American Forest Foundation
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*Suite 550*
*Washington, D.C. 20036*

January 17, 2014

The Honorable Max Baucus
Chairman, Finance Committee
United States Senate
511 Hart Senate Office Building
Washington, D.C. 20510

***Re: Cost Recovery and Accounting Tax Reform Discussion Draft***

Dear Chairman Baucus,

On behalf of the American Forest Foundation (AFF) and the more than 22 million family forest owners across the country, I appreciate the opportunity to submit the following comments in response to your Cost Recovery and Accounting Tax Reform Discussion Draft released on November 21, 2013. The proposed repeal of the reforestation tax deduction (Sec. 194) would remove important incentives to help forest owners with reforestation, with implications for the long-term sustainability and carbon storage potential of working forests. In addition, throughout tax reform discussions, we continue to urge the maintenance and improvement of tax policies that help keep families on the land and keep it forested.

AFF works nationwide and in partnership with local, state, and national groups to provide hands-on, on-the-ground support for America's over 22- million family forest owners, giving them the tools they need to manage healthy and sustainable woodlands. Through our largest program for family forests, the American Tree Farm System® (ATFS), an internationally-recognized third-party audited forest certification system and through our on-the-ground conservation work, we have more than 70 years of experience working with family forest owners.

The nation's over 22- million family forest owners own more forestland than the federal government or private industry, and they work hard every day to conserve and manage their forests. Every American, whether we know it or not, relies on family forest owners, who own more than one-third of all U.S. forests. Family-owned forests serve as a line of defense in the protection of clean water and air, wildlife habitat, and recreational opportunities. These forests also support almost one million family-wage jobs, and are a significant source of fiber for American forest products.

According to the recent USDA Forest Service 2010 Resource Planning Act Assessment, *Future of America's Forests and Rangelands (2012)*, we could see a loss of up to 34 million acres of forests by 2060 to development. As development pressures escalate, tax policy can serve as either an incentive or a deterrent to family forest owners who wish to keep their land in the family and manage their forest sustainably for generations to come.

**Maintain the Reforestation Tax Deduction (IRC Sec. 194)**

Reforestation is key to the long-term sustainability of our working forests, and the existing reforestation tax deduction is important to support reforestation on private forestland, particularly for smaller, family-owned forests.

Reforestation can be a financial burden, particularly for family forest owners who may lack the capital to cover the up-front expenses associated with reforestation. The costs of reforestation on private lands range widely across the country depending on the region and type of forest, with estimated regional averages ranging from $40 per acre to $500 or more per acre, taking into account site preparation and establishment costs.[i1] Further, a forest owner will not see a return on their reforestation investment for decades.

In 2013, the reforestation tax deduction supported reforestation work on as many as 800,000 estimated acres across the country[2], helping to ensure the long-term sustainability of a resource that supports rural economies across the country and supporting the sequestration of up to 31.6 million metric tons of carbon.[3] We urge you to maintain this important tax provision with implications for keeping forests as forests, particularly family-owned forests.

**Continue to Maintain Tax Provisions that Support Working Forests**

In addition to the reforestation tax deduction, we urge you to continue to maintain two additional pieces of the tax code that also help to conserve working forests and are

[1] L.S. Bair & R.J Alig, September 2006. *Regional Cost Information for Private Timberland Conversion and Management,* USDA Forest Service.

[2] Calculation based on Joint Committee on Taxation Expenditure Estimate for Reforestation Tax deduction for 2013 for individuals and corporations and the estimated annual per acre reforestation costs based on L.S. Bair & R.J Alig, September 2006. *Regional Cost Information for Private Timberland Conversion and Management,* USDA Forest Service. The per acre reforestation costs were adjusted for inflation, http://www.bls.gov/data/inflation_calculator.htm.

[3] Assumes 60.7 metric tons of carbon per acre on private lands, http://www.usda.gov/wps/portal/usda/usdamediafb?contentid=2010/10/0532.xml&printable=true&contentidonly=true

examples of good policies that recognize the unique aspects of the managing woodlands. Through IRC Sections 162 and 263A(c)(5) and IRC Sections 1231(b)(2) and 631(a)&(b), forest owners may deduct the expenses from growing timber and treat their revenue as a capital gain. Along with the reforestation tax deduction, these three provisions help to ensure that forest owners can sustainably manage their woodlands and that the growing, harvesting, and replanting cycle continues. As mentioned above, without these tax provisions, it will be difficult for forest owners to cover the upfront capital expenses needed to ensure a healthy forest and sustain this long-term resource.

**Improve Tax Policies to Support Forest Conservation and Restoration**

As we mentioned in our previous comments around tax reform in July 2013, Congress should make several changes to the tax code to improve tax policies to help family forest owners keep their forests healthy and intact, including:

- Making the enhanced conservation easement tax incentives (IRC 170(h)) permanent. We appreciate your leadership on this issue as the lead sponsor on S. 526, Rural Heritage Conservation Extension Act of 2013.
- Improving casualty loss treatment of forests following catastrophic events, such as fire, hurricane, earthquake, tornado, hail, ice, and wind. Family forest owners are eligible to claim a casualty loss deduction to recoup losses, but under current casualty loss provisions, forest owners may see a severely low deduction or no deduction at all. We urge you to revise the casualty loss deduction for forest owners to more accurately reflect the actual loss, with additional incentives for a demonstrated commitment to continued forest stewardship.
- Improving Special Use Valuation (IRC 2032A) to help family forest owners deal with an estate tax burden by fixing timber harvesting penalties to keep working forests working. While preliminary research data[4] shows that many family forest owners will not have to face an estate tax at the current exemption levels made permanent earlier this year, estimates show that a significant acreage of family-owned forestland could still be at risk at the current levels. Improvements to Special Use Valuation would help to reduce the estate tax burden on family forest owners and can help to ensure they keep their land forested.

Thank you for the opportunity to submit our recommendations. Should you have any questions about the issues or solutions raised in our comments, please feel free to contact Melissa Moeller, AFF Public Affairs Manager, mmoeller@forestfoundation.org,

[4] http://www.forestfoundation.org/stuff/contentmgr/files/1/aa6997669b3ac033f1513ba227ceb771/pdf/american_forest_foundation_estate_tax_report.pdf

(202) 463-2456.  We look forward to the opportunity to engage further on behalf of America's family forest owners as the Committee works towards its tax reform goals.

Sincerely,

Tom Martin
President and CEO
American Forest Foundation