IRISH TIMBER GROWERS ASSOCIATION

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Irish Timber Growers Association submission on Forestry Taxation

Our submission to you concerns the 'High Earner's income restriction' and its application to income from woodlands because:

- It inadvertently impacts on ordinary forest owners who are not high net worth individuals.
- It was designed to have a fair and balanced approach to the use of tax exemptions by High Earning/High Net Worth Individuals.
- It doesn't appreciate the unique nature of a growing forest which only realises its life's revenue at the end of its growing cycle (commonly in the region of 40 years and sometimes significantly longer) and as a result discriminates against owners who have grown timber over a long period.
- Forest owners (such as small farmers who planted a portion of their lands) who would not be High Net Worth Individuals, in any reasonable sense of the term, are, or could be liable to income tax on income from woodlands because their typical 40 years of growth are compressed into a single tax year.

Recommendations.

1. ITGA strongly encourage the Minister to implement the recommendations of the review of tax schemes (Department of Finance 2006) and the Commission on Taxation Report (2009) recommendation 8.75, in relation to continuing the exemptions to forestry taxation in Ireland. This referred to the market failure which gave rise to the necessity for the tax relief.
2. Forestry income should be excluded from the High Earner's income restrictions and specifically ITGA request for the reasons outlined that the reference to S.232 be removed from Schedule 25B of the Taxes Consolidated Act (as amended).
3. Alternatively, that averaging as available to farmers, should be extended to forestry and for a longer timeframe. In the absence of an extension of averaging to forestry, thousands of farmers are permitted to claim averaging for farming but not for their forestry income (and expenditure), even where the two operations are run side by side and forestry has the significantly longer timeframe.

Impact of Recent Tax changes on Forestry

Forestry, because of its strategic importance to rural economies and the long term nature of the investment, was encouraged by the State partly through appropriate taxation measures. Taxation provisions relating to specified reliefs introduced in recent budgets and subsequent Finance Bills now, not only act as a disincentive to investment in forestry, but also hit those farmers and individuals who made permanent commitments for their land (<u>under law lands must be replanted when trees are felled)</u> based on the exempt nature of income from timber. These commitments were made against a background of active promotion by the Forest Service and Department of Agriculture as an alternative to shorter term agricultural enterprises. Profits from normal agricultural enterprises are typically accounted for on an annual basis but forestry gains, which accrue over many years are not, because of their uniquely long rotations. The forest crops currently at thinning or felling stage were planted from the mid 1970s onwards.

Apart from the 'High Earners income restriction, forestry income has already been subject to the introduction of the Pay Related Social Insurance charge and the 2009 Income Levy. With the replacement of the Levy by the Universal Social Charge (USC) in 2011, a typical forest owner will today pay PRSI at 4% and USC at 7% on any forest income.

Why Forest Income is Different from other types of incentive based income

Cash flow arising from a woodland often shows no surplus income until the felling stage has been reached, which can be anytime from 30 years to over 100 years after planting. In effect, a long rotation ends with a final year profit which is the cumulative income of many years of investment and expenditure. Effectively the result of many years of accrued income are taxed as a single year's annual income, not acknowledging the long term nature of forestry and the fact that it does not produce an annual income for most of its life.

How Forest Income is inappropriately penalised

The Taxes Consolidation Act 1997 (as amended by the Finance Act, 2006 and subsequent Finance Acts), Chapter 2a, Part 15, now provides a limitation on certain reliefs used by high income individuals. High income individuals are effectively defined by the annual income of a given year. The reliefs that are limited include S.232 by virtue of Schedule 25B – S.232 being the section that exempts income arising from the occupation of woodlands. This has the unintended effect of bringing into charge income from the occupation of woodlands that has accrued over a long period and to individuals who would not, other than for the receipt of a lump sum from timber sales, be regarded as "high income" individuals. Also individuals who made the decision to invest and grow trees many years ago in the expectation of tax exemption now appear to be faced with a heavy taxation burden out of proportion to the average annual income accruing.

The effect of the inclusion of the S.232 exemption as one of the limited reliefs is likely to cause owners to try to spread and delay timber harvests thus restricting market supply with consequent impacts on employment and exports. It is important to note that over 80% of the output from our panelboard sector is exported along with over 70% of our sawn timber production. Direct and indirect employment in forestry was 5,531 in 2010 and direct and indirect employment in the wood products sectors was 10,315. Separately, the recent tax changes are also acting to undermine afforestation which has fallen by over 30% since 2005 (and the 2006 introduction of this limitation) thus impacting on strategic supply needs and carbon sequestration.

It is also important to look at the tax treatment of forestry in other countries. In the UK for example, profits arising from commercial Woodlands are exempt from Income Tax.

Tax treatment in conflict with Dept. of Finance Report

The introduction of restrictions in the 2006 Finance Act, insofar as they affected forestry income, were contrary to the Department of Finance's Report which had recommended that forestry maintain its tax exempt status. This review of certain tax schemes (Department of Finance 2006) examined the tax reliefs around the operation of commercial woodlands and specifically recommended that the then tax treatment of forestry income should be maintained. In addition, the Commission on Taxation (2009) also recommended that the taxation position related to forestry should be continued (8.75). The limitations introduced in the 2006 Finance Act have been significantly increased in subsequent Finance Acts.

Forestry is a long term capital intensive investment. The current taxation provisions do not recognise the timing of income from commercial woodlands. As a result, the application of the 2006 Finance Act to forestry acts as a disincentive for the achievement of national policy objectives and in particular;

1/ Acts as a disincentive to afforestation,

2/ Acts as a disincentive to ensuring a consistent roundwood supply to industry with a consequent effect on employment, exports and in meeting our renewable energy targets and;

3/ Acts as a disincentive to achieving future climate change mitigation through forestry.

The Irish Timber Growers Association (ITGA) was established in 1977 and is the national representative body of private woodland owners in Ireland. The membership of the Association mirrors the wide range of different timber growers in the country and current membership includes farm forest owners, forestry co-operative members, private woodland estates, forestry investors and forestry pension funds. This wide range of membership allows the Association take a broad view of the industry and issues facing the sector.

The Association welcomes the opportunity to make this submission on forestry taxation. Almost 11% of Ireland is under forest, supporting a vibrant and export orientated forest products sector which makes a significant and growing contribution to the Irish economy. In 2010, the total output of the forest and timber sector was calculated to be €2.2 billion. With half of our national forest area in private ownership, the private forestry sector is set to make a significant contribution to the rural economy and employment and our forestry taxation regime must encourage the best use of our forest resource.