

The Bottom Line

Special Alert - NZ Emissions Trading Scheme - here and now!

'Don't just sit there - do something!'

It was a Basil Fawlty catchphrase to Manuel in the 80s comedy classic Fawlty Towers, but now it is a plea from MAF advisors to all landowners with pre-1990 forestry plantations.

Sumpter Baughen

CHARTERED ACCOUNTANTS

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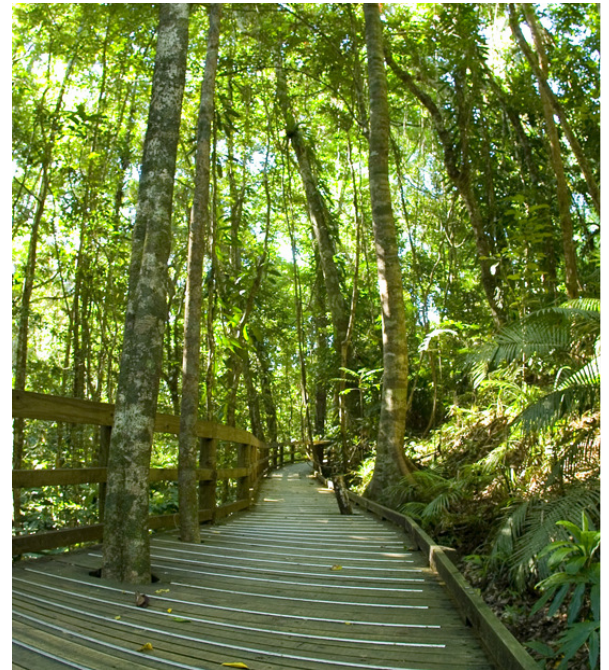
So what exactly makes a forest?

This sounds like it should be easy. However, there may be some areas of your land which you don't think of as forest but which come under the definition of a forest when MAF look at their records (e.g. satellite photos).

A pre-1990 forest must have the following attributes:

- Land that was in forest on 31 December 1989 and was in predominantly exotic forest at the end of 2007
- Must be at least one hectare
- Capable of reaching five metres in height
- Capable of attaining a canopy cover of 30% or more
- The width of the forest must on average be 30 metres or more

This means that your shelter belts are likely to be excluded from the pre-1990 definition. On the other hand if you have a stand of say poplar trees or other exotic species on hillsides these may be included.



What does it mean if you own pre-1990 forest land?

If you own pre-1990 exotic forest, you will automatically be a participant in the NZ ETS and you cannot opt out.

The implications of this are that if you deforest more than two hectares of pre-1990 land and do not replant you will incur a significant cost due to the permanent loss of carbon. The cost will depend on the species, age and area of the forest you cut down. For example, if you deforested 20 hectares of pre-1990 pine forest aged 30 years located in the Bay of Plenty region, you may have to purchase and surrender to the Government 760 carbon credits per hectare or \$15,200/hectare (\$20/carbon credit). For 20 hectares that would equate to \$304,000. In addition, there can also be a significant penalty if the landowner is later found to have deforested without advising MAF of a change in land use.

Because of these new rules you are somewhat

restricted as to your land use and there is a cost in changing that land use. To partly compensate you for this restriction you can get a one-off free allocation of carbon credits. You can sell these carbon credits tax free at any time or you can use them to offset the payment you must make if you deforest your land.

The number of credits you can claim depends on when you bought the pre-1990 exotic forest land and how long you've owned it. If you had continuous ownership from on or before 31 October 2002 to 20 July 2010, you are eligible for 60 carbon credits/hectare. If however the beneficial ownership changed between those dates, then the landowner on 20 July 2010 is only eligible for 39 carbon credits/hectare.

60 units at \$20/carbon credit equates to \$1,200 tax free per hectare. 39 units equates to \$780 tax free per hectare.



What about exemptions?

If you own less than 50 hectares in total of pre-1990 exotic forest land you may be eligible for an exemption. The 50 hectare exemption is not on a per property basis - it is on a per owner basis. If you own multiple properties the 50 hectare exemption must be counted over all properties.

Gaining an exemption for areas of less than 50 hectares means that this land can be deforested in the future without incurring an ETS liability.

If you have less than 50 hectares you can claim an exemption for some of this area (land that you want to deforest), and claim carbon credits for part of this area (land that you want to retain in forestry).

What needs to be done and by when?

There are two very important dates looming:

- 30 September 2011 - the final date for applying for the 50 hectare exemption
- 30 November 2011 - the final date for applying for carbon credits (NZUs) for pre-1990 forests

There are various steps involved in both gaining the exemption and applying for the units. Lessons can be learned from applications that have already been filed:

- The application process can be lengthy (up to six months), so it's important the process is started well ahead of the cut-off dates
- The area MAF thinks you have and the area you think you have may not tally - you may think you have under 50 hectares but in fact have more
- Continuous ownership can be an issue - especially if land changed hands in recent years or a trustee has changed

DO NOT WAIT.... IT COULD BE TOO LATE

Online resources:

<http://www.maf.govt.nz/forestry/forestry-in-the-ets>

<http://www.woodnet.co.nz>

<http://climatechange.govt.nz/emissions-trading-scheme/ets-review-2011/>

<http://ets.carboncalcs.com/look-up.htm>

'Even trees do not die without a groan.' **Henry David Thoreau**

Here to help

As your accountants it's our job to be proactive and come to grips with the Emissions Trading Scheme, particularly the issues around tax, accounting and financial reporting, and of course the resultant contractual issues that will arise in future sales and purchases of land.

If you have any queries regarding the scheme, do of course email or phone us.



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