Indicator 7.47:

Taxation and other economic strategies that affect the sustainable management of forests

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What is the indicator and why is it important?

The sustainability of forests and the many benefits they provide requires high levels of sustained investment in their management and protection. A number of economic factors and Government policies—among them product or service costs and prices, capital costs, management efficiency, forest land productivity, and Government interventions, including tax and incentive policies and associated technical assistance—drive management decisions and investments. Taxes and incentives substantially affect sustainable forest management, specifically as a cost of conducting forestry business, by encouraging forest production and conservation, or by favoring certain sectors and activities.

What does the indicator show?

The United States has a wide variety of investment and taxation policies that favor long-term forest resource investments, provide consistent market-based incentives and signals, and provide some payments for provision of environmental and nonmarket values. Methods include providing incentives and subsidies in the form of Federal and State income tax benefits; favorable treatment of timber and wildlife habitat in State and local property taxes; deductions for donating land or its development rights in perpetual conservation easements; and direct conservation incentive payments through the Federal Farm Bill and other Federal, State, and private sources.

Taxes. Federal and State income tax policies that encourage timber growing include treatment of timber income as long-term capital gains for all owners; deduction and accelerated amortization of reforestation expenses for family forest owners; deductions of management expenses and carrying charges for business or active forest owners; and reduced tax rates (compared to corporations) for timber investment management organizations and real estate investment trusts. Forest landowners rely on timber tax benefits to offset the long growing cycles for trees and the substantial up-front costs for tree planting and forest management, including forest health protection and the payment of property taxes and interest. These provisions also help compensate landowners for the nonmarket environmental services that they provide to society, enabling landowners to better protect their forests against natural disturbances such as fire, pests, and disease. These disturbances are largely uninsurable due to very high costs per unit value of forests and a limited number of insurance vendors. Federal estate taxes, however, are much more likely to apply to timberland owners than to most other taxpayers, due to relatively high land values associated with forests. Forest landowners also fall under general Federal estate tax exemptions, which were raised to $5.25 million per person in 2012, have been indexed to increase with inflation, and stand at $5.45 million per person in 2016 and $10.9 million per married couple. The National Timber Tax website (http://www.timbertax.org) summarizes much of the status of forest taxes.

State and local property tax treatment for forest landowners also is generally favorable for active forest landowners and managers, although this does vary substantially among States and even within States. Property tax rates without special tax treatment can be prohibitive, at up to $10 to $50 per acre per year—perhaps more than the annual timber value growth rates and even making cumulative tax costs higher than cumulative net timber income. All States, therefore, allow for the reduction or elimination of property taxes on forest land. These property tax benefits include exemptions, rebates, yield taxes, modified assessment rates, or modified assessment property tax laws. As of 2015, all but four States had some type of modified assessment law providing favorable tax treatment of forest land, and even those four had some other type of tax relief for forest landowners. Eleven States had full or partial exemptions from property tax for forest land, 2 States had rebates, 3 had modified rate laws, and 13 had yield taxes or severance taxes—often in lieu of annual taxes on the value of standing timber.

The National Woodland Owner Survey (NWOS; http://www.fia.fs.fed.us/nwos/) provides detailed survey summaries of forest landowners and the property and other tax programs for each State, as well as evaluations of property and tax program impacts and landowner opinions about the programs. The survey finds that State preferential tax programs had primary assistance goals for forestry (52 percent), open space protection (37 percent), agriculture preservation (7 percent), or wildlife habitat (4 percent). These programs had varying requirements for enrollment, including a wide range of minimum or maximum acreages and enrollment limited to family farms and forests, not industrial owners. Some programs required a farm or forest management plan, most had a specified duration of enrollment, and almost all had some payback penalty for withdrawing from the program. Various other types of State tax programs affecting farms and forests include timber harvest taxes, State income taxes, preferential treatment for capital gains from timber or land sales, forestry or land conservation income tax credits, State estate or inheritance taxes, and estate tax special valuation. In recent years, these programs have made substantial reductions in the property tax burden for forest owners in most States (fig. 47-1). Despite these preferential tax programs, forest land still may be taxed at rates that are quite high compared to its potential to generate timber or other revenue, resulting in added pressure on forests to be converted to other uses.

Incentives. Many Federal and State incentive programs also promote forest investments in timber, conservation, or environmental activities. The periodic Federal Farm Bill has contained increasing provisions for tree planting, crop retirement, and environmental land use programs in each of its authorizations and appropriations since the 1960s.

The most recent Farm Bill reauthorization, titled the Agricultural Act of 2014, authorized $956 billion in funding through 2024, including $756 billion for the Supplemental Nutrition Assistance Program to enhance

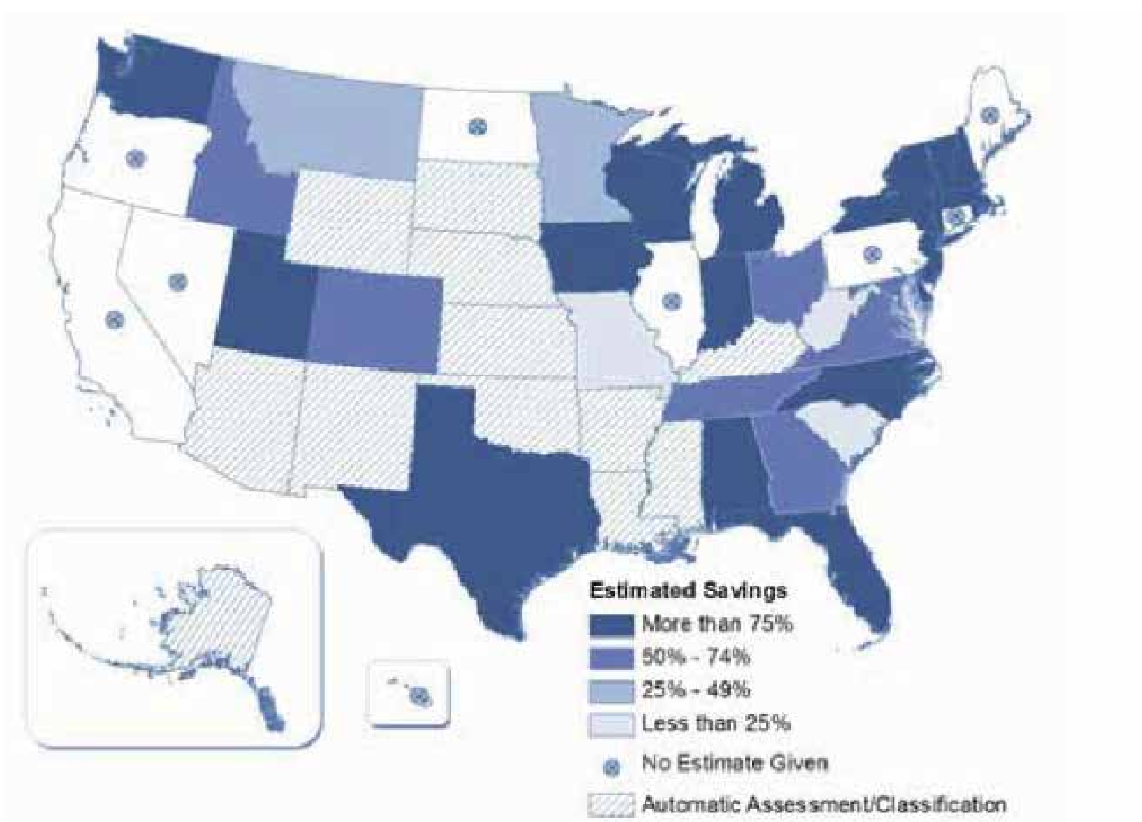

Figure 47-1—Reduction in annual property tax burdens for forest owners enrolled in the preferential property tax programs as reported by program administrators (Source: Butler et al. 2010).

human nutrition, $90 billion in crop insurance, $56 billion for a variety of natural resource conservation programs, and $44 billion in commodity programs. This bill consolidated 23 conservation programs into 13, provided conservation funding for the next 5 years, and aggregated the individual farm programs into three broad umbrella programs that provide for financial assistance, easement, and partnerships: (1) Environmental Quality Incentives Program (EQIP); (2) the Agricultural Conservation Easement Program (ACEP); and (3) the Regional Conservation Partnership Program (http://www.nrcs.usda.gov/wps/portal/nrcs/main/national/programs/farmbill/). Associated Federal conservation payments totaled $6.1 billion in fiscal year 2012. Of this, probably about one-third, or about $2 billion, related to forest management and forestry practices.

The Forest Service, an agency of the U.S. Department of Agriculture, provides a current summary of financial incentive programs for private forest owners, including Federal, State, and private sources (http://www.srs.fs.usda.gov/econ/data/forestincentives/). State-funded forest incentive payments are available in 29 States through 57 different programs, not including property tax incentives, which exist in almost every State. All States have various types of Federal programs for forestry, agriculture, wildlife, water, or other conservation purposes. Additionally, private or nongovernmental organizations (e.g., the Tree Farm System) have specific types of assistance for nonindustrial private landowners in 46 States. Seventeen States provide some type of cost-share assistance of grant funding for forestry practices, totaling about $10 million per year, ranging from less than $100,000 in a few States—Alabama, Delaware, Missouri, and Oklahoma—up to $500,000 to $2 million in others—Louisiana, Mississippi, North Carolina, Oregon, South Carolina, Virginia, and Wisconsin. These programs tend to focus more on timber production or forest health than on broad conservation goals.

Market-based policy tools in the United States also address timber production, ecosystem goods and services production, and environmental protection for sustainable forest management (SFM). These specifically include market-based programs such as forest certification for SFM, wetlands banks for wetland functions and values, cap-and-trade for carbon storage or endangered species protection, conservation easements for fixed-term or permanent protection from development, and even outright purchase of forest lands by nongovernmental or government organizations. In addition, conservation easements and donations may receive Federal and State income tax deductions in compensation for deeding development rights to conservation or government organizations.

What has changed since 2010?

In 2013, reforms to U.S. Federal tax policy increased income taxes for high-income earners and made changes to the estate tax, affecting some forest landowners and producers. State forest property taxes continue to fund State and local services and have increased in many jurisdictions as the demand for services rises rapidly. The 2014 Farm bill consolidated 23 conservation programs into 13 and provided $57 billion in conservation funding for 5 years, which included $6 billion in conservation spending cuts compared to the previous 5-year bill. The national timber tax website and new financial incentives website track of these changes, along with the periodic data reported in the national woodland owner surveys, and provide essential sources of information for forest landowners and producers.

References:

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