Issue Summary

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YFFReview

Tax Policies and Family Forest Owners

A summary of a forum exploring the impacts of national, state, and local tax policies on family forest owners and the opportunities for enhancing forest conservation through policy improvements.

A Yale Forest Forum Event

October 14th & 15th, 2010
Global Institute of Sustainable Forestry

New Haven, Connecticut

YFF Review

The *YFF Review* joins the GISF Website as an outreach tool to improve the accessibility of information on issues relating to forestland use and conservation. The purpose of the Review is to inform stakeholders about programs and activities sponsored by GISF. We hope that you will find the information in each *YFF Review* useful and stimulating. For more information visit our website at www.yale.edu/gisf.

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A Collaborative Forum

This Yale Forest Forum to discuss the relative and cumulative impacts of tax policies on family forest owners was developed in cooperation with the Family Forest Research Center (FFRC), a joint venture of the USDA Forest Service and the University of Massachusetts Amherst, with funding provided by the American Forest Foundation. The FFRC conducts research on the social, economic and political dimensions of family forestry in an effort to promote sustainable forest management. This Forum was convened as part of a larger FFRC research study with the goal of gaining insights from family forest landowners, forestry professionals, other stakeholders, and tax and forest policy experts.

If you are interested in learning more about the Effects of Federal, State, and Local Taxes on Family Forest Owners research project, please visit: http://familyforestresearchcenter.org/projects/taxes.htm

Issue Introduction

US Forests and Family Owners

Forestlands are an important part of our nation's natural and cultural heritage. Long identified as the lifeblood of domestic timber industries, American forestlands are now also increasingly being valued for the many non-market services that they provide, including aesthetic and recreational uses and ecosystem services like water purification and soil conservation. As with much wild and open space in the US, forestlands are under increasing pressure from urban and suburban development in many parts of the country; over the last 30 years 7.78 million acres of forestland were converted to developed property and we are predicted to lose almost 50 million acres of forestland by 2062[*]. In light of these pressures, promoting the maintenance and good management of America's remaining forestlands must become an important goal of US domestic policy.

The lion's share of forestland in the US is privately held and managed by family owners: roughly 10 million families and individuals own 35% of the forestland in the country, an estimated 264 million acres. Though their holdings are often small, collectively these owners have a tremendous influence on the sustainable maintenance of US forestland through their land-use and management decisions. Important for considerations of land preservation and maintenance, of the 10 million families that own forestland in the US, most (60%) own less than 10 acres.

[*] See Alig et al.'s "Changes in U.S. land use including forests, 1982 to 2002, with projections to 2062" (2009).

Almost 35% of US forests, roughly 264 million acres, are privately owned by families and individuals

A Map of US forests, both publicly and privately owned*.

Despite many similarities among forest owners in the US, it would be misleading to try to describe an "average" American forest owner. Reasons for owning forestland vary greatly from owner to owner, and across the country, but most owners can be categorized into four general types:

1. Those who hold their land primarily for use as a "woodland retreat" (the majority of landowners).
2. Those who actively work their land and receive many benefits from it (e.g., income generation, hunting and recreation).
3. Those who own the land but are otherwise uninvolved in its use or management.
4. Those who use the land primarily to generate supplemental income (the minority of owners, who often own large acreage).

There are many difficulties facing family forest owners today. Primary among issues for landowners are family succession ("I have ten children from nine to fifty years"**), land development ("It's going to be sad because in 50 years what we all have probably won't be there"), government regulation, and taxes ("I would love to sell it for what they assess it at").

*Map courtesy of Butler, B.J. (2008)
**Quotes taken from tax project forest owner focus groups.

Taxes and Forest Preservation

A suite of tools exists to encourage the preservation and sustainable management of family forestlands, ranging from educational outreach to land-use regulations. Tax policies in particular have emerged as a common tool to influence forest owner behavior and promote forest preservation but their optimal design and ultimate influence on forest owners and forestlands are far from certain.

The Effects of Federal, State, and Local Taxes on Family Forest Owners research project began in September of 2009 to examine this issue and assess:

- The current landscape of federal, state, and local tax policies affecting family forest owners.
- The Impact of these policies on forestlands.
- The strengths and weaknesses of these tax policies.

Focusing on income, estate, and property taxes, the project team conducted literature and tax policy reviews, organized focus groups of landowners and forestry professionals, and conducted quantitative analyses on statewide forestland conversions. What emerged from these efforts was a picture of patchwork tax policies with greatly varying programs, incentives, and requirements from state to state. Though many policy strengths and weaknesses were identified, many questions remain to be answered. It is still an open question as to how effective existing beneficial tax policies are at promoting the maintenance and stewardship of family forests, and, indeed, it is still unclear how we can best improve poor performing programs or eliminate counter-productive policies.

Executive Summary

Background

On October 14th and 15th, the Yale Forest Forum and the Family Forest Research Center (FFRC) hosted a two-day forum on the impacts of tax policies on family forest owners in the United States. Forestry professionals and academics, tax program administrators and specialists, conservation leaders and forest landowners gathered together from around the country. They convened to discuss the preliminary findings of the Effects of Federal, State, and Local Taxes on Family Forest Owners research project and to consider what was working, what wasn't, and what the opportunities for improvement were with forestland tax policies and programs. It was hoped, by forum organizers and participants alike, that a clearer picture of the state of affairs would emerge and, additionally, that new and integrative insights for improving tax impacts could be gleaned from conversations among experts. Rates of private US forest loss are alarmingly high and expected to rise with increasing pressure from urban and suburban development in the coming years. How can tax policies be improved to help family forest owners keep forests as forests?

The objectives of the forum were to:

- Present the preliminary research findings from the tax impacts research project.
- Identify specific attributes of successful and unsuccessful tax policies.
- Generate new ideas on how to design effective tax policies and programs to promote forest conservation.

Project Findings

The forum began with a general introduction from the forum moderator, Mary Tyrrell of the Yale School of Forestry & Environmental Studies' Global Institute of Sustainable Forestry and individual introductions from members of the FFRC project team as well as invited forum participants. Dave Kittredge of the University of Massachusetts-Amherst then presented an overview of the tax project, and Brett Butler of the USDA Forest Service set the context for understanding the relevance of tax policy impacts on forest owners in the United States. They explained that private families and individuals own a plurality of forested land in the United States (roughly 264 million acres) and that, collectively, these landowners have tremendous influence on the sustainable maintenance of US forestlands through their land-use and management decisions.

Members of the project team then presented the findings of their literature reviews, focus groups, and quantitative analyses. They described the existing landscape of local, state, and federal taxes across the country and presented on perceived tax impacts, program effectiveness, and landowner attitudes. John Greene of the USDA Forest Service presented on income taxes, Jake Hewes of the FFRC on estate taxes, and Zhao Ma of Utah State University and Mike Kilgore of the University of Minnesota presented on property taxes.

They reported that all taxes and existing programs exerted some, albeit often small, influence on landowner behavior, with impacts differing in accordance with landowner knowledge of tax provisions, size of parcel holding, intensity of land-use, and enrollment in preferential programs. In general, small parcel holders were impacted by property taxes and showed low awareness of tax provisions, while larger parcel holders were impacted by property *and* income taxes and showed relatively higher awareness of tax provisions.

Owners with land enrolled in preferential property tax programs reported satisfaction with their programs and cited property tax savings as useful in helping them hold onto their land. Nevertheless, project team analyses did not find conclusive relationships between the strength of these property tax programs and state-level rates of forestland loss.

"There is a recognition that we should not be thinking of these taxes in silos but rather how they can combine to inspire, incentivize, or penalize behaviors."
-Dave Kittredge

Discussion

Forum participants discussed the project team's findings and echoed many of the presenters' main points. Awareness of tax programs and provisions was very low, they said, and many noted that forest owner succession planning had to be improved. Problems with existing programs were noted along with strengths: there are few states with tax programs that force implementation of management plans but those that do (e.g., Wisconsin) seemed to have positive impacts on forests and local timber industries; estate taxes can drive land sales but can also get foresters in the door and catalyze family succession planning; tax provisions are too complicated for many landowners to properly navigate but this complexity can sometimes lead owners to reach out to professionals. The group consensus was that much could be improved from the status quo.

Participants and project team members broke into smaller working groups to discuss forestland tax impacts more deeply and brainstorm ideas for short and long-term actions to improve existing policies. All participants then met to discuss the findings of these working groups and generate consensus on global themes of importance and recommendations for moving forward. Participants highlighted points of leverage within the existing system and discussed potential "low-hanging fruit" and potential obstacles: we must raise awareness of existing tax policies and beneficial programs among both landowners and professions; we should scale our efforts to reflect the different needs of different parcel-size landowners (focusing particularly on small parcel holders who benefit the least from current policies); we should consider the impact that taxes could have on payments for ecosystem services in the future; and we should make conservation easement tax benefits more flexible.

Participants made several recommendations for improving the impacts of individual tax policies and programs and called generally for:

- Increased study of program impacts and policies, with finer grained analysis of state-by-state program effectiveness.
- Improved education and outreach to raise landowner and tax professionals' awareness of existing beneficial programs.
- Improved succession planning facilitation and assistance for landowners.

Participants called on states to strengthen the requirements of their preferential property tax programs and increase owner enrollment. And they called on Congress to generate new tax codes to improve forestland conservation by addressing expired estate tax provisions, increasing the efficacy and flexibility of income tax benefits, providing incentives for first-time forest buyers, allowing for deferment of some forestlands from estate tax calculations, and rewarding lands certified for sustainable forestry practices.

They brought attention to the necessity of generating many tools to facilitate forestland management and preservation in America and pressed for the building of large coalitions of stakeholders to form consensus on these issues and advocate for improvements. The forum concluded with attendees excited to move forward with these ideas and committed to working together to begin effecting change.

Tax Impacts

Defining Goals

Facilitating the conservation of forestland and the maintenance of forestlands in family ownership were the clear objectives of the forum for both sponsors and participants - but just what does "conserve" mean? Traditional conservation groups, like the Land Trust Alliance, seek the permanent preservation of forestlands, but to landowners and forestry professionals "permanent" was an often abstract, seemingly unattainable, and sometimes objectionable goal. "Will we recognize these tools in 500 years?" In light of the pressures of development ("nothing can provide more financial incentives than development") and the changing needs of forest landowners, participants stressed the importance of **keeping forests as forests in family hands for as long as possible.** There are tangible benefits to keeping a forest as forest, they agreed, if only for another 20 years.

Additional Goals:

- Make forestry more profitable.

The greatest threat to forestland in the U.S. arises from development pressure placed by growing cities and suburbs. Selling forestland for development will always be more profitable than keeping it as working forestland but making forestry more profitable can help ease financial pressures for families that don't want to sell or develop their lands. At the very least, participants agreed, we should strive to minimize disincentives (e.g., high property taxes) to keeping forestland.

- Improve the stewardship of family forestlands.

"Not all forests are alike in quality," said one participant. Others agreed that improving the quality of existing family forests is an important goal. Well-stewarded and cared for land may have greater aesthetic and recreational value, produce more and better timber, and provide increased wildlife habitat and ecosystem services.

Income Tax

Research Summary

John Greene of the USDA Forest Service presented an overview of the project team's findings on the impacts of income taxes on forest landowner behavior and the existing landscape of income tax programs. Not surprisingly, he revealed, income taxes have the greatest impact on that minority of landowners who choose to hold their land primarily to produce income (with federal taxes having greater impact than state). For the majority of forest landowners, who often hold their land for many uses, income taxes do not figure prominently in concerns or decision making.

There are many income tax provisions that encourage the preservation and sustainable management of family forestlands. The availability of these provisions has little short-term impact on forest landowner behavior, however. Low awareness of their existence and an inability to properly capitalize on their beneficial provisions limit the reach and effect of these tax programs. Informational materials targeting landowner groups and forestry professionals to raise awareness of these programs could improve their overall effectiveness.

General tax benefits include the treatment of timber income as a long-term capital gain and various deductions based on timber losses, depletions from the timber basis, and qualifying management costs. Tax benefits that are specific for landowners include: reforestation incentives, exclusion of some public cost-share payments from gross income calculations, and enhanced charitable deductions from conservation easement donations. A few states levy specific taxes on timber harvests, either as privilege taxes (i.e., severance tax) or deferred property taxes (i.e., yield tax), but generally these tax rates are low and have little impact on management decisions.

Discussion
Income from forestlands is generated primarily through timber harvesting and sales, with additional income sources including sales of non-timber products like pine straw or hunting leases. Forum participants agreed that existing beneficial income tax policies seem to be working well for those landowners who know about them. The main drawback of these policies, they noted, is that many forest owners (the majority of whom own small parcels for retreat purposes) are unaware of their existence. These small parcel owners (roughly 60% of all forest owners) will rarely, if ever, harvest their timber and therefore have minimal experience owing income tax on forestry-related activities. Similarly, most certified public accountants (CPAs) rarely deal with taxpayers who receive income from timber and are therefore unaware of existing tax programs. Low owner and professional awareness means that beneficial provisions have smaller impacts than they could otherwise have, and, importantly, small or low-frequency harvesters are not benefiting from existing policies. The good news is that many acres are being impacted by beneficial provisions despite these problems because those landowners who utilize these provisions often own larger parcels of land.

"Capital gains holding periods don't encourage us to do the right thing. Shouldn't taxes go down the longer we hold [the land]? It just doesn't fit."

-Sara Leiman

Animated group discussion over how to best facilitate preferential income tax provisions highlighted many issues and generated several policy recommendations. Three issues emerged as important for considerations of how to move forward:

1 - Improved treatment of timber income as a Long-term Capital Gain

Currently, income from timber harvests can be treated, beneficially, as a long-term capital gain. Though this, importantly, helps make forestry more profitable, such treatment does not otherwise promote sustainable land management. Land that is held and managed for 50 years is treated the same, under the current system, as land that has been held for 1 year. Participants recommended **graduating favorable long-term capital gains tax provisions based on years of land ownership.** This would reward family owners for doing "the right thing", namely preserving their forests as forests for longer.

2 - Improved Income Tax benefits for Conservation Easements

Conservation easements* are a tool for ensuring the long-term preservation of land. Donations of easements bring a host of tax benefits (including potential property and estate exemptions) but for landowners with high-value land and low income ("land-rich and cash-poor"), income tax deductions don't currently capture the full value of donated land. Currently, donors may take charitable tax deductions of up to 30% of their income in any one year, with excesses carried over five years. For a low-income landowner (say <$50,000 annual income) making a large donation (>$1 million) these 30% annual deductions represent a small fraction of their donated land's value ($75,000 over 5 years in this case). Importantly, forestland that is most threatened by development will be consequently high-value land. Expired 2006 provisions enabled landowners with >50% of their income from forestry to deduct up to 100% of their incomes in any one year and spread any potential deduction excesses over a 15 year period. Landowners that harvest infrequently, say once in every 10 years, may see increased benefits from these provisions by being able to deduct 100% of their income in a harvest year, when their income will be much greater than usual, even if they made their easement donation many years before. The longer period (15 years) for utilizing deduction excesses will additionally allow donors to capture more of their donation's value. **Returning these expired beneficial provisions** would reward and promote donation of forestland conservation easements.

The allowance of transferrable tax credits for easement donations could increase the rewards to landowners for donating valuable forestland. Under such a system, which currently exists in a few states (e.g., Colorado, Virginia), low-income easement donors could sell their income tax credits to other individuals who might gain more from the percentage deductions and hence more closely capture the donated land's full value. Such programs have met with mixed success (and some notable abuses) but could be very valuable when properly executed and monitored.

*For a good review of conservation easement programs, see the Land Trust Alliance breifing at http://www.landtrustalliance.org/conservation/landowners/conservation-easements

3 - Beneficial Income tax provisions for payments for ecosystem services

Payments to landowners for the ecosystem services that their lands provide to the larger community (such as clean drinking water) represent a relatively new tool for promoting land preservation and stewardship. Nevertheless, some forest landowners are currently receiving benefits for ecosystem services (e.g., landowners in the Catskills/Delaware Watershed receive payments from the New York City municipality for providing reservoir protection) and such payments can be predicted to increase in the coming years.* Most older tax code provisions do not regard payments for ecosystem services with any sophistication. Participants recommended **creating beneficial income tax provisions for payments for ecosystem services**, perhaps even to the general exclusion of all payments from gross income calculations.

*Committee to Review the New York City Watershed Management Strategy. 2000. Watershed Management for Potable Water Supply: Assessing the NYC Strategy. *Commission on Geosciences, Environment, and Resources*. National Research Council. Washington, D.C.

"The future of the federal estate tax is far from certain"

-Jake Hewes

Estate Tax

Research Summary

Jake Hewes of the FFRC presented an overview of the project team's findings on estate taxes. Generally, forest landowners did not report estate taxes as a primary concern or factor in their management decisions. For those forced to pay them, however, one previous study* showed that estate taxes triggered timber harvests or land sales to cover tax payments among some owners of larger parcels. Because most states do not levy their own estate, inheritance, or gift taxes and those that do have generally lower rates, the federal estate tax exerts the greatest influence on landowners.

There are a few existing tax-policy provisions for reducing estate tax burdens on forest owners, including exemptions for estates valued below an exemption cap, exclusions for land protected through conservation easements, and special-use valuations for forestland. However, the best tool for avoiding estate tax burdens is preemptive estate-planning: with foresight and professional assistance, no forest landowners need pay the estate tax. Lack of awareness of the need for estate-planning, unwillingness to hire professionals, and general difficulties associated with planning succession (e.g., dealing equitably with multiple heirs, confronting one's own mortality, etc.) prevent many forest landowners from preparing proper estate-plans. For some owners, these "easily avoidable" taxes can become a signifcant burden.

A great question exists right now as to the future of the federal estate tax**. In 2010 there were no federal estate taxes but this will not be true in 2011. Taxable-estate exemptions have varied over the last decade (from as low as $675,000 in 2000 to as high as $3.5 million in 2009), as have taxation rates. Other beneficial tax provisions, such as special-use land valuation and CE land value exclusions have limited benefits: special-use valuation reductions cannot exceed $1 million and only 40% of CE land value can be excluded from estate valuation (up to a $500,000 cap).

*Greene, J.L., Bullard, S.H., Cushing, T.L., Beauvais, T. 2006 Effect of Federal Estate Tax on Nonindustrial Private Forest Holdings. *Journal of Forestry*, 104(1): 15-20

**Congress has passed new legislation since this October forum. A new bill, HR 4853, raised the estate tax exemption to $5million with estates assets above this threshold taxed at 35% for the next two years.

Discussion
Participants noted that forest sales and parcelization often resulted from "deaths and divorces." The good news here was that very few families are affected by the estate tax in any given year (one participant placed the number at 1% of owners) with larger estate owners generally being more willing or able to hire professionals and conduct proper succession and estate planning. But even these landowners are currently handicapped by the high uncertainty surrounding the future of federal estate tax provisions. The difficulty of finding well-trained estate planners and CPAs with expertise in forested estates also emerged as an obstacle to landowner estate planning.

Forum participants agreed that estate-tax issues are only going to grow in importance as landowners age (the average age of American forest owners now is placed in the mid 60's). In a decade, "a lot of land is going to churn over through the estate tax with a lot of consequences." Now, as Congress moves to pass new estate tax legislation, is the time to address this issue.

Themes of the conversation regarding how to reduce estate tax impacts centered on how to improve family owner succession planning (discussed later in this review) and what potential alterations in the federal tax code could do to reduce landowner burden. Two ideas emerged in particular.

1 - Raise the exemption cap to $5 million

The exemption cap for taxable estates was $3.5 million before 2010 and will revert to $1 million in 2011 if Congress fails to enact new legislation*. Participants discussed raising the exemption cap to $5 million. This exemption limit could potentially cover the majority of landowners and help them avoid the consequences of failing to estate plan. The remaining un-covered landowners will be those most likely to seek professional assistance and complete adequate estate plans (namely large acreage landowners). Issues associated with this proposal are primarily ones of political feasibility. Raising the exemption will result in lost federal tax revenue (estimated by one participant to be just under $10 billion annually) and forest landowners represent a generally small proportion of stakeholders in the estate tax debate.

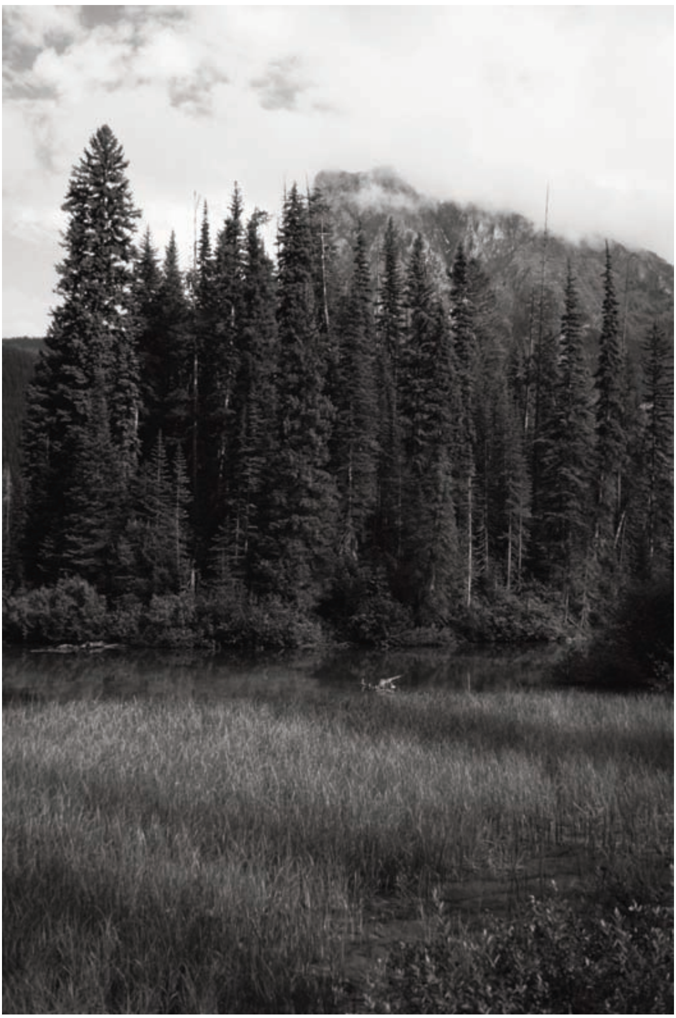
*HR 4853, signed into law on Dec. 17th, 2010, has raised the exemption cap to $5 million – but only for the next two years.

"[With deferral] no one would have to cut timber or sell land to pay the estate tax if someone died suddenly."

-Russ Shay

2 - Enable deferment of estate taxes for forestland kept as forestland within a family

Deferral of estate taxes for forestland that stays in family hands emerged as a major proposal to address the issue of poor estate-planning and estate tax burdens on forestlands. Under this proposal, working forestland would still be assessed on estate tax calculations but tax payments would be deferred indefinitely, as long as the land continues as forest and passes to a member of the family. As one forum participant put it: "people don't do estate planning [and that] causes problems. Here is a second chance: no tax unless you sell it outside the family or develop it." Of import to so called "cash-poor" landowners, payment of deferred estate taxes would only occur when land is sold or developed and, hence, when liquid assets are more likely on hand to pay these taxes without requiring *additional* land sales or harvests. In areas where land values are high because of development pressure (e.g., an average farm in some Californian districts can be worth millions of dollars), this would avoid the disastrous unplanned harvests and land sales that currently follow the passing of even small-estate holders.



"if people are taking advantage of these provisions that's great - but is it changing their behavior or decision making?"
- Zhao Ma

Property Tax

Research Summary

Zhao Ma of Utah State University and Mike Kilgore of the University of Minnesota presented an overview of the project team's findings on the impacts of property taxes. Many landowners report that property taxes were a significant consideration in their decisions to maintain or sell their forestland, particularly in areas with some development pressure (and often correspondingly high land values). Every state has at least one policy to reduce or eliminate property taxes for forestland and many landowners enrolled in these programs cite them as integral to their ability to keep their forestlands.

Though a minority of states (12) have automatic entitlement programs for forestland (in which owners automatically receive preferential treatment with limited stipulations), most state programs require management or land-use commitments from property owners to promote forest resource values like open space and sustainable timber management. The strength of requirements of these so called "preferential" property tax programs (PPTPs) varies from state to state but many require a forest management plan (47%) and have withdrawal penalties (79%) among other features. Enrolled landowners report benefits from considerable tax savings, and half of surveyed PPTP administrators report that their programs are effective in retaining forestland.

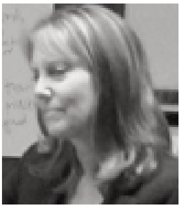
No empirical data has affirmatively documented the perceived relationship between property taxes and landowner behavior. Additionally, analyses of the effects of PPTPs on land conversion have found no relationship between the reported strength of a given PPTP and preservation of forestland in a given state. However, PPTPs may still represent good opportunities for improving the beneficial impacts of tax policies on family forestlands. Weak program requirements and low forestland enrollment represent current drawbacks to PPTP effectiveness in many states. Despite relatively good awareness of these programs among landowners (good compared to other tax incentives), knowledge about program existence and requirements could be higher: many forest owners are still unaware of state programs that they are eligible to participate in. Importantly, property tax breaks can only create incentives for desired landowner behaviors and will not in and of themselves preserve land: their cost savings are relatively meager when compared with the high monetary benefits of selling forestland in high development-pressure areas.

Discussion

Discussion on the impacts of property taxes on forest owner behavior centered initially on the topic of "whether PPTPs are working." There was little consensus on the answer to this question. Data presented to the group by the study team revealed a complicated landscape of existing incentive programs with no clear effect of tax program strength (i.e., rigorousness of requirements) on forestland conversion or landowner behavior. But landowners and forestry professionals alike agreed that these tax programs *are* influencing behavior: landowners have noted that, "lower property taxes let me keep the land." The group agreed that improving landowner enrollment rates represented programmatic "low hanging fruit." And in response to ambiguous research findings they called for more fine-grained analyses of actual property tax program impacts.

The good news regarding property tax impacts on forestland is that millions of acres of forestland have been enrolled in PPTPs. Changes in program requirements, strength or flexibility can therefore have an impact for a large group of landowners. Interestingly, the requirement of management plans for PPTP enrollment appeared in some states to not only support sustainable land management but also to support the maintenance of local timber industries: strict adherence to management plans (regardless of timber markets) in Wisconsin provided sawmills with consistent supplies and lowered industry risk throughout market fluctuations that swamped forest industries in other states.

Most recommendations for improving property tax impacts addressed taxes more globally (discussed later in this review) but there was a view among some participants that many states with weak PPTPs should increase their on-the-ground management requirements. More programs should require the generation of a management plan for enrollment, for example. Additionally, the successes noted in Wisconsin's relatively strong PPTP generated **a call for tying *implementation* of management plans to favorable tax rates.**



"I keep less land forested than I would [otherwise] based on taxes. Property taxes do drive forest management decisions."

-Roje Gootee


YFF Review

Global Themes

Across the forum's two days of conversations, participants discussed a number of issues generally relevant to all tax impacts on family forestlands. Principal themes included considerations of the nature of obstacles blocking beneficial tax impacts and issues to keep in mind when designing new policies. Participants also discussed tax issues that they believe will grow in importance in the coming years, such as taxation of ecosystem service payments and preferential treatment of certified lands. A number of new ideas and recommendations were proposed to improve the beneficial effects of tax policies on family forestlands and forestland preservation.

Tax program education & awareness outreach

There are a number of beneficial tax policies and programs available to forestland owners to ease tax-burdens and facilitate long-term land holding. Lack of awareness of these opportunities, among both landowners and professionals alike, remains a large obstacle to improving beneficial tax impacts on forestlands. Participants spoke of difficulties of finding knowledgeable advisers ("people from Washington will travel all the way to Oregon to find a good tax person") and how infrequent harvesters can see their "windfalls ... devastated by taxes." Tax policy education and awareness outreach represents the "lowest hanging fruit."

Small landowners exhibited the least awareness of forestland tax programs and impacts - largely, it's believed, as a result of their limited harvesting potential and general unwillingness to seek professional advice. Since such owners represent the majority of forest owners in the U.S., participants recommended scaling educational outreach to and designing appropriate programs for these small parcel holders, whose motivations and needs are distinct from larger owners.*

Participants recommended:

1. Increasing tax program education in existing Forestry Extension programs while expanding outreach through novel programs (e.g., webinars).
2. Targeting educational outreach to CPAs in addition to landowners.
3. Encouraging commercial tax software (e.g., Turbo Tax) to include prompts and information on forestland tax programs.
4. Encouraging knowledgeable foresters to attend landowner meetings with tax experts.
5. Developing novel educational programs to "reach beyond the choir."

*For a good review of family forest landowner types and motivations see Brett Butler's "Family forest owners of the United States, 2006" (2008) and Butler et al. 2007.

"I've counseled five different families and intergenerational transfer was the topic. Most difficult work I've ever done."
— Charles Levesque

Succession planning assistance and incentives

Succession planning can be a long, difficult, and expensive process that many landowners, particularly small parcel holders, are unwilling or unable to undergo. Nevertheless, proper succession planning is critical for landowners wishing to keep their land forested and in family hands: estate tax burdens can force unwanted harvests and sales, and poor engagement of heirs can result in land parcelization or sales. Increasing the number of families that develop succession plans will go a long way towards protecting forestland quantity and quality in the U.S.

Participants recommended:

1. Tying succession plan requirements to existing management plan requirements for PPTP enrollment.
2. Educating foresters to include succession planning as a component of management plans.
3. Subsidizing the training of estate lawyers and succession planners. Participants noted that for forestland owners, "finding an [informed] estate lawyer is just as difficult as finding an [informed] accountant."

"A diversity of tools" and simplification of the program process.

Participants were adamant that no one "silver bullet" would solve the problems of U.S. forestland conversion. They stressed that a diversity of tools will be required for reaching and improving the lot of the complex mosaic that is America's forestland owners.

Alongside a call for embracing diverse policy instruments came a call for the simplification of relevant tax codes and program enrollment processes. "It's too complicated," said one participant landowner, "loosening restrictions and simplifying will go a long way." Participants recommended streamlining tax filings for forestland owners ("Make it one form instead of three") and increasing commonalities for participating in different tax programs.

The need for coalition building.

In order to achieve positive changes in tax code forestland treatments there must be increased coalition building amongst stakeholders. Tax policies impact all Americans, and forestland owners and forestry professionals represent but a small portion of parties interested in effecting tax policy change. Participants called for meetings of broadly defined interests and stakeholders (e.g., forestland owner associations, investor owners (TIMOs), real estate investments trusts, members of the agricultural community) to raise awareness of and focus advocacy on tax issues related to land conservation. Now, as Congress prepares to address recent tax code exemptions, is the time for stakeholders to have a say in possible tax code changes. Participants stressed that only a large coalition of stakeholders focused on a small number of proposals can effect change at the federal level.

First time forestland buyers

Most forest landowners are in their mid 60's and consequently many family forestlands are expected to transfer ownership within the next few decades. Participants noted that forestland owners who wish to keep their lands forested and in family hands often have difficulty finding interested heirs. And new buyers often have difficulty finding favorable loans. Incentives for first-time forestland buyers could help bring in new, younger owners and resolve issues of succession transfer and de facto development. Said one landowner, "we have a lot of young people that want to buy, have the passion, and there are no incentives for these people to buy in. A lot of our owners don't have heirs and would seek these people out."

Participants recommended **developing tax-exempt financing mechanisms for first time forestland buyers**, including favorable loans for individuals planning to use their land for forestry, allowance of exemptions of forestland mortgages from tax calculations, or first-time forest owner credits that operate like first-time homeowner, rancher, and farmer credits.

Certification and sliding scale benefits for good stewardship.

Many forum participants expressed a concern about improving the stewardship of existing family forests. Though they noted that this might prove complicated to implement, participants wondered if we could not structure tax programs to offer sliding scale benefits for good stewardship, increasing tax rewards for better-managed lands. One proposal to assist scaling benefits was to **tax green certified land at lower rates**. Certified lands are those whose management practices fulfill certain metrics of sustainability set and monitored by independent, third party certification institutions, such as the Forest Stewardship Council and the Sustainable Forestry Initiative. Certification can be a lengthy and expensive process but products harvested from certified lands have the potential to be sold at a premium or in markets exclusive to certified goods. Creating beneficial tax provisions for certified lands can provide additional incentives for certification and allow for easy scaling of benefits to well-managed lands. Additionally, participants noted that there may be potential administrative benefits to targeting certified lands: the process of land certification is well established in the US, easy to audit and track, and has clear standards.

Ecosystem Services

Participants called for deeper investigation into the allowances and potential consequences of existing tax provisions for payments for ecosystem services. As mentioned earlier in the review, participants expressed concern that ecosystem service payments should receive fair income tax treatment and they proposed some tax program changes to support landowner conservation behavior. Exempting ecosystem service payments from income taxes or offering similar treatments would provide additional incentives for landowners to participate in newly emerging ecosystem service markets. Additional suggestions include offering tax credits for ecosystem services such as the creation of wildlife habitat improvements in a manner similar to home energy improvement tax credits.

"We need to be dealing with this in some way - payment for ecosystem services. No one is thinking about the tax consequences."

- Bob Tjaden

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Resources for More Information

American Forest Foundation
www.affoundation.org

Family Forest Research Center
www.familyforestresearchcenter.org

Land Trust Alliance
www.landtrustalliance.org

National Timber Tax Website
www.timbertax.org

National Woodland Owners Association
www.woodlandowners.org/

Sustaining Family Forests Initiative
www.sustainingfamilyforests.org

The Yale Forest Forum (YFF) was established in 1994 by a diverse group of leaders in forestry to focus national attention on forest policy and management in the United States. The group convened the Seventh American Forest Congress to collaboratively develop and articulate a common vision of forest management to diverse stakeholders.

Since it's founding in 1900, the Yale School of Forestry & Environmental Studies has been in the forefront of developing a science-based approach to forest management, and in training leaders to face their generation's challenges to sustaining forests.

Marsh Hall, home of GISF, on the Yale University campus

The School's Global Institute of Sustainable Forestry continues this tradition, in its mission to integrate, strengthen, and redirect the School's forestry research, education, and outreach to address the needs of the 21st century and a globalized environment. The Global Institute fosters leadership through innovative programs, activities, and research to support sustainable forest management both domestically and worldwide.

In pursuit of these ideals, GISF has developed several programs to carry on the work of the Institute, including the Program on Private Forests, the Program on Forest Certification, The Forests Dialogue, the Program on Forest Physiology and Biotechnology, the Program on Forest Health, the Program on Landscape Management, and the Program in Tropical Forestry.

The Yale Forest Forum is now the convening body of the Global Institute of Sustainable Forestry. Through YFF, the Institute holds events at the Yale School of Forestry & Environmental Studies involving stakeholders from all sectors.

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