

AGRI NEWS

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Accountants who know Agri business

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■ ■ EMISSIONS TRADING SCHEME AND NZ FORESTRY UPDATES

Recently there have been several amendments to the Emissions Trading Scheme (ETS) for forestry owners. While we no longer provide forestry advice, this article summarises some of the changes to the scheme and emphasises the need to get advice from a registered forestry consultant.

Types of Forest Land

Forest land is classified as either 'Pre-1990' (P90), in trees before 1st January 1990, or 'Post-89' (P89), trees planted after 31st December 1989.

P90 land in forestry is either in the ETS scheme or exempt by virtue of being less than 2ha or less than 50ha and an exemption was applied for and granted. Owners of P90 forestry were able to apply for and receive a one off, compensatory allocation of tax free emission units. P90 land that is not exempt must remain in forestry and no further emissions units can be earned. If the P90 forest is harvested and not replanted within four years, a deforestation liability will arise.

Owners of **P89** forests can voluntarily register for the ETS. If registered they must file mandatory returns every five years. The most recent return was to 31st December 2022 and is due **no later than 30th June 2023**. Owners can also opt to file voluntary returns **during** the five-year mandatory periods.

The returns must report the amount of carbon stock in the forests. If the forest is less than 100ha, the default carbon provided by each species of tree is provided on published tables. Larger blocks must measure the actual amount of carbon using the field measurement approach.

Accounting for Carbon

Up until 31st December 2022 there were three methods of accounting for carbon.

Forests that registered prior to 2019 used the **Stock Change Accounting** method whereby emission units are earned each year up until maturity and most of the credits must be surrendered on harvest. This method "closed" on 31st December 2022.

The new **Averaging Accounting** method allows for emission units to be allocated for a set period on the first rotation (16 years for pinus radiata).

These units can be held or sold as you are not required to surrender units when harvesting as long as you replant the forest within four years. **Units are not available on subsequent cycles.**

The averaging accounting method is mandatory for new registrations.

The **permanent forestry** scheme allows the allocation of units for every year up to age 50, however this option is unlikely to be attractive unless you never intend to deforest.

Adverse Events

From 2023 you do not have a deforestation liability as a result of an adverse event provided you replant. If forest land is cleared by an event such as fire or flood, the owner can apply for an exemption from emissions liabilities. The forest will cease to earn carbon credits until it reaches its prior carbon stock. It must be replanted within four years of the event.

Warning

Forestry Consultants warn that P89 registered forest owners must be very careful to notify changes in ownership **within 20 days**. This includes most changes in trustees for trusts and changes to shareholding in companies.

It is increasingly important to have a forestry advisor to help you navigate the system as the adverse outcomes and penalties for non-compliance and late filing are very expensive.

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Fees

Fees charged for some ETS services increased on 12th January 2023. Fees are detailed on the Ministry for Primary Industries website.

Natives

It appears that the future will include a big focus on planting of native trees in NZ. The Climate Change Commission is asking for one million hectares of new native areas. Currently there is 150,000 hectares in native species.

Carbon Pricing

The carbon price is volatile and highly influenced by government policy and recently the price fell from the high of \$88 in November 2022 to \$54. This was a result of the Government rejecting the Climate Change Commission recommendation to allow the price to increase to influence consumer behaviour.

The Future

The ETS system and regulations around the forestry industry in NZ will continue to evolve. The system is prescriptive and complex, and compliance is vital. Great care should be taken to plan carefully and for the long term with a registered forest advisor.

Where to get help?

Very soon only registered forestry advisors will be able to assist with ETS compliance and this is welcome news given MPI's strong messaging about the enforcement of the regulations, the increasing complexities and the high cost of non-compliance.

Local options include:

- Forest Management Ltd
www.forestmanagement.co.nz
- Venture Forestry Ltd
www.ventureforestry.co.nz

We urge you to make contact with a registered consultant as soon as possible.

IRD's interpretation meant the house itself was subject to GST – not a good outcome if you were selling a farm house.

This principal was also applied to homes used partly for AirBnB or homestay. For example you might have a holiday home that you decide to put on AirBnB. If you registered for GST, either voluntarily or due to turnover levels, the IRD ruling meant GST was payable on the home when it was sold.

This sudden change in approach re dwellings didn't make much sense and given house values was very material in many, if not all, cases. Hence the accounting and farming sectors have been advocating for a sensible solution over the past few years.

We are pleased to say that legislation has been enacted which 'fixes' the issue, with a return to the primary purpose test driving the outcome. Hence where business use is less than 50% and GST has not been claimed on the house purchase or any improvements, there are no GST obligations on sale.

Of course each situation is different and we recommend taking care with the GST aspects of the sale of any asset that has been used in a taxable activity.

■ ■ SUPPORT FOR FARMERS - FARMSTRONG

We are impressed with Farmstrong's work in our agri communities and plan to ask them to visit our firm to share some of their wellbeing programme with us. We want to know more about how they help farmers, growers and their families to cope with the ups and downs of farming and to understand their strategies for developing resilience. www.farmstrong.co.nz

■ ■ GST ON FARM HOUSES/AIRBNB

In 2020, the IRD issued an interpretation statement which outlined that under current GST law any asset that had been used in a business with GST claimed on an associated expense, was also subject to GST, **whether or not** GST had been claimed on purchase. This caused confusion and in some cases panic, in relation to the 'farm house' as it is common practice to claim a portion of the GST on some farm house costs such as power.

■ ■ FARM FOCUS SEMINAR

Farm Focus will be running an in-person seminar on 25th July 2023 in Balclutha. This will cover effective monthly processing, creating budgets and maintaining livestock records, with handy hints and tips for getting the most out of the software. To find out more and register, visit www.farmfocus.co.nz/seminars-2023/

