



---

## **BC Forestry Revitalization Trust**

---

### **Report of the Trustee as of June 30, 2020**

#### **General**

In March 2003 the province of British Columbia established the BC Forestry Revitalization Trust (BCFRT) and funded it with \$75,000,000. The mandate of the BCFRT was to provide mitigation to forest workers and replaceable contractors that were negatively impacted by timber reallocations resulting from the Forestry Revitalization Act (FRA).

In April 2004 the province appointed Eric van Soeren as Trustee. Shortly after that he appointed a seven-member Advisory Board, as required by the Trust Deed. That Board developed draft Forest Worker Mitigation Guidelines and Contractor Mitigation Guidelines.

Utilizing the best estimates of industry, seniority estimates obtained from the IWA pension plan, seniority estimates obtained from contractor industry associations, and the proposed guidelines, the Trustee determined that the BCFRT likely required approximately \$50,000,000 more than what was available in the BCFRT accounts, plus what the BCFRT was likely to earn in interest while holding mitigation funds in trust.

The Trustee and the Advisory Board approached the province and received a commitment for the additional funds, so the BCFRT Advisory Board finalized the Contractor Mitigation Guidelines and the Forest Worker Mitigation Guidelines. The Guidelines, as well as extensive supporting documentation, are posted on the BCFRT website at [www.bcftr.com](http://www.bcftr.com).

As of the end of 2011 all the workers and contractors had received the mitigation for which they were eligible based on the contractor and worker mitigation guidelines. However, there were outstanding issues with respect to income taxes assessed to contractors that had received mitigation payments from the BCFRT.

#### **Contractor Income Tax Liability**

For several years there was uncertainty about the liability for income taxes payable on mitigation amounts received by replaceable contractors from the BCFRT. The position of the four logging contractor associations in BC was that the amounts should have been received tax free, either because they were a windfall payment, or because they were amounts received from a personal trust. Others took the position that the amounts received because of the loss of some or all of a replaceable contract should be treated as a capital gain. The Canada Revenue Agency (CRA) took the position that all such amounts were to be taxed as income.

The BCFRT, the Loggers for Fair Taxation, the Minister of Forests, Lands and Natural Resource Operations, and the Premier of BC worked on this problem for approximately four years. As a result, the Province of BC and the Advisory Board of the BCFRT agreed to increase the contractor mitigation payments by an amount equal to the income taxes actually paid or payable on the amounts previously disbursed. In order to facilitate that payment, the three previous BCFRT accounts were rolled into one new Contractor Mitigation Account early in 2012.

During the last quarter of 2011 letters were sent out to all contractors that received Contractor Mitigation funds from the BCFRT. They were invited to apply for extra mitigation if they had paid or been assessed and not yet paid taxes on the amount(s) received. 202 contractors (approximately 76%) responded. Of those, 8 declined to proceed because they had no taxable income in the year(s) they received BCFRT Contractor mitigation amounts. The other 24% are deemed to have accepted the payments as received. In most cases it is likely they were not taxable in the year of receipt of those funds and would not have received a refund in any case.

Another part of the tax mitigation arrangement called for Federal and Provincial Orders in Council to deem income tax refund amounts received from the BCFRT to be tax free, and to deem that there will be a remission of interest and penalties on previously unpaid taxes related to the original contractor mitigation amounts. The required provincial Order in Council was filed on November 7, 2012. The required matching Federal Order in Council was filed on January 16, 2013. As a result, the BCFRT was able to start making disbursements in the first quarter of 2013.

The CRA processed and made determinations of the incremental income tax impact of the receipt of Contractor Mitigation Funds for all 193 of the contractors that responded, wanted to proceed with a determination of their eligibility for a refund, and provided all the required information.

Two contractors that received determination letters disputed the amount of incremental tax the CRA determined they paid as a result of mitigation amounts received from the BCFRT. The CRA reviewed its assessment, and the contractors accepted the amended assessments. As of the end of Q3 2019, the Trustee had completed negotiations with the province to receive the extra funds required to allow the BCFRT to make the agreed upon disbursements to the two contractors. The required extra \$872,000 was received, and the final contractor mitigation payments were made as a combination of payments to the CRA and the two contractors.

#### **Account Balances as at June 30, 2020**

<b>2011 Contractor Mitigation Account</b>	<b>\$34,990</b>
<b>Distributions to Beneficiaries to date</b>	
Contractor Mitigation	\$70,748,591
Contractor Income Tax Refunds	\$8,863,496
Forest Worker Mitigation	\$43,079,279
Transferred to the Coast Sustainability Trust	\$2,767,714
<b>Total Distributions to Beneficiaries</b>	<b><u>\$125,459,080</u></b>
<b>Total available funds plus distributions</b>	<b><u>\$125,494,070</u></b>

A breakdown of the activity in the 2011 Contractor Tax Mitigation account to June 30, 2020 follows:

267	contractors received contractor mitigation payments
65	contractors did not reply to my tax refund letter
8	contractors replied but did not want to proceed
194	refund determination requests were sent to CRA
193	CRA determinations received and forwarded to Contractors
1	not reviewed by CRA because contractor dropped request
1	Contractor chose not to accept a refund
131	contractors will not receive tax refunds
136	Tax refund payments made to date
0	Tax refund payments still to be made
\$8,863,496	Tax refunds or taxes paid

### **Adequacy of Funds**

As of June 30, 2020, all obligations of the BCFRT Contractor Mitigation Fund to Contractors have been met. The remaining balance is sufficient to fund the final accounting, legal and audit work required to wind up the BCFRT.

### **Looking Ahead**

The third quarter of 2020 will likely include the following activity:

1. The Trustee will receive instructions from the Province on whether the BCFRT should be wound up, or should remain open for other possible mitigation scenarios.
2. If the Province does not plan to provide further funds to the have the BCFRT serve a new purpose, the Trustee will suggest to the Advisory Board that the BCFRT be wound up.

Eric van Soeren, Trustee