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Tax Policy and its Relationship To the Protection and Management Of the Nation's Forests

A Policy Statement approved by Resolution
by the National Association of State Foresters

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Introduction

The National Association of State Foresters (NASF) is comprised of the chief administrators of the forestry agencies in all fifty states, the U.S. Territories and the District of Columbia. These agencies protect, manage, or assist in the protection and management of state, local government and privately owned forest lands totaling nearly 500 million acres. These lands provide society as a whole a diverse, very important set of public benefits that include the protection of water quality and quantity, clean air, appealing landscapes, carbon storage, wildlife habitat and raw materials for wood and paper products.

Unfortunately, roughly 44 million of these acres are at risk of conversion to development over the next few decades. It is important to state foresters that government policies encourage the retention, protection and responsible management of forests if the public benefits they offer are to be available now and into the future.

A key NASF constituency are the estimated 22 million individuals and families who own 299 million acres of forests. (These lands are generally referred to as family forests.) Their lands represent some of the highest at risk of development or being sold into smaller and smaller ownerships that are no longer managed for natural resource benefits. When a sample of owners were asked what best diminishes these risks the most preferred solution was improved tax policies. Tax policy greatly influences the financial aspects of ownership. And, even though income generation is seldom a priority for their woodland, the cost of ownership has a major effect on a landowner's ability to retain and properly manage his or her land.

Clearly, tax policy can have a significant impact on the nation's forested landscape and potential future impacts should be carefully considered in conjunction with any discussion of tax reform.

Federal Policy Should Promote the Retention and Management of Private Forest Land

The 299 million acres of forests owned by individuals and families represents thirty-seven percent of all forestland in the US. The public benefits produced from these lands are substantial. For example:

- The US forest products industry employs 1.3 million people. Almost 90% of the timber harvested in the US to support those jobs comes from private land, both corporate and family/individually owned. Approximately 35% of the nation's 4 trillion board feet of standing timber resides on family or individual ownerships. Nearly a quarter of that volume is estimated to be threatened by development or by becoming parceled into smaller tracts that are unlikely to be logged in the future.
- Forests play a huge role in protecting water quality by filtering surface run-off before it enters adjacent water bodies. An estimated two-thirds of the US population relies on surface water for their primary water supply and more than a quarter of that comes from privately owned forests. The same threats that would lower available timber supplies can also harm water quality.

- Sequestering additional carbon in trees is viewed as a potentially cost effective strategy for mitigating climate change. Individual and family owned forests currently store the equivalent of 14 billion tons of carbon. Again, a significant portion of this resource is threatened by conversion and increasing ownership costs through tax reform will only exacerbate the concern.
- Over a quarter of family forests are considered "core wildlife habitat." That is, they represent larger contiguous areas of forest that are important habitat to some species such as interior nesting migratory birds. There are an estimated 14,000 occurrences of threatened and endangered species on these lands. And, approximately 34 million acres are open to public recreation.

Beyond simply encouraging forest retention, it is equally important for government policy to encourage active management of these woodlands. Technically sound practices for reforestation, thinning, harvest, fire and forest health protection make wood fiber available for manufacturing wood and paper, can increase carbon storage, enhance wildlife habitat, protect water quality and positively influence water quantity. It is estimated that over 20% of the volume of standing timber on family forests is owned by people who are uninterested in, or unwilling to, engage in active management.

NASF Tax Policy Positions

- **Federal Estate Tax –** Land passed down to an heir or heirs (other than a spouse) is subject to as much as a 40% federal estate tax. Currently, $5.43 million of the estate's total value is exempt from the tax. Obviously land values vary widely, but if land were worth $2500 per acre the exempt amount would represent about 2000 acres. Since estates are going to include other assets, and given higher land values in many areas, that means that in most parts of the country less than that amount of acreage is all that would be exempt. Paying 40% on the non-exempt value creates a significant pressure to sell part of the inheritance or perhaps overharvest in order to pay the taxes. At minimum, the current exemption should be maintained and regularly adjusted to inflation. Serious consideration should be given to eliminating the estate tax on family forests where active, professionally sound management is assured through an approved forest plan and credible monitoring.
- **Capital Gains Treatment of Timber Revenue** – Where forest land is owned for more than one year net income from timber sales is considered a capital gain and taxed at less than half the rate for ordinary income. Currently the rate is 15% to 20% for many family forest owners. This treatment recognizes the long term commitment required for responsible management and should be retained.
- **Yearly Deduction of Forest Management Operational Costs** – Forest owners who incur costs growing and nurturing young stands to maturity can deduct those costs annually, rather than waiting to deduct them from receipts at the time of a timber sale. Family forest owners typically experience multi-year waiting periods between timber sales and if not for this deduction would be less inclined to pay for appropriate management measures during times of no timber revenue. This tax provision needs to also be maintained.

- **Deduction and Amortization of Reforestation Costs –** When reforesting after harvest landowners can deduct up to $10,000 per stand at the time costs are incurred, and amounts over that can be amortized over 7 years. This tax provision encourages prompt reforestation – a key to forest sustainability – and should also be maintained.
- **Enhanced Tax Deduction for Conservation Easements –** Through 2014 landowners were provided enhanced tax benefits for contributing conservation easements. The availability of that enhanced benefit is currently unclear. If enhancements are not renewed, landowners can only deduct up to 30% of their adjusted gross income each year for 6 years for contributing easements with a value much higher than that. The enhanced benefit allows up to 50% of adjusted gross income to be deducted annually for 16 years. This provision should be made permanent with the understanding that NASF supports easements that encourage continued, active management of forests.

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