

Proposed Tax-Code Changes Catastrophic for Small Landowners

By Marshall Thomas

Last year, former House Ways and Means Committee chair Dave Camp (R-MI) proposed a bill that would, among other things, repeal four critical timberland tax provisions in the US tax code. His draft legislation, which was formally introduced in December 2014 as the Tax Reform Act of 2014 (HR 1), would be catastrophic for small forest landowners, a group already reeling from the impact of the worst recession in the forestry world since the 1980s. Representative Camp retired in January at the end of the 113th Congress, and fortunately his bill has not been reintroduced, so far, in the 114th Congress. However, with numerous members of Congress interested in tax reform, we must watch for the introduction of similar measures.

The tax provisions Representative Camp identified for removal include:

- The long-term capital gains treatment of timber revenue (Internal Revenue Code 1231(b)(2)).
- The deductibility of timber-growing expenses in the year they are incurred, rather than capitalizing these costs (IRC Sections 162 and 263A(c)(5)).
- The deductibility of up to \$10,000 of reforestation expenses as these expenses are incurred and the allowable amortization of remaining reforestation expenses over a seven-year period (IRC Section 194).
- Treatment of timberland and standing timber as real property for purposes of the real estate investment trust (REIT) rules (IRC Section 856), which I do not consider in this article.

To quantify the impact of these changes on a small forest landowner, I have taken the forecasted cash flows from an actual 631-acre timberland property in Georgia, renamed the "Sample Tract" to protect the privacy of the landowner. In terms of cash flow from the property, the average annual cash flow per acre from all sources, after taxes, under the current tax provision is \$53.37. Taking away capital gains reduces this to \$37.96, and taking away the deduction and amortization provisions reduces this further to \$35.46.

To put it into terms for the non-financial folks among us, let's take a look at the impact on a timber sale for a typical landowner who has little cost basis in his or her property. If \$2,000 is received per acre for a final timber sale of a 30-year-old pine plantation, the current net, after sale expenses, is about \$1,200 (\$2,000 less sales cost of \$100, less capital gains tax of about \$450, less \$250 reforestation cost). After all expenses, the landowner



Marshall Thomas, president of F&W Forestry Services Inc.

retains only a little more than half of the gross receipts. If the tax law is changed as proposed, then the landowner's net is reduced substantially—to \$825 (\$2,000, less sales cost of \$100, less ordinary tax of about \$825, less \$250 reforestation cost). This is less than half of the gross receipts for the sale and almost \$400 per acre less than would be received under the existing tax code.

These are fatal numbers for southern timberland owners, who are now selling at some of the lowest real timber prices in the past 60 years.

Most small landowners have their property because they inherited it from farming parents, or it's a recreational property, as a hedge against inflation, or a savings account for college, or some combination of all of these and many other reasons. Because of the diverse reasons for ownership, and the different objectives of each owner, we have a very diverse forest landscape across the South—a wonderful mixture of native forest, plantations, and creeks.

Within these forest types, some landowners thin their trees, some burn to control vegetation and improve wildlife habitat, and some just let the trees grow until they are ready to cut. Next time you are driving through a rural area of the South, take a look at the roadside forests, and you will see this diverse landscape.

Regardless of objectives and management practices, almost all landowners, especially the smaller ones, need cash flow from time to time to justify the investment they have in the property. Reducing returns and cash flows by almost one-third will force many of these owners to look for other uses for their property or to quit planting after harvest to reduce costs.

Alternative uses include agriculture or pasture; both are fine uses, but neither provides much habitat for the diverse wildlife and plant species found in the southern forests. The biggest loser, if these tax proposals are implemented, could be the wildlife and plant species found in these ecosystems. It has taken us 80 years to recover from the pre-Depression period in the South, when most land was in farms or cutover woodlands that were burned annually and grazed as pastureland. It would be a shame to let a short-sighted change in the tax code push us back to those conditions. **FS**

Marshall Thomas is president of F&W Forestry Services Inc., which is based in Albany, Georgia. Website: FWForestry.net.

FACULTY POSITION ANNOUNCEMENT

Forest Operations – Assistant Professor

POSITION AND RESPONSIBILITIES: This is a 9-month (0.75-EFT), tenure-track, 50% teaching, 50% research appointment offered at the rank of Assistant Professor. This position reports directly to the Dean of the Warnell School of Forestry and Natural Resources (Warnell School) and is located in Athens, GA. The successful candidate will be expected to work with Langdale Center faculty to continue and expand a nationally recognized program in forest operations within the Harley Langdale Jr. Center for Forest Business (www.ugacfb.com). He/she will develop an active and extramurally funded research program that may include forest harvesting, supply chain management, and/or wood procurement applications. Individuals with experience in applied research in forest operations or in management or procurement in the wood supply chain are especially encouraged to apply. The successful candidate will also be expected to provide quality instruction for a range of classes to help maintain the accreditation of the forestry major by the Society of American Foresters. Specifically, the incumbent will serve as the primary instructor for an undergraduate/graduate course in forest harvesting and roads each fall semester and will collaborate in teaching a week of a forestry field course each May focused on forest operations. Other teaching duties will include offering a graduate course in the candidate's area of expertise and assisting with required courses as assigned in the undergraduate forestry major. The successful candidate is expected to advise/mentor undergraduate and graduate students, direct and serve on graduate student committees, serve on School/University committees, actively participate in professional/scientific societies, and constructively interact with the Georgia Forestry Association, Georgia Forestry Commission, and other appropriate forestry groups.

QUALIFICATIONS: Applicants must have a Ph.D. degree in forest operations, forest engineering, forest business, or in a closely related quantitative forest resources-based discipline. One forestry degree from an SAF accredited forestry program is required. Evidence of successful instruction and research productivity with the potential to attract external funding is required. The successful candidate is expected to collaborate with other faculty and with external constituents in forest industry and trade associations. The candidate must also demonstrate an ability and willingness to successfully mentor undergraduate and graduate students.

THE STATE & UNIVERSITY: Georgia is well known for its quality of life, both in terms of outdoor and urban activities. The University of Georgia (www.uga.edu) is a land/sea grant institution comprised of 16 schools and colleges that is located <90 miles from Atlanta. Enrollment is about 35,000 undergraduate, graduate, and professional students. The Warnell School is a professional school with 57 faculty, 350 undergraduates, and 190 graduate students (www.warnell.uga.edu). The School offers Bachelor of Science in Forest Resources, Master of Forest Resources, Master of Natural Resources, Master of Science, and Doctor of Philosophy degrees in the areas of Forestry, Fisheries and Wildlife, Natural Resource Recreation and Tourism, and Water and Soil Resources. The School has a 740 acre (300 hectare) forest <10 minutes from campus and 3,000 acres (9,200 hectares) of forestland across the state for teaching and research. Georgia has a large and globally competitive forest products industry that contributes nearly \$30 billion annually to the state's economy.

APPLICATION: To ensure full consideration, candidates must submit a single PDF file including a cover letter, curriculum vitae, statements of teaching philosophy and research interests, unofficial transcripts of all college-level work, and contact information for three references by July 5, 2015. Individuals selected for our short list will be required to submit official college transcripts and three letters of reference. University policy requires all candidates to consent to a background investigation (www.hr.uga.edu). Finalists will be required to provide a signed consent form authorizing the University to conduct a background check. The background investigation will be conducted on a post offer/pre-employment basis. The starting date is negotiable, but January 1, 2016 is preferred. Send applications electronically as a single PDF file to: Dr. Robert L. Izlar, Chair, Forest Operations Search Committee, Warnell School of Forestry and Natural Resources, University of Georgia, Athens, GA 30602-2152 (bizlar@uga.edu).



The University of Georgia is an Equal Opportunity/Affirmative Action employer. All qualified applicants will receive consideration for employment without regard of race, color, religion, sex, national origin, disability, or protected veteran status.