



Submission to:

Tax Working Group

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## Future of Tax

Submission examining the structure, fairness  
and balance of the tax system over the next decade and beyond

New Zealand Forest Owners Association Inc

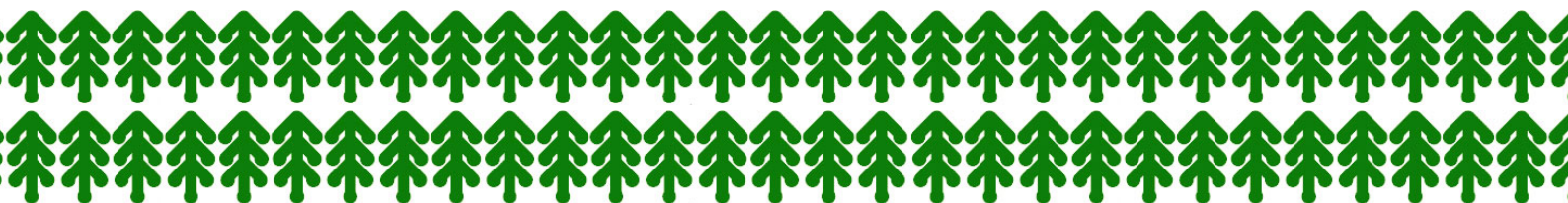
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## Introduction

1. Investment by the industry in the plantation forestry sector is reflected in the commitment of the NZ Forest Owners Association Inc (FOA) and its members to the highest standards of sustainable silviculture, environmental practice and workforce safety. Substantial industry investment into plantation forestry has been made by a range of domestic and international investors – particularly over the last thirty years following the sale of the public forest resource.
2. FOA is submitting on behalf of its national membership.

## Comments on Forest Growing, Products and Trade

3. The current total New Zealand plantation forest estate is approximately 2.3 million hectares. The government wishes to expand the estate with its “Billion Tree Programme”. To achieve this target will require substantial private sector investment.
4. The total New Zealand plantation forest harvest in 2017 was approximately 33.5 million cubic metres. Approximately 18.5 million cubic metres of logs were exported in 2017. The value of log exports for the June 2017 year was \$2.7 billion. Forest product exports in total were over \$5 billion.
5. Thousands of kiwi jobs rely upon the plantation forest industry.

## Our Submission

6. Investors must have surety that the tax system treats different primary sectors fairly and is consistent and is not continually modified.
7. There is a significant failure to recognise universal productivity measures between countries – these are what drives outputs and imputes taxation, general or targeted. There is no reference to New Zealand’s Productivity Commission.
8. Capital Gains Tax: Not having a capital gains tax has resulted in land price appreciation for land that could be converted to forestry but has not been due to the land becoming over-valued compared to its carrying capacity. We support investigation into this tax option.
9. Wealth Tax: The fundamental definition - “a tax on the “net wealth” – assets minus liabilities – of taxpayers each year” is fraught with definitional difficulties and goes straight to the capability of creating illusional liabilities. There are no working examples

world-wide where this type of gross wealth tax system has been effective. We oppose this option.

10. International Tax: With over 70% of the plantation forest estate owned by overseas investors this option is most likely to have the biggest immediate impact on investment/return criteria for New Zealand. Foreign owners have invested heavily in forest infrastructure, training and processing in New Zealand. To meet the government's billion tree programme will also require significant future or additional overseas investment. Overseas companies have a range of countries to invest in. Tax treatment should not discourage overseas investment.
11. Cost of Standing Timber: We welcome the government's goal to encourage the planting of new forests. Much of that planting will necessarily be on farmland and before investing, landowners will be looking at the experience of today's small forest growers. Right now, the 'cost of standing timber' provisions make it harder for small growers to sell or amalgamate their forests.

These provisions put an immediate tax liability on the seller of standing trees, while the purchaser cannot deduct the cost of buying them until the trees are harvested or sold. The difference in timing of the tax liability and the tax benefit creates a 'price mismatch' between buyer and seller. That mismatch makes it harder to trade immature forests, which discourages investment.

IRD has recognised the problem and is considering an exemption for small forest owners who want to transfer their forests into an estate for economies of scale. Grouping would help small forests become more profitable and encourage investment. Easing the provisions will help give the right signal to these landowners.

We support the proposed exemption for small forest owners who want to transfer their forests into an estate.

12. The submitter wishes to be heard in support of its submission.
13. The FOA is happy for this submission to be made public.



David Rhodes  
Chief Executive