Inland Revenue
Te Tari Taake

TECHNICAL DECISION SUMMARY > ADJUDICATION

WHAKARĀPOPOTO WHAKATAU HANGARAU > WHAKAWĀ

Deductibility of forestry expenditure

Decision date | Rā o te Whakatau: 26 March 2026

Issue date | Rā Tuku: 17 September 2026

TDS 26/14

Subjects | Kaupapa

This item summarises an adjudication about the deductibility of forestry expenditure.

Taxation laws | Ture tāke

All legislative references are to the Income Tax Act 2007 unless otherwise stated.

Summary of facts | Whakarāpopoto o Meka

1. The Taxpayer carried on a forestry business involving the cultivation and harvesting of pine trees. During the income year in dispute, the Taxpayer completed what he described as the final pine harvest.
2. Shortly before the final tree sale from that harvest, the Taxpayer incurred expenditure purchasing and planting native plants on the land previously occupied by the pine trees (the pre-harvest expenditure). Following the final tree sale, the Taxpayer incurred further expenditure on fencing, aggregate and truck hire (the post-harvest expenditure).
3. The Taxpayer claimed deductions for this expenditure in the applicable income year.
4. Following an audit of the Taxpayer's tax affairs, Customer and Compliance Services, Inland Revenue (CCS) issued a Notice of Proposed Adjustment proposing to disallow the deductions claimed. CCS considered that in respect of the pre-harvest expenditure there was an insufficient nexus between the expenditure and the Taxpayer's income-earning process. In respect of the post-harvest expenditure, CCS considered that the Taxpayer's business ceased from the date of the final tree sale from the pine harvest so there was also an insufficient nexus.
5. The Taxpayer rejected the proposed adjustments by issuing a Notice of Response. The Taxpayer argued the expenditure was deductible because it was incurred either as part of an ongoing forestry business, or as part of a new business involving the commercial exploitation of native trees. The Taxpayer relied on ss DA 1, DO 2, DB 50, DP 1 and DP 3. The Taxpayer also argued that the expenditure was deductible because certain environmental and land management obligations effectively compelled him to incur the expenditure.
6. The matter was referred to the Tax Counsel Office, Inland Revenue (TCO) for adjudication.

Issue | Take

7. The issue in this dispute was whether the Taxpayer was entitled to claim deductions for the expenditure incurred (comprising the pre-harvest expenditure and post-harvest expenditure).

Decision | Whakatau

8. TCO decided that the Taxpayer was not entitled to claim deductions for the expenditure incurred.

Reasons for decision | Pūnga o ngā whakatau

Issue | Take: Whether the forestry expenditure was deductible

General permission – s DA 1

9. Section DA 1(1)(b) permits deductions for expenditure incurred in carrying on a business for the purpose of deriving assessable income. The expenditure must have a sufficient nexus with the Taxpayer's income-earning activities.[1]

Pre-harvest expenditure

10. Prior to final tree sale from the final pine harvest, the Taxpayer incurred expenditure purchasing native plants to plant on the site previously occupied by pine trees.

11. TCO found that the expenditure was incurred to stabilise and restore the land. It was not incurred in the course of carrying on a forestry business for the purpose of deriving assessable income. The oral evidence from the Taxpayer indicates his decision to incur the expenditure was motivated by environmental concerns and estate planning, not by a genuine intention to carry on a business capable of generating assessable income from native plants. There is no evidence to suggest the Taxpayer diversified his forestry business or commenced a new business of commercially exploiting native plants.

[1] *Buckley & Young Ltd v CIR* (1978) 3 NZTC 61,271 (CA), *CIR v Banks* (1978) 3 NZTC 61,236 (CA), and *NRS Media Holdings Ltd v CIR* [2018] NZCA 472 (CA).

12. For these reasons, TCO concluded that there was an insufficient nexus between the pre-harvest expenditure and the carrying on of the Taxpayer's business for the purpose of deriving assessable income. Therefore, the pre-harvest expenditure was not deductible under s DA 1(1)(b).

Post-harvest expenditure

13. Following the final tree sale from the final pine harvest, the Taxpayer incurred expenditure related to fencing, aggregate and truck hire.

14. TCO considered that the Taxpayer's forestry business ceased from the date of the final tree sale. This conclusion is supported by the Taxpayer's oral evidence and the fact that by this time, he had decided to replant with native plants rather than pine trees. This strongly suggested that he no longer had a profit-making intention.

15. Therefore, TCO considered that the post-harvest expenditure was not deductible under s DA 1(1)(b), as it was incurred after the business had ceased. There was no nexus between the expenditure and an income-earning process.

Alternative arguments for deductibility

16. The forestry expenditure was also not deductible on any of the following grounds.

Section DB 50 - Prepayments

17. Section DB 50 applies to unexpired amounts of prepaid expenditure. The Taxpayer did not establish that the expenditure was a prepayment. The provision therefore did not apply.

Section DO 2 – Plantings for erosion, shelter and water protection

18. Section DO 2 allows a person carrying on a farming or agricultural business to claim a deduction for expenditure incurred in planting or maintaining plants or trees, for the purposes of preventing or combating erosion, providing shelter, or maintaining water quality.

19. TCO concluded that the Taxpayer was not carrying on a farming or agricultural business during the relevant period.

Section DP 1 – Expenditure of a forestry business

20. Section DP 1 permits deductions for specific types of forestry expenditure, provided the person is carrying on a forestry business when the expenditure is incurred. Deductions can be claimed for planting or maintaining trees on the land.

21. However, s DP 1(1)(c) requires that the general permission must still be satisfied. As TCO concluded that the forestry expenditure did not satisfy the general permission, s DP 1 did not apply.

Section DP 3 – Improvements to forestry land

22. Section DP 3 permits a deduction on a depreciation basis for expenditure incurred on making improvements to forestry land. Section DP 3 applies when a person is carrying on a forestry business and incurs expenditure making an improvement to the forestry land as part of developing the land. The improvement must benefit the business in the income year in which the person is allowed the deduction. Expenditure incurred planting trees on the land is not included. However, expenditure incurred preparing the land for tree planting is included.

23. Section DP 3(1)(b) requires that the general permission must still be satisfied. As TCO concluded that the forestry expenditure did not satisfy the general permission, s DP 3 did not apply.

Whether the Taxpayer was legally compelled to replant the land

24. The Taxpayer argued the expenditure was deductible because he was legally compelled to replant the land under the Resource Management Act 1991, the National Environmental Standards for Plantation Forestry and the local body unitary plan.

25. TCO concluded that none of the instruments cited impose a general obligation to replant or revegetate the land following a harvest. Furthermore, the Taxpayer had not produced any specific evidence to support his claim that he was legally compelled to replant the land.

26. In any event TCO concluded that the cases cited by the Taxpayer did not support the proposition that expenditure compelled by statute to protect land or the environment is deductible.