HARDWOOD FEDERATION

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Timber Tax

Issue

In February, House Ways & Means Committee Chairman Dave Camp (R-MI) unveiled his comprehensive tax reform plan for overhauling the U.S. tax code. While his proposal has the laudable goal of reducing the corporate tax rate to 25 percent, the plan eliminates a number of deductions that are critical to our fiber suppliers. The Hardwood Federation has joined with forestland owners in efforts to educate key lawmakers about the importance of these deductions and the consequences to our industry if they are removed.

Background

Standing timber is currently taxed at the capital gains rate, recognizing the long term investment and risk that landowners incur to produce trees that can take 20-80 years to mature. Chairman Camp's proposal eliminates the current capital gains preferential tax treatment (15 percent) for revenue derived from harvesting timber. If enacted, this measure would tax timber gains as ordinary income at the top tax rate. Since 1943, the federal tax code has treated timber harvest proceeds and the sale of standing trees as capital gains. In the view of House Ways & Means Committee staff, however, standing timber should be treated as "inventory" and not as real estate. By recharacterizing timber in this fashion, the Camp proposal splashes timber out of capital gains treatment and also disqualifies timber from Real Estate Investment Trust (REIT) rules.

Nearly doubling the tax rate on timber proceeds would be devastating for forest landowners across the spectrum--from small private landowners trying to put a kid through college with a timber sale or thinning project to large industrial forest landowners. The downstream effects on companies in the hardwood manufacturing sector that rely on forest fiber for product and energy are consequential.

In addition, Camp repeals the current deduction for timber growing costs. Right now forest landowners can deduct operating costs in the year in which they were incurred, rather than capitalizing these costs over time.

Camp also eliminates the deduction and amortization of reforestation costs. Currently, forest owners can deduct up to $10,000 of reforestation costs per stand. In addition, they can amortize the remaining costs over 7 years.

Finally, Camp eliminates timber as "real property" under Real Estate Investment Trust rules. As you know, many of the large forest ownerships in the U.S. have structured as REITS for tax purposes.

According to a study prepared by the National Alliance of Forest Owners, repealing the three timber tax provisions would adversely impact the economy and environment. Eliminating the three provisions would lead to a 15% decline in domestic sales totaling over $34 billion and the loss of 140,000 jobs. It would also increase management costs and lead to decreased investments causing a substantial loss of forest productivity and corresponding environmental benefits and an acceleration of forest conversion to alternative land uses

Hardwood Federation Position:

The Hardwood Federation supports efforts to reform our nation's tax code, but not in a fashion that makes it more difficult for private forest landowners to keep their lands forested. Most of the forestland in the U.S. is privately owned. Healthy, vibrant forests result from a combination of thriving markets for forest products and favorable tax treatment that allows landowners to grow and maintain their forested acres economically. The Hardwood Federation is concerned that enacting these timber provisions will jeopardize the economic viability of 450 million acres of private forests owned and managed by more than 22 million forest owners, including individuals, families, institutional investors and businesses. Private forests support jobs in rural communities and provide important public benefits like clean water and air, wildlife habitat and outdoor recreation.