MEGATRENDS AFFECTING THE FOREST PRODUCTS INDUSTRY

BY CHARLIE LEVESQUE

This is the first in a series of three articles for The Northern Logger *on industry trends based on a presentation made by the author at the 2021 Loggers Expo in Bangor.*

In the forest products industry, we can sometimes be insular and rarely take the time to understand what is going on in the world because most people in the industry are simply too busy with the day to day activities of keeping a logging or forest products manufacturing business running. In this and the next two articles in upcoming issues of *The Northern Logger*, we will try to show some key highlights on worldwide trends that, ultimately, can and will affect what the industry is doing in the US. We hope that these articles will inform and result in a careful look at your business's short and long term plans.

Megatrends, a widely read book and phenomenon from 1982 by John Naisbitt, was the first deep dive look at world trends affecting us in the latter half of the 20th century. Naisbitt's major findings concluded that Americans would witness:

1. A a shift from an industrial, blue collar society to an information, clerical, white-collar society
2. Forced technology replaced by high tech such as computers
3. A global economy become more important than national ones
4. Businesses shift from short-term planning to long-term perspectives, motivated both by concern for the environment and by economic necessity
5. America rapidly decentralize business, politics, and culture
6. Institutional help, provided by government, medical institutions, the school system, and corporations, shifting to self-help (do it yourself)
7. A shift from representational to participatory democracy
8. A related shift from hierarchies to networks – the facilitator of others will be rewarded rather than the autocrat
9. A shift in population from US North to South, specifically, from the Northeast to the Southwest and Florida
10. A shift from "either/or" to multiple options, leading to more roles for women, flextime in the workplace, various arts, specialty foods, cable television, and religious variety

These findings foretold of major changes our society has experienced, continuing to this day. Especially things like our transformation from an economy driven by manufacturing things to one of providing services, computers, local to global economy, short term business horizon (quarterly earnings driving decision making); and a US economy and population shift from the north to the south and west.

Naisbitt put out a sequel ten years later that reinforced these trends and added a new one: the rise of the Pacific Rim as a world economic force. We know how China is so integral to the world economy and even our northeast forest industry – and that was just starting in the 1970s & 80s.

One important point to keep in mind in all of these discussions is that the US is still the wealthiest nation on earth. We tend to forget that.

Current Global Trends

While what Naisbitt pointed out many years ago is generally still relevant, today we are faced with new very important trends and realities. Forest products businesses should look at these carefully and ponder whether there is advantage to be taken with the knowledge of these phenomenon:

Shift in global economic power: The southeast Asia region now has growing economies. There is now a globalization of economies and shifting of labor from developed (western) countries to developing countries for manufacturing. We all know this as so many of our goods come from another hemisphere.

Demographic shift: The populations of the developed countries of the world are getting older (Figure 1). This is occurring while the populations of the emerging countries are younger. This translates to a much younger, larger and diverse labor pool as compared to developed countries like the US.

Accelerating urbanization: More and more of the world's population is living in urban and urbanizing areas. The United Nations says the world urban population is expected to increase from 50% in 2015 to 72% of total population by 2050.

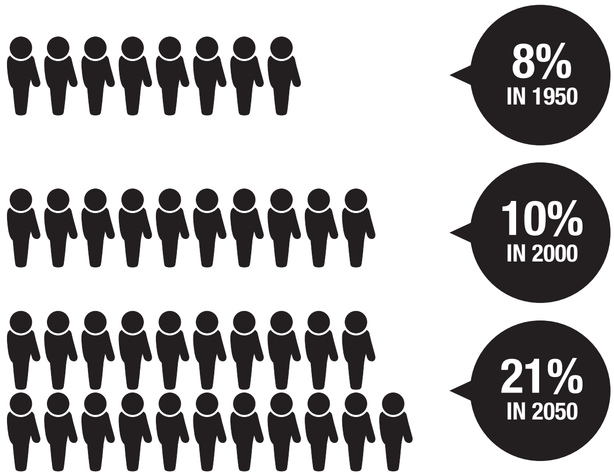
Rise in technology: Computers, large and small, and their networks, dominate everything we do in society today (Figure 2). The rapid expansion of data storage and computer speed has happened at phenomenal rates while the cost of these machines has plummeted. The current smart phone is dozens of times faster and has 100 times the memory of a 1980s super-computer. Think of it! Today there are almost 7 times the number of connected devices in the world compared to the human population. That means in a world with a population nearing 8 billion, there are over 50 billion computers. And that's not to mention what these devices have done to communications, whether conventional or social media. Take away – everyone in the world can know everything that is going on in the world all the time – from their home!

Population growth, resource scarcity and climate change: There are 7.8 billion people in the world today and there will be 8.3 billion by 2030 or so. This increasing population will need increasing amounts of energy, food and water. Have we reached the carrying capacity of the planet with humans or is this an opportunity for innovation? (Figure 3).

These trends and facts are huge. They require business owners to think deeply about what they mean for forest products businesses. Stay tuned for the next installment of this series, which will discuss global forest industry data and trends.

Charlie Levesque is President in the firm Innovative Natural Resource Solutions, LLC and has been working in support of the forest products industry in the northeast for decades.

FIGURE 1: World Population 60 Years of Age or Older



UN DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

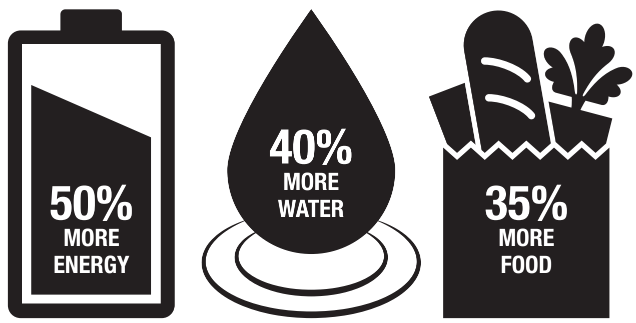
FIGURE 2: Rise in Technology

	2003	2010	2015	2020
World Population	6.3 billion	6.8 billion	7.2 billion	7.6 billion
Connected Devices	0.5 million	12.5 billion	25 billion	50 billion
Connected Devices Per Person	0.08	1.84	3.47	6.58

MORE CONNECTED DEVICES THAN PEOPLE

CISCO SYSTEMS

FIGURE 3: Needs Increase Due to 8.3 Billion Population Growth by 2030



NATIONAL INTELLIGENCE COUNCIL: GLOBAL TRENDS 2030: ALTERNATIVE WORLDS

AN OVERLOOKED AND MISUNDERSTOOD LOCAL AND STATE TAX

BY MARK E. BATTERSBY

A "self-assessed" state and local tax is often overlooked by many in the forest products industry and is increasingly being targeted by auditors. The "use" tax affects everyone buying tax-free supplies, equipment and more online, in another state or from a non-dealer – and failing to pay tax on that purchase in their home state.

While there are only 50 states in the US, there are more than 14,000 state and local taxing jurisdictions, increasing the possibility of omissions. And yes, although there is a ruling by the US Supreme Court requiring sellers to collect sales taxes on out-of-state purchases, it reportedly is not 100% effective. And, ultimate responsibility for payment of those state and local taxes is on the shoulders of the purchasing logging or sawmilling business.

Sales Taxes from Both Sides

The well-known sales tax, along with the often ignored "use" taxes are frequently overlooked by many forest products businesses – that are increasingly paying the price for their omissions. In general, there are three types of sales taxes:

- Transaction Privilege taxes are imposed on sellers (and an increasing number of service providers) for the privilege of making sales within the state. Sellers usually have the option of absorbing the tax, in other words, paying it out of their own pockets, or passing it along to their customers.
- Sales taxes are the basic, more familiar transaction tax, calculated as a percentage of the sales price of taxable goods and some services. The sales tax is usually collected by the seller on behalf of the taxing authority. Because the tax is primarily the buyer's responsibility, unlike transaction privilege taxes, sellers don't have the option of absorbing the tax.
- Retail transaction taxes are imposed on the sale transaction itself, with the primary liability for paying the tax falling on both the seller and the buyer. Sellers are responsible for collecting and paying the tax, while buyers are responsible for paying any tax which should have been collected and remitted but wasn't.

The majority of states have a basic sales tax, where the buyer bears the legal burden of the tax and the seller is required to collect and remit the tax to the state. Only a few states have the seller privilege tax option. From the perspective of the buying logger or sawmiller, understanding the type of tax they are confronting can help in dealing with sales taxes that are not billed or collected.

When dealing with a transaction or vendor privilege tax, for example, no logging, sawmill, timberland operation or forest products business should voluntarily pay any tax that hasn't been billed to them because the tax is the seller's responsibility. Obviously, when dealing with a consumer excise or retail transaction tax, unbilled taxes should not be ignored.

Unless there is some written proof that the tax was paid, a logging or sawmill operation, the buyer, can be held liable for the unpaid tax. Which brings up the so-called "use" tax imposed in 45 states but actually paid by less than two percent of those required to pay on taxable transactions where sales taxes were not collected by the seller.

Use Taxes

Where there is a sales tax, there is usually a use tax. The use tax typically applies only to purchases where no sales tax was collected.

In most cases, the use tax applies when a taxable item is sold in another state where there may be no sales tax or the seller doesn't have sales tax "nexus." Without nexus the seller is not responsible for remitting sales tax on the purchase to that other taxing jurisdiction – at least that was the case prior to the Supreme Court's decision in the South Dakota v. Wayfair, Inc. case.

On June 21, 2018, the US Supreme Court ruled that states can require an out-of-state seller to collect and remit sales tax on sales to customers in another state even if the seller has no physical presence in the buyer's state. All-too-often sellers fail to comply leaving buyers liable for the unpaid sales tax. In even more cases, the logging or sawmilling operation becomes liable when free-from-tax items are converted to a taxable use.

Using Formerly Sales Tax-Free Supplies and Goods

It can be as simple as a printer or copy shop pulling a ream of paper off the shelf for use in their office. Another business might find itself owing a use tax for charitable donations of previously non-taxable goods or products intended for resale to raffle off at a charitable auction.

Generally, it is how certain items in the business are "consumed" that is usually the determining factor in use tax liability. Common triggers include the already mentioned charitable donations along with:

- Inventory transfers
- Promotional giveaways
- Fixed asset purchases

If items were intended for resale and no sales tax was paid at the time of purchase, the logging, sawmill, timberland operation or forest products business is obligated to pay the use tax. Or, if equipment or office furniture was purchased for the operation, which then moved to a new location where the tax rate may be higher, the difference in use taxes may be owed.

The use tax must also be paid when the logging or sawmill operation purchases a taxable item in jurisdictions with a lower tax rate than the rate in the state where they do business. If the operation buys a vehicle in Oregon where they have no sales tax, for instance, they're likely to owe tax in their home state. Purchases made in other countries are also subject to use taxes. Regardless of the situation, the burden to report and pay lies on the buyer.

Complementary Tax

State and local use taxes are designed to be no broader in scope than the sales tax and carry the same rate. Their rate is left up to the state or local tax authority where the logging, sawmill, timberland operation or forest products business uses, stores, or consumes the purchased item.

The basis for computing the use tax is generally the "selling price" of the property – just as it is for the sales tax. For the most part, exemptions are also the same for both the sales and use taxes.

A buyer is entitled to a credit for sales taxes paid. Buyers are generally allowed a tax credit for sales taxes paid to another state for the same property. In other words, use tax liability can be offset by sales tax paid on the purchase.

Self-Paying

Use taxes are self-assessed. The biggest difference between a state's sales tax and its use tax is the manner in which they are assessed and paid. For the most part, sales taxes are assessed and collected by the seller. In contrast, the responsibility for reporting and paying the taxes generally falls on the buyer.

Because the triggering event for the tax – the taxable "use" of the property in the state – occurs after the sale is completed, use tax is owed by a buyer every time sales tax is not paid in full by the seller. Unlike the sales tax, the use tax can be triggered after a transaction, based on how and where products/items are used by the buyer.

Many loggers and forest products businesses regularly purchase supplies, goods, products and even equipment out-of-state, business-to-business or via the Internet. State and local lawmakers, aware of this strategy, long ago included a "use" tax on otherwise taxable purchases made outside their jurisdictions to avoid sales tax.

Checking Twice

Checking that expenses, fixed assets and inventory transfers have been properly taxed is how many auditors spend their time. It is also where most mistakes are easily discovered. After all, the systems used by logging and timber processing operations to track their spending are often the same systems auditors use to discover tax liabilities.

State auditors claim sale and use tax errors are the number one audit target with the bulk of assessments coming from the use tax not being paid. Failing to report use tax is easily detected by auditor and, obviously, can prove expensive. So, why do so many logging and sawmill operations overlook the use tax?

Often their complacency derives from not understanding the use tax rules or the necessity of paying it. Thus, every logging or sawmilling operation should avoid removing purchased items from inventory without either paying the necessary sales tax or remitting the use tax to the state or local taxing agency.

Ultimately, it is the logging or sawmilling business that is responsible for ensuring the sales and use tax rules are handled correctly. Vendors don't always get it right so if a sale is exempt, a valid resale or exemption certificate should be referenced.

And, don't forget to verify tax rates are correct. Compare the tax shown on the invoice with what should have been collected. Be sure expense reports include sales tax for any taxable transactions, since these are all areas where auditors find mistakes. NL