry agencies. The information was taken from a report on private forest land by Dansereau and deMarsh, published in the Forestry Chronicle Volume 79, # 4, 2003.

Both private woodlots and 'private industrial' forest land produce more timber per ha than the more remote and northern publicly owned forest.

It is estimated that only 70% of the owners of private woodlots manage their woodlots for timber production. These private lands are capable of significantly higher production if more forest owners become active managers and timber producers. 

It is recognized that the property tax regime can influence land use. But little has been published about the variety of property tax regimes applied to private forest lands within the ten Canadian provinces.

These private forest lands make an important contribution to the national wood supply as well as providing the majority of the forest-related ecological goods & services (EG&S) in the settled areas of Canada. This report is the result of a survey covering all ten provinces to find out about the various property tax regimes applied to privately owned forest land across Canada and the ways some provinces use the tax system to promote good forest management and responsible timber production.

The report includes a few useful examples of taxation systems for municipalities and provinces interested in increasing the supply of timber to mills in rural areas and thereby improve rural prosperity. It is possible to provide a significant property tax incentive to encourage the owners to actively manage both agricultural lands and woodlots.

**Property Rights**

Landowners' Property Rights fall into two categories: The "Right to Own"; and The "Right to Use" property.

Canada is unusual among developed countries. There is no legal protection for either category of property rights in the Constitution or in federal or provincial legislation. While there is no specific 'legal protection' for property rights there is 'respect' for property rights. If property is expropriated in the public interest, compensation is paid. However the 'Right to Use' property, including the right to manage the property for timber production, is frequently reduced and infringed upon - usually without compensation.

Most provinces respect the property rights of landowners and allow unrestricted sale of wood grown and harvested on private land. Only one province, British Columbia, infringes on timber rights by restricting the export of wood from private lands. This restriction on the export of wood from private lands in BC is unique in Canada and inconsistent with our history and dedication to the free and competitive exchange of ideas, goods and services.

In many provinces there are requirements for landowners to apply for and obtain permits from municipal, regional or provincial governments before engaging in forest harvesting operations. In some cases this amounts to a de facto infringement on property rights due to the administrative load and expense of obtaining permits. In cases where the process of obtaining permits is extremely onerous it may inhibit landowners from harvesting timber and reduces the potential productivity and economic contribution from the land.
Table 1: Area and Timber Production from Public and Private Forest Lands across Canada - Dansereau & deMarsh 2003

<table>
<thead>
<tr>
<th>Prov</th>
<th>Area of Forest (000ha)</th>
<th>Public* Forest (000ha)</th>
<th>%</th>
<th>Private Industrial (000ha)</th>
<th>%</th>
<th>Private Woodlot (000ha)</th>
<th>%</th>
<th># of Owners</th>
<th>Total Timber Harvest (000m3)</th>
<th>m3/ha</th>
<th>Harvest Public Forest (000m3)</th>
<th>m3/ha</th>
<th>Harvest Private Industrial (000m3)</th>
<th>m3/ha</th>
<th>Harvest Private Woodlots (000m3)</th>
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<td>46,700</td>
<td>96</td>
<td>900</td>
<td>2</td>
<td>1,200</td>
<td>2</td>
<td>22,500</td>
<td>78,200</td>
<td>1.6</td>
<td>69,700</td>
<td>1.5</td>
<td>4,585</td>
<td>5.1</td>
<td>3,915</td>
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<td>93</td>
<td>25</td>
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<td>0.8</td>
<td>16,990</td>
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<td>110</td>
<td>4.4</td>
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<td>11,500</td>
<td>97</td>
<td>-</td>
<td>-</td>
<td>400</td>
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<td>2,980</td>
<td>0.3</td>
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<td>370</td>
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<td>330</td>
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<td>Ont</td>
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<td>Nfld&amp;L</td>
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<td>96</td>
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<td>36</td>
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<td>4,000</td>
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<td>1.0</td>
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<td>154,662</td>
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<td>12,515</td>
<td>2.6</td>
<td>26,720</td>
<td>1.4</td>
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Comments: Harvest volumes from Private Industrial and Private Woodlots should be considered as quite different cases. In most cases the Private Industrial forest land is a business asset belonging to a forest products company, a pension fund or independent investors. These lands are owned and managed primarily for timber production. The Private Woodlots are owned by an estimated 450,000 individuals with very diverse ownership and management objectives. It is believed that only 60-70% of Woodlots are managed for timber production. The actual harvest per hectare is perhaps closer to 26,720,000 m3 produced from 13,700,000 ha (70% of 19,556,000 ha) = 1.9 m3/ha rather than 1.4 m3/ha as shown on the table above. Foresters familiar with management of private woodlots estimate that the potential for growth and harvest is approximately 4 m3/ha.

These data are the best that are easily available. The CFS no longer publishes harvest data on the two categories of private land. Some provinces have better data on timber production from private lands than others. The authors consider that these data provide a valid, if not precise, indication of the areas of private forest land and the harvest of timber from forest land in both categories of private ownership and for publicly owned forest in the provinces across Canada.

* Public forest land includes lands owned by provincial, federal and territorial governments. Forest owned by counties and municipalities is considered to be private land.
1. Provincial Reports on the systems used to assess the value of privately owned forest land and levy property taxes

Province: British Columbia

1. Setting and collecting taxes - The BC Assessment office provides an assessment of the value of the land to Municipalities and to Regional governments. The Municipality sets the mil rate and collects taxes on lands within the boundaries of incorporated municipalities. Regional governments set the mil rate and collects taxes on lands outside incorporated municipalities.

2. Land classification for taxation purposes - There are several classes of land for assessment purposes. Industrial, commercial, residential, agricultural, etc. Forest land falls into Class 7 for assessment purposes. Some forest land may also fall under residential or agricultural classifications depending on location and surrounding land use. There is also a Managed Forest Land category.

3. How is the tax rate determined - The value of most classes of land including agricultural and residential land is based on records of land sales. Values for Managed Forest Land are based on; soil type, site characteristics, proximity to markets and timber values. This process of analysis and valuation is carried out for each property. The tax is calculated using the mil rate set by the municipality or regional government. Property size does not affect the valuation or mil rate. Small unmanaged forested properties may be assessed for their residential value. If the property is actively managed it should qualify for the Managed Forest tax rate. Lands classified as Managed Forest must meet the requirements of a "Management Commitment" as defined by the Private Managed Forest Land Act.

4. Tax Incentives - Many forested properties in BC are not within incorporated municipalities. The provincial government has jurisdiction over forest management and operations on all Managed Forest Land. Lands registered and managed under the provincial Managed Forest Program are under provincial forest management jurisdiction - not municipal jurisdiction. The assessed values are generally lower and school taxes are reduced.

5. Programs to encourage active forest management - The province does not offer technical assistance to forest landowners. Forest land that is registered under the Managed Forest Program benefits from lower taxes and must maintain the "Management Commitment" and comply with regulations. Failure to comply with these requirements may result in loss of Managed Forest status. Owners of Managed Forest land must also file an annual report on all forest management activities, but are not obligated to harvest wood. All areas on the Managed Forest property that are not covered by forest or have been cleared during harvesting operations must be regenerated within a regulated time period. The incentive offered by lower property and school tax rates and having forest management activities regulated by the province rather than the local municipality are important. Low taxes help to ensure that land remains under forest cover and is not cleared for some other land use. Low taxes also provide an incentive (but no legal obligation) to harvest wood and make a contribution to the regional economy. Provided that the landowner maintains Managed Forest status for a period of 15 years there is no penalty for withdrawal from the program. Land withdrawn from the program after a period of less than 15 years will incur a graduated penalty.
Province: Alberta

1. **Setting and collecting taxes** - Municipal governments set and collect taxes on forested land.

2. **Land Classification for taxation purposes**: Forested land is classified as 'agricultural' where a woodlot is part of a larger property used for agriculture; or as 'highest and best use'. Forested land may also be classified as 'residential' even if there is no house on the property. Woodlot management is not recognized as an agricultural use. Growing Christmas trees is classified as an agricultural use. Forested land used for recreational purposes is gradually being transferred from classification as agricultural land to a higher tax designation.

3. **How is the tax rate determined**: The assessed value of the land is based on market value. The tax rate on agricultural land is based on the productive capability of the land - pasture, hay, grain - using soil type, topography and other factors. The rate of tax on forested land is set by the municipality using the assessed value and a mil rate. The tax rate is not affected by the size of the property - but the market value per hectare may be affected by the size of the property. It is not unusual for large properties to sell for less per hectare than smaller properties.  
- The tax rate varies depending on the assessed value of the land. The rate does not depend on whether the forested land is managed for timber production land or is unmanaged. Consideration is being given to recognizing the difference between managed and timber productive land and unmanaged (recreational) land but no formal decision and action have yet been taken to do this.
- Remote sensing is increasingly used to provide indications of land use. Parcels with evidence of agricultural operations are usually classified as agricultural.

4. **Tax Incentives** - The province does not offer tax incentive programs to encourage active forest management and timber production.

5. **Programs to encourage active forest management** - The province does not offer other programs to encourage active forest management and timber production.

Province: Saskatchewan

1. **Setting and collecting taxes** - The rate of tax is set by the municipal mil rate and collected by the municipality.

2. **Land classification for taxation purposes** - There is no specific land classification for forested land. Land that has not been cleared or has reverted to forest is often classed as bush pasture and taxed as non-arable pasture land. Tree cover reduces the production of forage for livestock and a tax adjustment is made for areas covered with aspen, conifers or brush.

3. **How is the tax rate determined** - Agricultural land is classed as Regulated land. The value is set by regulation and not assessed at market value.

   There are two categories of agricultural land-
   - Non-Arable land (range/pasture) and
   - Other Agricultural land (cultivated).

The assessed value of regulated land is determined by the present use of the land. Wetlands may be assessed as having no (agricultural) use and therefore no value for tax purposes. Forested land is considered to be non-arable land and is taxed at a very low level. This might be considered to be a tax incentive to keep the land in forest.
4. **Tax Incentives** - There are no explicit incentives within the property tax system to encourage private land forest management.

5. **Programs to encourage active forest management** - There appear to be no programs offered to promote or assist forest management on private lands.

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**Province: Manitoba**

1. **Setting and collecting taxes** - Municipal governments set and collect taxes on forested land.

2. **Land classification for taxation purposes** - The land classification is based first on use and second on zoning. If the land has a cottage and is used as a weekend residence it is classed as rural residential. If there is no residential structure it is classified according to the municipal zoning regulations, which in rural areas is usually farm land.

3. **How is the tax rate determined** - The tax is based on the assessed value of the land using sales of comparable properties. The market value is multiplied by a factor (0.45 for residential properties and) (0.26 for farm properties). This provides a "portioned assessment" which is applied against the mil rate to calculate municipal and school taxes.
   - As noted above the tax rate does vary depending on the classification of the land - rural residential or farm. The tax rate does not vary based on whether the forested land is actively managed or unmanaged.

4. **Tax Incentives** - The province does not offer tax incentives to encourage active management and timber production.

5. **Programs to encourage active forest management** - The Private Land Resource Planning program of the Manitoba Forestry Association offers a range of technical assistance to private forest land owners. These include the preparation of woodlot management plans, logging planning, wood measurement and tree planting. Some of these are offered on a "fee for service" basis.

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**Province: Ontario**

1. **Setting and collecting taxes**: Municipal and Regional governments set and collect taxes on forested land.

2. **Land classification for taxation purposes**: Ontario has seven land tax classes. This provides flexibility to vary the rate of tax on land. The seven classes are: Industrial, Commercial, multi-residential, residential, pipelines, farm and managed forest. Forest land owned by registered farmers is classed as farm land. These are taxed at 25% of the general tax rate. Forest lands included in the Managed Forest Tax Incentive Program (MFTIP) are also taxed at 25%. All other forested lands are classed as residential or another class if appropriate and taxed at 100% of the general tax rate based on current use.

3. **How is the tax rate determined** - the assessed market value of the property is determined by a provincial organization - The Municipal Property Assessment Corporation.
   - Farm land is assessed on the basis of sales of farm land of various soil productivity classes. Managed forest land is assessed at the same rate as woodlots on farms and is based on farm land sales and soil productivity classes. Land legally designated as Conservation land is exempt from taxation.
• Land values are revised on a 4-year cycle based on sales records. The Assessment Review Board hears complaints about land valuations.

• The level of tax is not based on the size of the property, the market value per hectare might be influenced by larger properties selling for a lower price per hectare.

• The tax on forested land is reduced for lands that qualify for inclusion in the Managed Forest Tax Incentive Program (MFTIP). A 10-year management plan approved by a provincially qualified managed forest plan approver (MFPA) is required. The MFTIP program includes a variety of management objectives from wildlife habitat improvement to timber production. The plan will be based on the landowner’s objectives and the landowner agrees to manage towards the objectives listed in the plan and to carry out all management operations in accord with good forest practices as defined in the Forestry Act. Active management for timber production is not required. Forested land that is part of a registered farm operation benefits from the 25% tax rate but does not have to be covered by a management plan and included in the MFTIP program.

4. Tax Incentives - The province provides a low tax rate for forested land included in the MFTIP. The minimum property size eligible for the MFTIP is 10 ac / 4 ha. There is no upper limit to the size of property eligible for inclusion in the MFTIP. The property must be owned by a Canadian: Resident, Entity or Corporation and covered by a specified density of tree cover. The MFTIP approved plan will be designed to achieve the landowner's objectives. The program recognizes a wide range of objectives - timber production, climate change, wildlife conservation, etc. Reporting on all operations/activities is required at year 5 and year 10. The plan must be renewed at 10-yr intervals. The MFTIP does not include technical assistance. The MFTIP program provides an incentive to maintain land in forest cover but does not provide a specific incentive to grow and harvest timber.

5. Programs to encourage forest management - Ontario has a 50-Million Tree Program that provides financial incentives to plant trees on idle land. The incentive covers about 70% of the costs.

Province: Quebec

1. Setting and collecting taxes - Property evaluation for purposes of taxation is carried out by licensed evaluators employed by municipalities, Regional county governments (MRCs) or consultants employed specifically for this purpose. The assessed value is reported to the municipality and a mil rate set by the municipal council is applied to calculate the property tax due. School taxes are also based on this evaluation but the mil rate is set by the local English or French school board depending on the choice/affiliation of the landowner.

2. Land classification for taxation purposes - There is no specific land classification for forested land. Most municipalities use 6 land use classes for taxation purposes. A different mil rate is usually applied to each land use class. 1. Industrial, 2. Commercial, 3. Multi-residential (min 6 units), 4. Residential, 5. Vacant serviced lots, 6. Agricultural and Forested land.

Land under legal protection as 'Conservation Land' under the provincial "Reserve Naturel" program will qualify for exemption from school taxes and a reduction in municipal property taxes.

3. How is the tax rate determined? - The tax rate is a combination of the assessed value of the land and the mil rate applied by the municipality. The tax rate is not affected by the size of the property though the assessed value per hectare is affected by property size - as in other provinces larger properties generally sell for a lower price per hectare than small properties. There is no special tax category for managed forest land, and therefore there are no requirements to qualify for a managed forest land tax rate nor any verification process.

4. Tax Incentives - There is no specific land classification for forested land and there are no specific incentives built into the general property tax system to encourage the active management of private forest land.
However, the province has a comprehensive program of forest management incentives available to forest landowners, including a rebate of up to 85% in annual property taxes (municipal and school) paid on land (not buildings) **IF** the total of eligible expenses for forest management work exceed the total property tax paid. This reimbursement of property taxes is paid as a deduction on the landowner's provincial income tax but it is, itself, treated as income and is thus subject to income tax the subsequent year. The program is described below.

**5. Programs to encourage active forest management** - The provincial government’s Financial Assistance Program for the Development of Private Woodlots, in place since the mid-1980’s, provides direct financial assistance (subsidies) for specific phases of forest management work, provided that these meet detailed technical criteria. It is complementary to the Real Estate Tax Reimbursement Program for Certified Forest Producers in that particular forest management treatments and activities can benefit from one or the other (not both) of these programs. Both programs include: preparation of forest management plans, annual visits by a forester or technician, a wide range of silvicultural treatments including site preparation, planting, tending, thinning, partial cuts and forest access road construction and maintenance including bridges and culverts.

To qualify for financial assistance through either of these programs, landowners must own more than four hectares of forestland, have a forest management plan prepared by an accredited consulting forester and registered with the provincial government. They thereby obtain the official status of “Forest Producer.”

Technical aspects of forest management work carried out as part of the woodlot management plan must be planned, approved and verified by the consulting forester.

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**Province: New Brunswick**

1. **Setting and collecting taxes** - Taxes are set by the provincial government and collected by municipalities, Local Service Districts and the provincial government depending on the location of the property and which organization provides services (e.g. road access and maintenance) to the land.

2. **Land classification for taxation purposes** - Forest land may fall into several categories for taxation purposes. It depends on the size, location, ownership and use of the land. The categories are: Forestland, Vacant land, Timberland, Recreational land, Freehold Timberlands and Residential- if close to houses. Some large properties may fall into a combination of these classes.

3. **How is the tax rate determined?** The tax rate is based on the value of the land as assessed by the provincial government office responsible for valuation - GeoNB and Service New Brunswick. The assessed value is not directly based on land sales. In the case of woodlots, the value is set by the government at approximately $100/hectare with a tax rate of approximately $1.70/$100. The tax rate is generally independent of the size of the property and its management.

4. **Tax Incentives** - The low rate of tax on forested land provides an incentive to keep the land in forest and to manage it.

5. **Programs to encourage active forest management** - The province does provide financial assistance for silvicultural programs (site preparation, planting and tending) on woodlots. These programs are delivered through the regional wood marketing boards. There is a low tax rate on forested land but no specific tax-based incentives to encourage timber growth and harvesting. The low tax rate does provide an incentive to keep land in forest. There have been discussions about some tax-based incentives to encourage the growth and harvest of timber but as the present tax level is quite low an upwards adjustment would have to be made on lands that are not actively managed to create an incentive for active management and timber production.
Province: Prince Edward Island

1. Setting and collecting taxes - The tax rate is set by the province and municipal governments. Fire Districts may set fire protection charges in addition to the property tax. Taxes are collected by the province or municipality.

2. Land classification for taxation purposes - Forested land is classified as forest land. Tax is based on the assessed value of the land. The value is set by the property assessment staff of the provincial government and is based on sales records. The size of the property is not a factor except as it may be reflected in the market value. There is no managed forest category.

3. The tax rate - The tax rate is set by the municipality. It does not depend on whether the property is actively managed or not.

4. Tax incentives - The province does not offer property tax incentives to encourage active management and harvesting.

5. Programs to encourage active forest management - The province has programs to support management. These include a forest management planning (Forest Enhancement Program) and a lending program (Forest Investment Program) to implement silvicultural treatments included in an approved plan. The availability of loans might be considered as enabling, rather than encouraging, active management.

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Province: Nova Scotia

1. Setting and collecting taxes - The classification and valuation of land for tax purposes is done by the Property Valuation Services Corporation of Nova Scotia. The tax rate is set and taxes are collected by each municipality. “Eligible” forest land is subject to a flat tax as set out in the Municipal Government Act.

2. Forest land classification for taxation purposes: Bona fide managed and productive forested land is classified as Resource Land or Commercial Land depending on the size of the property and is "eligible" for the flat tax rate. If there is evidence that forested land is not used for forestry the land might be classified as recreational, vacant residential, or vacant commercial. These land classifications are taxed at market value. Agricultural land, conservation land and lands owned by certain charities or public bodies are exempt from property tax. Municipalities receive grants in lieu of taxes from the provincial government to compensate for these exemptions.

3. How is the tax rate determined - A flat tax per hectare is paid to municipalities as set out in the Municipal Government Act. The tax rate is determined by the size of ownership.

- For owners controlling less than 50,000 acres (20,243 ha) the land is classified as Resource Land and is taxed at a rate of $0.25/ac ($0.62/ha) + $0.01/ac - if the municipality has a fire protection charge.
- For owners controlling more than 50,000 acres (20,243 ha) the land is classified as Commercial Land and is taxed at a rate of $0.40/ac ($1.00/ha).
- To qualify for and maintain the Resource or Commercial Land classification the owner may be required to complete and file a Statement of Property Use with the provincial assessors. There is an appeals process.
- As part of the Statement of Property Use owners of Resource or Commercial lands may be required to have; a management plan, records of actual timber production, records of tree planting, etc, to support their claim to Resource or Commercial Land tax status. The reduction in property taxes due to classification as Resource or Commercial Land is significant.
If all or a portion of the forest land that has benefited from the low tax rate granted to Resource and Commercial land ceases to be used for forestry purposes, the owner/person responsible for the change will be subject to a "change in use" tax determined by the assessor. The "change in use" tax is equal to 20% of the assessed value of the land that has undergone the change of use.

The low tax rate levied on Resource and Commercial forest lands is designed to maintain these lands in forest and under management. If management ceases there will be a significant increase in annual property taxes as well as the one-time "change in use" tax.

The low tax rate for Resource and Commercial forest lands also recognizes that it is the presence of people that drives the cost of municipal services, not the presence of forests.

Forested land may qualify for classification as a Conservation Property and be exempt from all taxation. Significant ecological value and permanent legal protection is required to qualify. The provisions of the Conservation Easement Act, the Special Places Act or the Wilderness Areas Protection Act apply.

4. **Tax incentives** - The low property tax rates noted above provide an effective incentive to keep land in forest and under management.

5. **Programs to encourage active forest management** - The province offers technical assistance and funding for silvicultural treatments to forest owners. The province also gives financial support to landowners' organizations that provide technical and management services to forest landowners.

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Province: **Newfoundland & Labrador**

1. **Setting and collecting taxes** - The provincial government sets the tax rate and collects the provincial tax on forest land.

2. **Land classification for taxation purposes** - Forest land is classed as forest land.

3. **How is the tax rate determined** - The tax is set at a fixed rate per hectare. The tax rate is set by the Forest Agency. The tax rate does not vary depending on the size of the property but does depend on whether the land is actively managed or not.

   - The tax on managed forest land is calculated by multiplying the managed and productive area of the property, exclusive of water bodies greater than 2 ha in area, by the annual tax rate approved by the Lt. Governor-in-Council.
   - For forest land that is not managed the tax rate is based on a percentage of the market value of the land.
     - The rate varies depending on the length of time that the land has not been managed. If for 1 year-5% of the market value. If 2 years-10% of the market value. If the land is not managed for 3 or more consecutive years the tax is set at 20% of the market value.
   - Management of the land is determined by the existence and active implementation of a management plan.
   - There is a requirement to file an annual report on management activities.

4. **Tax incentives** - There are no tax incentives to encourage active forest management other than the significant increase in the tax rate on land that is not managed (see above).

5. **Programs to encourage active forest management** - Less than 4% of the forest land in N-L is privately owned. Harvesting on forest properties larger than 120 ha requires a management plan approved by the government before harvesting takes place. Only 3 landowners have forested properties larger than 120 ha. This land represents less than 1% of the forest land in the province.
2. Comments

Property tax systems

The fundamental objectives of a well-designed property tax system for rural municipalities might be stated as:

1. To provide a source of funds to pay the operating costs of the municipality with payments fairly apportioned among the taxpayers and proportional to costs incurred by the municipality.
2. To encourage landowners to develop and maintain a healthy and productive landscape.
3. To ensure that the productive capacity of the rural landscape makes a contribution to community prosperity and the maintenance of community institutions.

Several decades ago a report produced in Nova Scotia noted that it is people and buildings, not land, that drive the demand for municipal services and incur expenses for policing, fire protection, garbage collection and most other aspects of municipal administration. People and buildings should logically bear the majority of the tax load.

Land does need road access. The municipal rural road system that provides access to rural lands requires summer and winter maintenance but the land itself incurs few other municipal expenses.

It is in the long-term interests of rural communities that agricultural land remains in production and that forested land is managed to maintain the forest in a healthy condition and produce forest-related EG&S as well as timber to support the rural economy. A well-designed property tax structure that is accepted as fair and is supported by taxpayers, can help to achieve these objectives.

Property Tax rates offer a tool to encourage the active management of forested land and the production of timber.

Most people respond well to incentives. Incentive are seldom seen as an infringement on property rights. Stern regulation directed at achieving the same objectives will generally be resisted.

Economists working for the federal department of agriculture estimate that 5-7 million ha of Canada’s 67 million ha of agricultural land is marginal/sub-marginal for agriculture and is in the process of reverting to forest. In many cases these lands are sold to new owners with an urban background and no knowledge of, or interest in, land management. This leads to a gradual transformation from a "Working Landscape" of farms and woodlots to a "Recreational Landscape". The annual economic contribution of agriculture and woodlots in these declining rural "Working Landscapes" is probably about $400/ha from agriculture and $150/ha from woodlots. The new "Recreational Landscape" makes little or no direct economic contribution to the rural economy and therefore contributes to a decline in the level of rural prosperity and the stability of institutions in rural communities. This is not a benefit to the community or the nation.

All provinces should recognize the potential of privately owned forested land to make a contribution to rural prosperity and provide incentives to encourage active management.

Property Tax rates that encourage active forest land management, coupled with provincial tree planting programs can expedite the reforestation of fields and pasture that are no longer used for agriculture. These plantations will start to make a contribution to the local wood supply and to the rural economy after about 30-35 years of growth. Allowing Nature to take its course and relying on natural regeneration to re-forest the idle fields and pastures will take perhaps 70 years or more before the new forest is capable of making a contribution to the local economy.
In most provinces agricultural and forested lands benefit from lower tax rates. This is logical as these lands do not cause significant expense to municipal governments.

In the same way that a low level of tax on agricultural land is designed to support the continuation of farming activities, low taxes on forested land can be designed to promote the growth and harvesting of timber to support the rural economy and community prosperity.

Rural lands should be taxed based on the actual use of the land, not some hypothetical use proposed by the local assessors or zoning. Taxation of forest land based on potential forest growth and timber yield has been recognized as an approach that is complicated and expensive to establish with fairness to all landowners.

A more practical approach is a tax based on land values but with a mil rate based on actual land use and the cost of municipal services provided to the land. An attractive rate of property tax on managed forest land provides landowners with a reason to keep the land in forest and can provide an incentive to produce timber with benefits to the rural economy.

It should be emphasized that private forest land provides the majority of the forest-related ecological goods & services (EG&S) in the settled regions of Canada. The general public benefits from the forest-related EG&S provided by the wooded land and paid for by the landowners.

These EG&S are: habitat for forest-dependent wildlife, water quality conservation, regulation/moderation of runoff in watersheds and landscape aesthetics. Forest landowners have long maintained that their contribution of forest-related EG&S enjoyed by the public should be recognized by lower tax rates on forest land. The public should not be free riders on the EG&S provided by the owners of private forest lands.

If the forest land and woodland operations are well-managed and economically viable, the community can also benefit from the economic contribution to the rural economy from timber production without loss of the environmental benefits.

If the community provides a financial benefit to forest land owners through low property taxes it is reasonable to expect that the landowners should support the rural economy in return by active, productive management of the land.

It is also reasonable to expect that the management of these forest lands will conform to modern expectations.

A second important part of conforming to the expectations of society is the ability to carry out woodlands operations in ways that meet the ownership and management objectives of the landowners. This will require the use of harvesting systems and equipment with a light footprint.

Owners of forested land who benefit from a low tax rate that provides an incentive for good management and timber production should consider that they are engaging in a long-term 2-part 'social contract' with the community.

The lower the tax the more binding the social contract.

The "contract" will be:

**For the landowner** - Low taxes, without excessive restrictions on land use or administrative burden to obtain permits; and

**For the community** - A continuing flow of forest-based EG&S and wood production to contribute to community prosperity.

In the event that the forest landowner decides to change the use of the land, the case for charging a one-time "Change of Use" tax is persuasive.
A unilateral increase in the tax rate levied by the municipality will also damage the contract.

Incentives built into the tax system offer a more efficient way to gain the participation of landowners than stern regulation.

The survey of provincial property tax systems show the following patterns:
1 - Explicit incentives for active forest management and timber production - BC, NS and N-L.
2 - Tax incentives to promote active forest management but not necessarily timber production, coupled with a tree planting program - Ontario.
3 - Low taxes on forest land that helps to support active forest management but no specific requirement or incentive to actively manage and produce timber. There is also a tree planting program - NB.
4 - No property tax incentives but a comprehensive woodlot management program that has a linkage with the property and income tax regimes - Quebec.

Recommendations

Landscape contributions to community prosperity

- **Working Landscapes** provide economic support and contribute to rural prosperity and the stability of community institutions. These contributions should be encouraged and rewarded by low property taxes.
- **Recreational Landscapes** can provide support to rural communities through the payment of higher taxes.
- The recreation and tourism sector should not be "free riders" on the forest-related EG&S provided by taxpaying forest landowners.

Provinces and/or rural municipalities should consider the establishment of three land tax categories.

- Residential property - houses, buildings and 2-4 ha of land - standard residential tax rates.
- Unmanaged land or land used for personal recreation with tax rates that recognize the contribution of EG&S - moderate tax rates
- Managed productive land, with a low tax rate as an incentive to actively manage and produce agricultural products, forest-related EG&S and timber.

**Managed productive land** might be defined as:
- Land that is in agricultural production - cultivated arable land, hay fields with regular harvest and pasture land with regular grazing.
- Forest land that is managed, with a program of timber harvesting or production of commercial non-timber forest products - nuts, berries, etc.
- Land on which agriculture has been discontinued AND the cleared land has been planted with trees. Financial assistance to defray the costs of planting trees on idle/marginal/sub-marginal agricultural land is justified by the long period of growth (25-35 yrs) before the landowner can expect revenues from timber harvest.

**Unmanaged** land or land used for personal Recreation is idle and not productive.
There is also land that is not suitable for management and production - high elevation, rocky, steep, wetlands, etc. These lands do not fall into either category - Managed Productive OR Unmanaged or Recreational. An equitable approach to the taxation of these lands is needed.

Landowners can consider the tax rates and benefits and choose which course they wish to follow.

It is not good management to allow land to remain in an un-managed and non-productive state on a vast scale across this country. We sacrifice too much potential contribution to rural employment and national prosperity when such valuable assets are allowed to lie idle for decades.

**Jobs supported by timber harvest and processing**

Employment is generated through harvesting and transport of logs to local sawmills. Most of these jobs are local as logs are not usually transported more than 100 km to the mill. The harvesting and transport of logs is usually done by local people. The landowner will receive a payment for wood cut and sold to mills.

10,000 m³ of wood is about 280 large truck loads of logs and is the annual wood production that can be expected from about 4,000 ha of forest - depending on the location of the land.
3. Sources of Information:

Forest Land Tax Survey - Contacts

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<tr>
<th>Province</th>
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