HARDWOOD FEDERATION

Hardwood Federation July 2021 Newsletter

Message from the Executive Director

Like virtually every other spot in the U.S. right now, the weather in D.C. is hot. With heat indexes routinely over 100 degrees, summer has definitely arrived in our nation's capital. Also becoming increasingly heated, are negations between both ends of Pennsylvania Avenue about how to move President Biden's agenda through an evenly divided Congress. Surface transportation reauthorization legislation, also known as "highway bills," are moving in both chambers and may be merged with a bipartisan infrastructure package that has been unveiled in the Senate. The next couple of weeks will be very telling about the viability of this approach, particularly given that legislative text of the bipartisan infrastructure package has not been developed—the agreement is simply a framework proposal.

Also, in the mix are the Administration's more aggressive policy priorities around "social infrastructure" and climate change that are embodied in President Biden's American Jobs Plan and American Families Plan. You may recall that there are a number of tax proposals embedded in these plans that impact the business community. For our sector, there is nothing specific to S-Corporations or other pass through tax structures. However, two particular provisions have raised alarms across all groups representing small and medium sized businesses. One is language ending long-standing capital gains tax break on inheritances known as "step-up in basis," which allows tax payers to use the market value of assets at the time of inheritance rather than the actual purchase price as the cost basis for capital gains when the holdings are sold. Sale of inherited stock serves as a useful example of the benefit of stepped up in basis. Suppose a couple with one dependent bought some stock 20 years ago for $10,000. After the couple passes away, the dependent inherits the stock – which is now worth $100,000—and she immediately sells the stock for $100,000. The amount of gain to be taxed is calculated by subtracting the basis (typically the amount paid for the stock) from the amount received for the sale. Without a step up in basis, the gain would be $90,000 ($100,000 - $10,000), and the dependent would pay capital gains tax on that amount. However, with the stepped-up basis, there is nothing to tax. That is due to the fact that the dependent's basis in the stock automatically jumps from $10,000 to $100,000, which means the selling price and the basis are identical. If those two figures line up, then there is no taxable gain.

The other proposal that has attracted considerable attention is what groups in town are characterizing as a second death tax. The proposal would raise the capital gains tax rate from 23.8 to 43.4 percent. Any assets that you have are considered sold the day you die with the first million being exempt. So in other words the 43.4 percent rate would be imposed on your final tax return.

These are but two of the many proposed tax increases floating around D.C. this summer. There are also proposals to reduce or eliminate the current standard for businesses' interest expense deductions and to cap the eligibility for pass through deductions, phasing out those making more than $400,000 from a business where the income passes through directly to the owner or owners, until fully phasing out at $500,000. Hardwood companies have also expressed concern about the proposed elimination of 1031 exchanges which defer certain tax payments on property-investment gains of over $500,000. There are likely other proposals which will impact companies and individuals differently based on a multitude of factors. We are doing our best to track those that have the most widespread impact on the hardwood industry.

The good news is that these proposals have unified the business community in opposition and an impressive number of Democrats have come out against them as well (here, here, and here). However, the President and his team is looking at a window for action that could be rapidly closing and may result in a full court press in Congress. Historically, consider that major initiatives sought by a new administration typically occur in the first two years. Examples include enactment of the Affordable Care Act signed during the first Obama administration in 2010 and the Tax Cuts and Jobs Act during the Trump Presidency in 2017. With many political prognosticators predicting the House may flip to Republican control after the 2022 elections, the Biden Administration and House and Senate leadership are laser focused on moving key pieces of these two plans.

As always, the Hardwood Federation will remain vigilant and continue our frequent conversations with key Democrat and Republican allies in the House and Senate about our sector's concerns and priorities.

USDA Names New Forest Service Chief: On June 28th, USDA Secretary Tom Vilsack announced that Randy Moore would become the 20th Chief of the Forest Service, replacing the retiring Vicki Christiansen on July 26th.

Chief Moore has extensive Forest Service experience, serving as Regional Forester in California since 2007. Moore has spent time in national forests across the country, including five years as the Regional Forester for Region 9, headquartered in Milwaukee, WI, leading the revision of every forest plan in the region. He began his career with USDA in 1978 with the Natural Resources Conservation Service in North Dakota. His Forest Service career began on the Pike and San Isabel National Forests in Colorado and the Comanche and Cimarron National

Grasslands in Kansas. He served as Deputy Forest Supervisor on the National Forests of North Carolina and the Mark Twain National Forest in Missouri before serving as Forest Supervisor of the Mark Twain. Moore also has national-level experience in Washington, D.C., serving as acting Associate Deputy Chief for the National Forest System.

The Hardwood Federation Team looks forward to working with Chief Moore.

Biden Executive Order on Deregulation – Transportation implications

Earlier in July, the Biden Administration unveiled a sweeping Executive Order (EO) on promoting competition in the American economy. The EO covers everything from banking and health care to air travel and internet service. As part of this measure, there are provisions addressing Class 1 rail carriers and ocean-going freight providers that are of interest. On the rail side, there is language in the EO encouraging the Surface Transportation Board to pursue rulemaking to strengthen reciprocal switching agreements to provide more competitive rail service. This has been a priority of the National Industrial Transportation League (NIT League), which is a pro shipper group. The American Association of Railroads (AAR), the national group representing the Class 1 railroads, is vehemently opposed to reciprocal switching arrangements. The proposal also calls for other rules to enhance competitive access, including bottleneck rates and interchange commitments. And finally, the EO includes language about mergers and acquisitions among Class 1 rail providers which is particularly timely given that Canadian Pacific and Canadian National railroads are currently vying to acquire Kansas City Southern, which will only serve to provide more market power to the winning bidder.

Regarding ocean freight and traffic/congestion at the ports, the EO encourages the Federal Maritime Commission to vigorously enforce the ban on unjust and unreasonable detention and demurrage practices by ocean freight carriers. Shippers increasingly have been reporting unreasonable late fees and other charges from ocean freight carriers with little or no recourse. The EO calls for the National Shipper Advisory Committee to make recommendations for improving detention and demurrage practices and enforcement of related Shipping Act prohibitions and consider further rulemaking to improve detention and demurrage practices and enforcement of related Shipping Act prohibitions.

The Hardwood Federation will be closely monitoring implementation of this Executive Order.

Vietnam Trade: On July 19, the U.S. and Vietnam reached an agreement to address U.S. concerns with Vietnam's currency practices. Vietnam committed to improve exchange rate and monetary policy according to a joint statement issuet by U.S. Treasury Secretary Janet Yellen and State Bank of Vietnam Governor Nguyen Thi Hong. As a result of this agreement, the U.S. revoked the threat of tariffs on Vietnamese goods.

The agreement between the two nations provides "satisfactory resolution of the matter," and no trade action is warranted, the Office of the U.S. Trade Representative said in a statement Friday. The USTR and Treasury will monitor Vietnam's implementation.

In recent weeks, Biden Administration officials had been meeting to discuss whether or not to impose tariffs on selected items imported from Vietnam in response to U.S. concerns about Vietnam's monetary practices. Conversations were spurred by investigations conducted by both the Trump and Biden Administrations into suspected Vietnam currency manipulation. Hardwood exporters were alarmed at the potential of another trade dispute erupting with a significant market for U.S. lumber and logs. This agreement seems to have lowered the chances of such action at this time, although it seems certain the Biden team will be keeping the pressure on Vietnamese officials.

Although this is a positive development it does not resolve the still ongoing investigation into illegal timber practices in Vietnam's activities related to illegally harvested timber. Negotiations regarding this action are still ongoing, although there has been little public comment regarding progress. If negotiations falter, the U.S. could propose action, including tariffs on Vietnamese exports into the U.S. However, such action is far from guaranteed at this point and would, if pursued, require an extensive public comment period before implementation. We are continuing to monitor the situation.

Logger Relief: On July 20, the U.S. Department of Agriculture (USDA) launched the $200 million Pandemic Assistance for Timber Harvesters and Haulers program (PATHH) to provide relief to timber harvesting and timber hauling businesses that experienced losses due to COVID-19 in 2020. The program was funded through the Logger Relief Act, bipartisan, bicameral legislation, introduced by U.S. Senator Susan Collins (R-ME), Senator Tina Smith (D-MN), Congressman Jared Golden (ME-D-02), and Congressman David Rouzer (NC-R-07). The bill passed in late 2020 but implementation rules have just been finalized. Eligible loggers and truckers can apply here for up to $125,00 in relief through USDA's Farm Service Agency (FSA) July 22 through Oct. 15, 2021.

Around the Hardwood World

Carbon Benefits of the WORKING Forest: The National Alliance of Forestland Owners has developed a website that provides visual representations of the carbon sequestration power of working forest lands…those forests that are sustainably harvested to provide raw materials to the forest products industry. You can check out the site here.

In addition to this resource, the Forest Resources Association (FRA) has released a short video short video showing the role of forestland in sequestering and storing carbon.

Congratulations to U-C Coatings! The Buffalo, New York company celebrates 50 years of developing and providing wood protection products to the hardwood industry. U-C Coatings is also a long- time supporter of the Hardwood Federation. We appreciate their support and wish them another successful 50 years!

Do you have an anniversary or milestone to share…please send us information at hardwood.federation@hardwoodfederation.com!

Hardwood Industry Meetings Are Back…and In Person! Industry events are happening and the Hardwood Federation is there. Dana Lee Cole attended the National Wood Flooring Expo in Orlando earlier this month and just returned from the Missouri Forest Products Association Annual meeting. She will also visit with Tennessee Forestry Association before the end of July. The Fall months are also full…she hopes to see you soon!