

Branching Out: Maryland's Forest Stewardship Educator

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Published quarterly and distributed to more than 4,800 woodland owners, resource professionals, and others interested in forest stewardship. For a free subscription or to send news items, dates, and comments, phone 301-432-2767 x310; fax 301-432-4089; e-mail vs12@umail.umd.edu; or mail to *Branching Out*, c/o Maryland Cooperative Extension, 18330 Keedysville Road, Keedysville, MD 21756. Deadlines are the 10th of January, April, July, and October. The sponsoring agencies' programs are open to all citizens without regard to race, color, sex, or physical ability.

Supported by the Maryland Tree Farm System.

Federal Tax Changes Affect Woodland Owners

The recently passed tax bill has major implications for private forest owners. Most significant in the Revenue Reconciliation Act of 1997 are the changes in capital gains and estate taxes. The new provisions encourage active forest management and should decrease the need to sell timber or parcel woodlands just to pay estate taxes.

Changes in Capital Gains

Capital gain is income from long-term investments such as timber harvesting. Changes under the new law:

- **Decrease long-term capital gains taxes.** Long-term capital gains taxes decrease from 28 percent to 20 percent in the 28 percent or higher bracket and from 15 percent to 10 percent in the 15 percent or lower bracket, for assets sold after May 6, 1997. For assets sold after July 28, 1997, the holding period for long-term capital gains increases from 12 to 18 months.
- **Further decrease the tax on capital gains for assets held five years** beyond December 31, 2000, to 18 percent in the higher tax bracket and to 8 percent in the lower bracket.

According to Lloyd Casey, USDA Forest Service, the reduction in capital gains taxes will encourage more forest owners to manage their timber and other forest resources because of the reduced taxes and resulting increased net income from which to pay taxes and operating costs.

Changes in Estate Taxes

Federal estate taxes have concerned woodland owners and other farmers over the years. Frequently, property had to be sold or fragmented to pay these taxes. The new tax law includes these provisions:

- **Increase the amount of an estate excluded from estate taxes from the current \$600,000 to \$1 million by year 2006.** For years after 2006, the exclusion is indexed to the cost of living. This will reduce or eliminate taxes on intergenerational transfers of medium-sized woodlands and farms.

- **Exclude up to \$1 million of a decedent's interest in a qualified family-owned business from his/her estate.** The qualifications relate to material participation by the heir and the business being more than half of the heir's estate. Instead of taking the above allowance, landowners may allow an executor to exclude from an estate up to 40 percent of the value of land in a qualified conservation easement. Qualified easements are those near metropolitan areas, national parks, wilderness areas, or urban national forests. Parts of this provision effectively exclude very large properties and very small easements.
- **Permit installment payments of estate taxes over 20 years instead of the current 10 years,** where the estate consists largely of interest in a closely-held business, and eliminates or reduces interest in the payments. This reduces the immediate estate tax burden on heirs that often results in the loss, fragmentation, or conversion of many family-owned farms and woodlands.

Other Changes

Also of benefit to woodland owners are these aspects of the new tax law:

- **Index the \$10,000 annual gift tax exclusion to the cost of living,** effectively increasing the amount as the cost of living increases. This makes the existing annual gift tax exclusion even more valuable as an estate planning tool for woodland owners and others.
- **Exclude the application of minimum tax to farmers' installment sales,** e.g., timber sales for which payment is received in more than one year.
- **Exempt from taxes up to \$250,000 of gain on the sale of a principal residence (\$500,000 for married taxpayers filing jointly).** Affecting all homeowners, this also influences the demand for wood products for home construction.
- **Increase the deduction for health insurance for self-employed woodland owners** from the current 40 percent to 100 percent by 2007.

This is only a brief review of changes that could be significant for you as a woodland owner. Check with a tax consultant for details on changes in effect this year and those in effect in future years to see how these changes could affect the management of your woodland.

A Cord By Any Other Name

With the firewood season upon us, firewood sellers (and buyers) are reminded that Maryland regulations require that wood sold for fuel be measured by the cord or fraction thereof. Terms such as "truckload" and "facecord" are ambiguous and are *not* permitted. Truck loads can vary from 1/5 cord for a small pickup to 1/2 cord for a full-size pickup. A cord of wood is the amount "contained in a space of 128 cubic feet [4'x4'x8'] which is stacked in a compact manner and placed in a line or row with individual pieces touching and parallel to each other."

The wood must be identified as to species group, e.g., oak, maple, pine, and whether it is seasoned (dry) or unseasoned. Best heating value comes from oak, ash, locust, walnut, apple, beech, and hickory. Red maple, cherry, and elm have a lower heating value, while poplar, cedar, and pine have the lowest heating value and are more useful as kindling. *A Guide to Maryland's Regulation of Forest Products* contains information on selling firewood and is available from your Maryland DNR project forester.

Sugarloaf Demonstrates BMPs

Forest harvest activities are a potential source of water pollutants. Poorly designed haul roads, log decks, skid trails, and stream crossings can lead to significant inputs of sediment and nutrients to stream channels. The removal of trees adjacent to stream banks can cause elevated stream temperatures.

According to a statewide study by the Maryland Department of Natural Resources-Forest Service three years ago, 82 percent of the forest activity sites surveyed were complying with the Best Management Practices (BMPS) mandated in Maryland by the Clean Water Act of 1977. Details of this study were reported in the Winter 1995 issue of *Branching Out*.

A section of Sugarloaf Mountain, Frederick County, is demonstrating the feasibility and effectiveness of BMPs to control water pollutants from forestry activities.

Do BMPs Work?

The DNR-Forest Service is conducting the study at Sugarloaf in cooperation with Stronghold, Inc., with funding from an Environmental Protection Agency grant. One objective of the study is to install a suite of forestry BMPs as an outdoor classroom to increase awareness and encourage implementation of BMPS.

A second objective is to evaluate the effectiveness of Maryland's existing BMPs for forest harvest operations, using a paired watershed approach. Two watersheds, similar in size, cover type, geology, etc., are used to measure the differences in specific water quality characteristics.

A controlled level of timber harvesting with strict adherence to Maryland's BMPs is conducted in the *treatment* (managed) watershed. No harvesting is conducted in *the control* (unmanaged) watershed. Water quality is monitored in both watersheds before, during, and after timber harvesting.

Study Progress

Monitoring of water quality characteristics began in October 1995. In fall 1996, several haul roads and landings were installed, streamside management zones were marked, and BMPs were implemented in the treatment watershed. A timber harvest was completed this past March and an additional 25 acres are being logged this year.

Already this area is providing a unique opportunity for forest products operators and landowners to visit an actual logging site with properly-installed forestry BMPS. If you are interested in visiting the site, contact: *Maryland DNR-Forest Service; 301-791-4010; fax: 301-791-0173; e-mail: mddnrhfo@nfis.com.*

Update on Federal Funding

The 1998 budget approved by Congress restored funding for the Renewable Resources Extension Act (RREA) at the previous \$3.1 million. RREA is the mainstay for Extension education in forestry, wildlife, and wetlands. It supports *Branching Out*, the Coverts program, and forest stewardship workshops.

The Forest Stewardship Program was funded at \$23.8 million, the same amount as in 1997. The Stewardship Incentive Program, providing cost-sharing for a range of forest and wildlife management

practices, received \$8.5 million, an increase of \$4 million from last year. Included is \$200,000 for forestry programs in the Chesapeake Bay watershed. Contact your DNR project forester to manage your woodland or to apply for cost-sharing.

Conference Teaches How to Earn More Income from Your Property

Landowners who want more income from their property can learn about opportunities using natural resources at a conference next spring. The three-day conference is designed to help landowners, as well as agricultural and natural resources professionals, learn how to choose and manage private-land income opportunities while protecting natural resources and minimizing personal liability and financial risk.

"Natural Resources Income Opportunities on Private Lands Conference," will be April 5-7, at the Ramada Inn Convention Center in Hagerstown. It is sponsored by the Cooperative Extension Services of six states and ten other public and private agencies and organizations.

More than 35 speakers from the eastern United States will share their expertise. The speakers include landowners, consultants, Cooperative Extension educators, economists, business management specialists, researchers, foresters, and lawyers. They will discuss how to develop non-traditional natural resources enterprises as well as explore areas of uncertainty that may deter landowners, such as questions of liability, insurance, entrepreneurial skills, marketing, or potential impact on natural resources.

A Complete Agenda

The conference opens Sunday evening, April 5. Monday will feature nine sessions on income opportunities, recreational access, legal liability, marketing, resource assessment, business plans, and sources of help. Monday afternoon and Tuesday morning will be devoted to three concurrent sessions covering a wide variety of topics on recreational tourism, recreational access, forest farming, and forest utilization.

Tuesday concludes with eight afternoon sessions on managing your investment, plus challenges and solutions to potential income opportunities. There is something of interest to everyone, whether participants are woodland owners, farmers, other private landowners, consultants, industrial foresters, state foresters, wildlife biologists, Extension agents, urban planners, farm bureaus, land trusts, woodland owner associations, or legislators.

Registration is \$95 before March 16 and includes admission to all conference presentations and events, two lunches, two dinners, break refreshments, and a copy of the conference proceedings. Single-day registration is available. For a conference brochure with a detailed listing of the sessions, call *Branching Out* at 301-432-2767 x301.

Now is the time to ...

... know where your property boundaries are and mark them well to aid hunters and others. Boundaries can be marked with stripes of blue paint at least two inches wide and eight inches long, positioned from three to six feet above ground or water along entrances, public roads, waterways, and adjoining lands.

They must be close enough that one can see the next paint stripe. If you use signs, place them on posts. Mounting them on trees decreases the value of timber and can leave metal to damage saws. See "Take Note" for a related fact sheet.

... review your forest management plan. See if you are on target and make plans for what you need to do next year.

... order seedlings from the state nursery. Contact your Department of Natural Resources project forester or call the nursery at 1-800-TREESMD.

Take Note . . .

- **NOW AVAILABLE! Recreational Access and Landowner Liability in Maryland & Guidelines for Managing Free or Fee Access (EB 357)**. As previewed in the *Summer Branching Out*. \$2.50 from your county Cooperative Extension Service Office.
- **How to Determine Your Property Boundaries, (FS 619)**. 7-page guide. Free from your county Cooperative Extension Service office.
- **Fallers' and Buckers' Handbook**. "How to" on felling trees, valuable for loggers and woodland owners. Available free from the Workers' Compensation Board of British Columbia, 6951 Westminister Highway, Richmond, BC V7C 1C6.
- **Preserving Family Lands: Book II, More Planning Strategies for the Future** by Stephen Small, 1997, 119 pp., paperback, \$14.95. Available from Landowner Planning Center, 617-357-1644.

Coverts Trains 27 Cooperators

Twenty-seven Marylanders who own or manage woodland can claim the title of Coverts Cooperator as the result of an intensive weekend of training in forest and wildlife management in September. Representing 14 counties, these Cooperators will share with their neighbors and communities what they learned in the classroom and on field trips. In the words of the new Cooperators, . . . "the training really opened my eyes ... will help me better manage my tree farm and wildlife . . .," and "I am better qualified to give information [to others]."

The Coverts (*kuh-verts*) Project is sponsored by the Cooperative Extension Service with the support of the Ruffed Grouse Society. If you would like information about the program or want to talk with a Coverts Cooperator about possibilities for your property, contact *Branching Out*.

Did you know . . .

It takes the equivalent of one tree, 100' tall, 16" diameter, to meet the wood and paper needs of the average American each year.