



Changes in forestry taxation The current situation

Much debate has surrounded the development of the new primary sector taxation proposals.

The Bill has been introduced to the House and is currently at the Select Committee hearing stage. It is, therefore, by no means a foregone conclusion that the Bill will be passed in its current form.

The reform proposals aim to introduce neutrality to the tax system for the primary sector. The Consultative Document on Primary Sector Taxation of March 1986 defines a 'neutral' tax regime as one where investments with a given pre-tax rate of return would generate the same post-tax rate of return for any given tax rate.

The following anomalies in the proposals still require resolution:

1) Structural defects inherent in our taxation system have largely been ignored by the proposed reforms. In particular taxing on nominal and not real income and using historical costs instead of inflation indexed costs are major defects. These defects will ensure the continuation of distortion in resource allocation whatever tax regime is imposed.

Bevin 1985 notes:

"Business in New Zealand is taxed primarily on income defined more or less on the basis of conventional accrual accounting profits based on historic costs, i.e. past recorded transaction prices.

"To a significant degree defects in the tax system arise from inherent problems in measuring income and allocating it over time. The difficulties of inputting true economic depreciation, adjusting income for inflation, and taxing capital appreciation, all of which would be required to obtain a true measure of economic income for tax purposes, apply to all income tax systems."

2) In having a 'neutral' tax regime the Government intention is to aid efficient resource allocation. However as the tax system is only part of the investment environment efficiency may not result if specific sectors are

still favoured by other means such as import protection.

3) The effect of the proposed regime as compared to the present on the rate of return from a forestry project can be substantial as the following example demonstrates:

Assumptions — Clearwood Regime

- Yield 580 m³/ha age 30
- Overheads \$110/ha/year
- Inflation 10%
- Land sold at end of rotation
- Financing ignored

Scenario	Real I.R.R.	N.P.V. (At 7% Real)
No Tax	6.29	-583
Current Tax Regime	5.69	-642
Proposed Tax Regime	4.68	-1297
Proposed Tax Regime (No other income source)	3.28	-2206

The changes if approved would be expected to reduce the rate of afforestation and therefore rural employment and development.

4) The use of internal rates of return as a measure of investment performance gives different results from the net present value method. A recent paper by Ed Vos of Waikato University comprehensively details these differences. Briefly, if the N.P.V. criteria are applied to the consultative document examples the conclusions are reversed, i.e. under the proposed changes forestry is generally found to be penalized as compared to shorter-lived investments.

5) There are notable exclusions to the general thrust of bringing sectors into line. Forestry is the only primary sector to be subject to the cost of bush regime. The Brash Committee noted that neutrality with other sectors

NEUTRAL TAX

(SAME FAIR TREATMENT FOR ALL)



H. Lewack

would require that any sector with a time delay between production costs and receipt of revenue should adopt the cost of bush regime. However as the consultative document did not propose treatment of this kind the committee made no recommendation to extend the regime to other rural sectors. Horticulture in particular has been excluded from these provisions.

6) The Brash Committee recommended that land tax be applied in a more even-handed manner. Either all land users should be subject to the tax or none. This is still being considered by the Minister of Finance.

The major issue then, as yet unresolved, is: Given our present income tax system's deficiencies, and the perceived anomalies in both the current and proposed regimes, are we moving closer to, or further from, tax neutrality? Unfortunately at present an analytical framework does not exist in which answers to these questions can be found. It therefore seems inevitable that negotiation and political considerations rather than economic analysis alone will play an important part in the final resolution of the new regime.

REFERENCES

- 1) Consultative Document on Primary Sector Taxation, Minister of Finance, March 1986.
- 2) Report of the Consultative Committee on Primary Sector Taxation, June 1986.
- 3) Bevin P. How Should Business Be Taxed? Institute of Policy Studies, 1985.
- 4) Vos, E. Net Present Values vs Internal Rates of Return — Another Misunderstanding. The Accountants Journal, June 1986.

TECHNICAL FORESTRY TRAINING — A CHANCE FOR CHANGE

Prior to the recent political decisions affecting forestry, the NZIF Education and Training Working Party obtained figures for the sector's likely future requirement for technically trained staff. For graduates, the requirement averages 15 per year between now and the turn of the century. In addition, the need for 26 ranger technicians per year was anticipated.

The School of Forestry at Canterbury is staffed and funded by the University on the basis of student numbers. A recent Forestry Council Working Party determined that 45 graduates per year would be needed to support a staff of 12. That staff number was seen as necessary to teach adequately the breadth of skills required in New Zealand as the forests of the second planting boom approach harvestability.

The above Institute of Foresters figures, which one might expect could be adjusted well downwards with the subsequent disestablishment of the Forest Service, indicate a need for only 41 technically trained persons per year. If the School of Forestry alone needs some 45 graduates per year to be effective, then the figures indicate that the New Zealand forestry sector is too small for two technical training systems such as the B.For.Sc. and the N.Z.C.F. to continue to coexist.

How does the forestry sector determine the mix of graduates and ranger/technicians that it needs? While the NZIF data do not answer that question, they show a disparity between employment in the Forest Service (3.3 rangers per graduate forester) and the private sector (0.9 rangers per graduate forester). If, as those figures indicate, the mix is not based solely on technical requirements, then again the need for two separate training systems can be questioned.

The disestablishment of the Forest Service presents a prime opportunity to rethink forestry education in New Zealand. The issue is not simply a question of whether employers and taxpayers are prepared to pay for two systems.

The Issue

Rather the issue is whether the annual demand for new technical staff will support two effective systems. On the Institute of Foresters figures the answer is NO, and there is an urgent need for the sector to plan to resolve that situation. It is now appropriate for all users of technically trained staff to contribute their thinking as to the form that a single effective system might best take.

— G.B. Sweet

What is Forestry?

Someone once said that the only thing that is certain is change — and this is how it is for forestry in New Zealand. The New Zealand Forest Service is soon to be broken up, and at the same time the Institute has started to re-examine its role and scope. Currently membership issues are the subject of a comprehensive examination — see report with comment on page 33. Now Council is looking at some appropriate changes to Institute policy.

An examination of the role and scope of the Institute brings into question a range of interrelated issues,

some of which are in conflict and require careful consideration. For example, there is a general wish to broaden and increase the membership of the Institute, and attract (and retain) people who will be working for the new Department of Conservation as people who are also involved in "forestry" in the broadest possible sense. The conservation theme of this issue of New Zealand Forestry recognizes this need. In contrast there is a call for the Institute to be a body of professional foresters which can lobby with strong professional standing and

recognition. However it must be said that Council is looking at other ways of achieving this.

In order to examine the options and develop appropriate aims and objectives for the Institute, it is first necessary to define the term "forestry". Members and prospective members can then judge whether the Institute is an appropriate body for them to be associated with. It is certainly a prerequisite to a reassessment of the Institute's forest policy.

For the purposes of the national accounts the forestry sector includes