American Forest Foundation
Public Policy Issue Brief

FAVORABLE TAX ENVIRONMENT FOR WORKING FAMILY FORESTS

Approved by the American Forest Foundation's Board of Trustees on March 11, 2014 to remain in effect until December 31, 2016.

Background:

Tax policy can serve as either a major incentive, or a major deterrent, to family forest owners who wish to keep their land in the family and manage their forests sustainably from generation to generation. This is especially true when development pressures and land values escalate, putting forest land owners in a situation where they may be forced to sell because increasing taxes make owning the land unaffordable. Forest land is a unique and risky, investment, often requiring significant upfront expenditures that can take decades to yield favorable returns.

American Forest Foundation Policy:

The American Forest Foundation (AFF) supports tax policies that encourage sustainable management of family forests and that recognize the important societal benefits family forests provide. Tax policies should encourage family ownership and adoption of sound forest management practices. Overall, tax policies should create a positive environment for keeping forests as working forests–providing clean air, clean water, wildlife and recreational opportunities in their communities.

Without the proper tax policies in place, we could see pre-mature timber harvesting, low reforestation rates, reduced investment in the needed ongoing management of forestland, and conversion of forests to non-forest uses. Therefore, tax policies can have a profound impact on forest conservation and the ecological benefits forests provide.

There are several existing tax policies that help to ensure family forest owners conserve their forestland and continue to provide benefits like clean air and water, wildlife habitat, and opportunities for recreation. The "timber tax" provisions in the federal income tax code allow landowners to deduct their reforestation expenses, forest management expenses, and treat income from a timber harvest as a capital gain. While these provisions have immediate economic benefits for landowners, they also have an important impact on the ground by incentivizing reforestation and forest health. Tax policies that make long-term forest management affordable for families help to conserve forestland and keep it healthy for future generations.

When family-owned forestland is hit by a sudden, catastrophic event, like a hurricane, tornado, ice storm, or wildfire, casualty loss tax policies should also help to ensure that forest owners have the means to recover from the devastating event that can wreak havoc on forestland. Often, the loss is overwhelming, and families experience both financial and personal loss. Most forest owners cannot afford insurance for their forests because insurance companies treat forests as a very risky investment, so a casualty loss tax benefit is important to help forest owners recover.

Estate taxes can also impact family-owned forests. Currently, over one-third of the over 22 million family forest owners are above 65 years old. When a loved one passes and the family is left with forests as part of the estate, the family may be forced to sell part or all of the property or pre-maturely or unsustainably harvest their timber, to cover the estate tax. The estate tax was scheduled to revert back to pre-2001 levels, but in early 2013, Congress permanently set the estate tax exemption level at $5.25 million (adjusted for inflation) and the estate tax rate at 40 percent dramatically reducing the number of family forest owners impacted by the estate tax by 96 percent and the number of family forest acres by 72 percent.[i]

Other tax credits and deductions are important policy tools that help to conserve family-owned forests. Some examples include property and income tax incentives for protecting a forest from development through conservation easements or conservation contracts or tax deduction of management expenses associated with conserving endangered species habitat. Tax issues affecting family forest owners exist at all levels of government—federal, state and local. Often, the interplay of these different policies and their combined effects can exacerbate the challenges facing family forest owners. Tax policies should encourage family forest ownership and forest conservation, ensuring that family-owned forests continue to provide societal benefits like clean air and water, wildlife habitat, and opportunities for recreation.

Public Policy Goals:
The American Forest Foundation, working with its partners and networks, will advance policy initiatives that will:

- Create a favorable income tax environment for family forest owners by maintaining and improving provisions that allow forest owners to receive capital gains treatment for a timber harvest, deduct reforestation expenses, and deduct forest management costs.
- Create favorable tax environment for long-term protection of family forests with permanent or extended tax incentives for working forest conservation easements, including through use of tax credit bonding programs.
- Modify casualty loss provisions to allow for deduction of either the tax basis or 50% of the loss, whichever is greater, and to provide increased incentives for forest stewardship and certification.
- At a minimum, maintain the estate tax at a $5 million exemption (adjusted for inflation) and 40% tax rate and improve estate tax policies like special use valuation (IRC 2032A) to encourage forest management and ongoing stewardship practices.
- Modify existing tax incentives for endangered species conservation on farms and ranches, to apply these incentives to family-owned forests.

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[i] *Butler, B., Dickenson, B., Hewes, J. et al. (2013). Assessing the Number of Family Forest Ownerships and Acres Potentially Impacted by the Federal Estate Tax. In review.*