

# Federal Tax Treatment of Forest Land

*Initially adopted by the Society on April 21, 1986, subsequently revised and extended by the Council on December 16, 1996, June 9, 2001, June 8, 2002, and October 6, 2006. It shall expire October 6, 2011 unless, after subsequent review, Council decides it otherwise.*

---

## Position

The Society of American Foresters (SAF) advocates federal tax policies that encourage the nation's private forest landowners to make sustained investments in forest management for timber and non-timber products and services through the application of good stewardship practices. Ultimately, the nation must strive for sustainable forests, where the economic, environmental, and social values and services from forests are provided in balance. Sound tax policy will ensure the provision of economic benefits of forests which in turn, will assist in the provision of the environmental and social values and benefits. For these outcomes to be realized, tax policies need to recognize the unique and long-term characteristics associated with timber and forest management investments, treat timber and forest management investments equitably in comparison to other capital ventures, and discourage the use of practices that result in environmental degradation and permanent conversion to non-forest land uses.

## Issue Statement

Private forests provide essential watershed protection, wildlife habitat, and many recreational opportunities, as well as the major share of forest products produced in the United States. However, these lands are facing increasing pressure of parcelization and/or conversion to more developed uses that could substantially reduce or eliminate such benefits. Federal tax policy can play an important role in furthering the public's interest in promoting adequate investment in and sustainable management of the nation's private forests. However, given the variable record of success of these policies in promoting sound resource management and investments in America's private forest lands, SAF has developed some key goals and principles (described below) to help evaluate current and proposed federal tax policies and guide the development of new tax policies for these lands.

## Background

### **The Private Forest Landowner's Role**

Private forestry investments add significantly to the ecological, economic and social welfare of the nation. Approximately 430 million acres, or 57 percent, of forest land in the United States is privately owned. These lands accounted for 92 percent of the volume of timber removed in 2001 (Smith et al. 2004). The number of private forest landowners in the United States is substantial—with almost 10 million in 2000 (Butler and Leatherberry 2004). The nation's private forests represent the core of America's producers of timber. In addition to wood fiber, private forests provide wildlife habitat, a variety of recreation opportunities, and numerous environmental amenities such as clean water. Sustained management of the nation's private forests will increase the production of all these market and non-market benefits.

### **Pressures on Private Forest Lands**

There is increasing need to rely on the nation's private forests to provide a sustainable supply of forest products. Forecasts by the USDA Forest Service and private analysts agree that the demand for timber from US forests will rise over several decades from 19.8 billion cubic feet roundwood equivalent in 1997 to 26.5 in 2050 (USDA 2000). This expanded demand will place an increasingly heavy burden on private forests because, as an ownership group, they are the nation's most productive forest lands.

The nation's forest land base from which these products will be produced is declining. Over the past 50 years, the amount of forest land in the U.S. that is available for timber production has decreased by about 5.2 million acres (USDA 1997). Urban expansion, rural home sites, highway construction, and utility rights-of-way continue to reduce the total private acreage available for growing timber and providing other forest-based benefits. The increasing development pressure on private forests, combined with a lack of forest management incentives in today's tax system as compared to those of other forested countries, discourages private forest owners from managing for long-term sustainability and environmental quality.

See [http://www.safnet.org/policyandpress/psst/loss\\_of\\_forest\\_land.cfm](http://www.safnet.org/policyandpress/psst/loss_of_forest_land.cfm) for SAF's Position Statement on Loss of Forest Land.

In addition to the physical loss of forest land area, a considerable amount of nation's public forest land base has been taken out of production. Of the 319 million acres (43 percent) of the nation's forest land that is publicly owned, 77 million acres (equal to 10 percent of all forest land in the U.S.) is legally reserved from commercial harvest for wilderness, parks, and other similar purposes that exclude timber production as a land management activity. This area of reserved forest land is approximately twice the amount that existed 50 years ago (Smith et al. 2003). Additionally, declining budgets, environmental concerns, and greater demand for non-timber uses have further reduced the public sector's contribution to the nation's timber harvest on those public forest lands where timber harvesting is allowed. As timber production from public forests decreases, the nation's private forests will be increasingly looked to as a source of wood fiber.

### **The Unique Nature of Private Forest Land Investments**

Investments in private forest management are unique in many respects. They typically must be held for a long period of time, are subject to substantial physical and economic risk, typically have a low degree of liquidity, and may yield rates of return that are low relative to other capital investment opportunities. These investment characteristics can have serious adverse consequences for the nation's private forests where a significant investment might not yield an offsetting return for 20 to 120 years. These consequences include the inability to generate significant income until timber is harvested many years in the future, which discriminates against forest ownership and timber investments in favor of non-timber businesses, and the need to maintain an expensive recordkeeping system over the life of the timber stand. Collectively, these factors discourage many forest owners from investing in forest management and contribute to decreased timber production, liquidation of timber inventories, and reduced interest in forest

regeneration. The associated adverse impacts are substantial with respect to ensuring a sustained stream of forest products and environmental services into the future from the nation's private forests.

### **Conclusion**

Considering this background, SAF supports the following goals and principles to evaluate current and proposed federal tax policies and guide the development of new proposals affecting the nation's private forest lands.

#### **Goals of Federal and Estate Tax Policies Affecting US Private Forests**

Federal tax policies affecting the nation's private forests should lead toward the following outcomes:

- The acreage of private land maintained in a forested condition is increased.
- The range and extent of economic and ecological benefits provided by private forests is expanded.
- The commitment to sustainable forest management by private forest owners is enhanced.
- The level of investment made by private forest owners in timber and forest land management is increased.
- The level and range of timber and non-timber products from private forests is increased.
- The inter-generational transfer of ownership of private forest land and the retention of such lands as sustainably managed forests is encouraged.
- The level of understanding among the owners of private forest land of the federal tax code provisions applicable to forest land use and management is enhanced.
- The ability of private forest owners and timber investors to compete internationally is improved.
- The enhancement of national security through recognition of the strategic importance of forests to the nation's energy and water supply and the overall economy.

#### **Principles of Federal and Estate Tax Policies Affecting US Private Forests**

In order for these goals to be realized, federal tax policies affecting the nation's private forests must recognize:

- The role of private forests as a provider of many essential forest-based goods and ecological services.
- The importance of forest management investment in increasing forest productivity and maintaining environmental quality.
- The unique, long-term nature of forest and timber investments relative to other business ventures, particularly the greater exposure to environmental and economic risks.
- The long period of time generally required to fully realize a return on investments made in timber and forest management.
- The potential effects tax policies have on forest stewardship.
- The many reasons for owning forest land that include both timber and non-timber objectives.

*Federal Tax Treatment of Forest Land*  
*SAF Position Statement*

- The different challenges and issues associated with forest management and investment among owners of small and large forest properties.
- The need for equitable tax treatment among the various types of private forest land owning entities.
- The need for equitable tax treatment regardless of the location of forest land.
- The legal, institutional, and economic setting within which timber harvesting and forest management is practiced.
- The most important barriers to increased investment in timber and forest management by the owners of private forest land.
- The importance of continuously improving forestry and timber harvesting practices to protect and enhance ecological, economic, and social forest values.
- The impact that tax policy can have on international competitiveness and the attendant influence this has on the retention of forest lands for traditional forest uses.

## ABOUT THE SOCIETY

The Society of American Foresters, with over 14,000 members, is the national organization that represents all segments of the forestry profession in the United States. It includes public and private practitioners, researchers, administrators, educators, and forestry students. The Society was established in 1900 by Gifford Pinchot and six other pioneer foresters.

The mission of the Society of American Foresters is to advance the science, education, technology, and practice of forestry; to enhance the competency of its members; to establish professional excellence; and to use the knowledge, skills, and conservation ethic of the profession to ensure the continued health and use of forest ecosystems and the present and future availability of forest resources to benefit society.

The Society is the accreditation authority for professional forestry education in the United States. The Society publishes the *Journal of Forestry*, *Forest Science*, *Southern Journal of Applied Forestry*, *Northern Journal of Applied Forestry*, *Western Journal of Applied Forestry*, *The Forestry Source*, and the annual proceedings of the Society of American Foresters national convention.

## Literature Cited

Butler, B.J., Leatherberry, E.C., 2004. *America's family forest owners*. *Journal of Forestry* 102: 4-9.

Smith, B.W., Miles, P.D., Visage, J.S., Pugh, S.A. 2003. *Forest resources of the United States, 2002*. General Technical Report NC-241, St. Paul, MN: USDA Forest Service North Central Forest Experiment Station.

USDA Forest Service. 2000. *Resources Planning Act Assessment: Review Draft*. Available online at [www.fs.fed.us/pnw/sev/rpa/index.htm](http://www.fs.fed.us/pnw/sev/rpa/index.htm); last accessed April 17, 2006.

*Federal Tax Treatment of Forest Land*  
*SAF Position Statement*

USDA Forest Service. 1997. *Resources Planning Act Assessment: The United States Forest Resource Current Situation*. Available online at [fia.fs.fed.us/program-features/rpa/](http://fia.fs.fed.us/program-features/rpa/); last accessed April 17, 2006.