

## Forestry Activities Affect Taxes and Estates

**D**uring this season of filing income taxes, forest landowners should devote some time to evaluate how their forestry activities affect a variety of taxes and their estates. By using existing laws and programs to minimize property, income, and estate taxes, Maryland forest landowners can increase the financial return on their forest stewardship efforts. The following information highlights some of these laws and programs.

### Property Taxes

Forest land property taxes can be reduced by lowering the property assessment. This can be accomplished by 1) enrolling in a Forest Management Plan (FMP) or a Forest Conservation Management Agreement (FCMA), 2) donating or selling a conservation easement, or 3) otherwise qualifying for an agricultural assessment. All of these options allow for continuation of good forestry practices and transfer of the property.

The Maryland Department of Assessments and Taxation offers landowners two assessment options: the **Forest Conservation Management Agreement (FCMA)** or the **Forest Management Plan (FMP)**. To qualify for these options, a forest landowner must have a forest stewardship plan. The plan, reflecting the landowner's objectives, can be developed by a Maryland

registered forester (state, private consulting, or industrial). It must meet the minimum acreage requirements for the Forest Stewardship program (five forested acres) or the Tree Farm program (ten forested acres).

Any owner of five or more contiguous acres is eligible to enter a **FCMA** with the Maryland Department of

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Natural Resources (DNR). It is a *legal agreement* recorded in land records, binding for fifteen years, and renewable for a minimum of five years. With an FCMA, the landowner can add or delete acreage, add or delete owners, and sell all or part of the parcel. In

return, the property is assessed at \$100/acre regardless of its location in Maryland. The assessment is frozen at that level for the fifteen years of the agreement. The FCMA involves fees for developing the management plan, entering the program, and periodic inspections.

The **FMP** differs from an FCMA in that it is not a legal agreement and does not involve an entry fee. As with the FCMA, the FMP requires that a Maryland registered forester, in consultation with the landowner, prepare a forest management plan. The plan is filed with the county assessor's office. Land under FMP is valued at \$150/acre. This value is not frozen and could change during the three years of the agreement. Creation of an FMP involves fees for

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management plan development and inspections, if required by the county assessor.

Both FCMA or FMP usually result in a significant reduction in property taxes. The difference between the two options can be small. DNR foresters have computer software to analyze the forest landowner's information to determine whether FCMA or FMP would be more beneficial. Both FCMA and FMP reduce property taxes but usually do not affect the fair market value used to assess an estate for taxes.

Forest land on which a **conservation easement** is sold or donated usually qualifies for a reduced assessment and lower property taxes. In addition, donating or selling an easement can lower the value of an estate and the estate taxes. Contact the Maryland Environmental Trust at 877-514-7900 (toll-free) for information on donating an easement, or the Maryland Agricultural Land Preservation Foundation at 410-841-5860 for information on selling an easement.

Forest land is eligible for enrollment in an **agricultural district**, thereby reducing the land assessment and the property taxes. A minimum 100 acres (less if adjacent to an existing agricultural district) and a conservation plan developed by the Natural Resources Conservation Service and the landowner are required. Contact the county planning department for information.

landowner can subtract the **cost basis**, the sum of what the asset has cost up to the point of sale, from income to calculate the capital gain. Contact a consulting forester to determine if it is worth calculating the cost basis. The original cost of forest land that has been owned for longer than twenty years may be so small compared to the current value of the timber that calculating the cost basis is not worthwhile.

**Cost share payments** must be reported on federal income tax forms. However, many are not subject to income tax and can be excluded from income totally or partly elsewhere on the form. DNR foresters have information on cost sharing programs and payments.

The sale of **development rights (conservation easement)** results in taxable income. The forest landowner should determine if it is beneficial to receive the income over several years. The donation of a conservation easement to an environmental trust qualifies as a contribution to a charitable organization and, subject to other tax regulations, is a deduction from taxable income, perhaps spread over several years.

If forestry activities are conducted with a profit motive, several federal and state tax provisions are available. The federal **Reforestation Tax Credit** and **Reforestation Amortization** provisions work together to reduce the cost of some forestry activities, not including Christmas trees. Owners or lessees of forest land in Maryland with a profit motive may deduct double the cost of reforestation and timber stand improvement from their adjusted gross income on their state tax forms through an investment tax credit and a deduction of costs. Again, Christmas tree and ornamental tree operations are not eligible. Contact a DNR forester or DNR's website.



### Federal and State Income Taxes

Income from timber harvesting can be treated as **capital gain** or ordinary income. Forest economists recommend reporting it as capital gain since capital gain is not subject to **self-employment tax** whereas ordinary income is. *The 1997 Taxpayer Relief Act* reduced the capital gains rates from 28 percent to 20 percent for taxpayers in the 28 percent tax bracket and from 15 percent to 10 percent for those in the 15 percent tax bracket. If assets are held five years beyond December 2000, the rates are reduced further. When planning timber harvests, forest landowners should consider if it would be advantageous to receive all the income in one year or to spread it over two or more years.

Forest landowners must address the **passive loss rule** and determine if they are (1) investor, (2) passive participant in a trade or business, or (3) active participant, materially participating, in a trade or business. Most forest landowners qualify as investors. The classification affects the treatment of income and expenses.

When timber or forest products are sold, the forest

### Federal Estate Taxes

Historically, federal estate taxes have caused some beneficiaries to sell timber or forest land to pay estate taxes. Often a quick sale occurred and yielded a poorly-planned timber harvest or a low price for the property, thus degrading the forest land or losing the property.

### Branching Out

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Published quarterly and distributed to more than 4100 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](mailto:vs12@umail.umd.edu); or mail to *Branching Out*. 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.

The *1997 Taxpayer Relief Act* brought relief for heirs. The amount of an estate **excluded from estate taxes** increases yearly from \$600,000 in 1997 until it reaches \$1 million in 2006, when the exclusion then is indexed to the cost-of-living.

An individual and his or her spouse each can **give \$10,000 annually** to any number of other individuals without tax liability for the donor or the recipient, thereby reducing the taxable estate. With the 1997 tax law, this \$10,000 amount is indexed for inflation to the next lowest \$1,000.

If the forest land is within a 25 mile radius of a metropolitan area, national park, or wilderness area or within 10 miles of an urban national forest, the executor of an estate is allowed to **exclude up to 40 percent** of the value of the land in a qualified conservation easement. Most Maryland forest lands meet this requirement. This allows heirs with a large estate tax to put the land into an easement, eliminate future development, and significantly reduce the land value and estate tax.

The 1997 law also provides for **installment payments** of the estate tax over 20 years rather than the previously allowed 10 years. In addition, the interest rate on the unpaid tax dropped from 4 percent to 2 percent.



## Forest Owners' Guide to the Federal Income Tax

### Sources of Information

Because of the details and complexities of taxes and estate planning, the forest landowner should consult federal tax guidelines, a tax preparer familiar with forest operations, and an estate lawyer. The following are basic resources:

- **Forest Owner's Guide to the Federal Income Tax**, Ag Handbook 708, \$12; US Government Printing Office, Superintendent of Documents, 202-512-1800; latest edition available March 1999.
- **Estate Planning for Forest Landowners: What Will Become of Your Timberland?** Southern Forest Experiment Station Technical Report SO-97, \$15; Science Library, Room 496, University of Georgia, Athens, GA 30602; 706-546-2477.
- County **Maryland Cooperative Extension** offices, listed under *county government* in the phone book or on the Internet at [www.agnr.umd.edu/CES](http://www.agnr.umd.edu/CES).
- County **Maryland Department of Natural Resources** offices, listed under *state government* in the phone book or on the Internet at [www.dnr.state.md.us/forests](http://www.dnr.state.md.us/forests).
- Other forest tax publications on the **Internet**: [www.fnr.purdue.edu/ttaxandwww.forestry.uga.edu/subjects/economics.html](http://www.fnr.purdue.edu/ttaxandwww.forestry.uga.edu/subjects/economics.html).



**Maryland Tree Farmer of the Year William Bowie Jr, assists a DNR forester with a prescribed burn on his Tree Farm.**

## 1999 Tree Farmer of the Year

William Bowie Jr, Charles County, is the 1999 Maryland Tree Farmer of the Year. William owns and manages 250 acres of woodland in Pisgah. A logger by profession, he knows the benefits of applying sound forest management through a forest management plan.

William used the assistance of the Maryland Forest Service and cost sharing through the Woodland Incentive and Buffer Incentive programs to multiply activity on his Tree Farm. He credits the dedication of members of his hunt club for reaching some of his goals that are so labor intensive, such as splitting firewood and building a bridge on the property.

- In the past two years, this Tree Farmer of the Year has
- conducted a pre-commercial thinning of 5 acres;
  - harvested 28 acres of Virginia pine, prescribed burned and reforested the area with loblolly pine;
  - converted 12 acres of hardwood forest to pine through Timber Stand Improvement and reforestation;
  - established 4 acres of forested riparian buffers;
  - maintained 4 acres of wildlife food plots in annual crops; built and maintained brush piles; constructed and erected wood duck boxes; established a quail release program;
  - marked the entire boundary with regulation blue paint;
  - and installed a permanent bridge with hunt club labor.
- As hunt club president, he continues to manage intensely the white-tail deer population.

DNR forester David Gailey says William held a field tour for the Charles County Forest Conservancy Board and 35 other tree farmers this spring. William shared personal successes and failures to encourage fellow tree farmers to manage their own property more aggressively.



## *Upcoming Stewardship Events*

**March 4 - Tree Farm Action Council** and Tree Farm Operating Committee meetings, central Maryland; all forest landowners, especially tree farmers in the area, are encouraged to attend; program, lunch, field tour; call 1-888-455-7400 (toll free).

**March 18 - "Application of Poultry Manure To Forest Lands As A Fertilizer,"** Princess Royale Hotel, Ocean City; includes forest nutritional requirements, phosphorus concerns and management, vegetative management planning and biosolid applications, application of poultry manure to pines, application of pelletized poultry manure at planting and at mid-rotation thinning; registration \$20 by March 8, late fee \$30; contact Bob Tjaden, 410-827-8056; rt20@umail.umd.edu.

**March 27 - Coverts spring refresher** focusing on wildlife, Anne Arundel County; call 301-432-2767.

**April 10 - Income Opportunities for Rural Areas,** Everett, PA; an alternative agriculture opportunities conference; herbs, cut flowers, greenhouse products, ginseng, medicinal plants, fee fishing, aquaculture, bed and breakfast, speciality vegetables, financing, marketing, and more; contact Blair County Cooperative Extension, 814-693-3265.

**May 15 - Landowners' Field Day,** Stronghold Demonstration Area, Dickerson, 9-3:30pm; outdoor sessions on wildlife habitat, ID, forest measurements, timber harvesting & improvement, portable sawmills, and more. Mail \$10 for registration and lunch, payable *Frederick County Forest Conservancy Board*, to Tom Anderson, 7500 Banner Road, Dickerson, MD 20842; 301-831-8674.

**June 11 & 12 - MFA Western Maryland Loggers/Forestry Field Days and Equipment Show,** McHenry; contact, Karin Miller, 301-895-5369, [mfa@hereintown.net](mailto:mfa@hereintown.net); or [www.mdforests.org](http://www.mdforests.org).

### **We Need Your Help!**

Are you a resident or absentee landowner in Allegany or Garrett County who is involved in, or considering, an income-producing nature-based tourism enterprise? Nature-based tourism includes fee hunting & fishing, B&B, vacation cabins, recreation activities such as canoeing, bird-watching, and more. If so, we would like to ask you to fill out a *confidential* survey. Your information will be part of a research study to identify the key factors that affect the success of nature-based tourism enterprises. Please contact *Branching Out* (301) 432-2767 ext. 323, or Email: [jk87@umail.umd.edu](mailto:jk87@umail.umd.edu).

### **SIP Out, RREA OK for 1999**

SIP (Stewardship Incentive Program) cost sharing is not in the federal FY 99 budget (September 1998 to October 1999). This means there is no SIP cost sharing for developing management plans, forest recreation, habitat enhancement, fisheries and aquatic habitat enhancement, and some soil and water protection practices this year although any SIP requests approved in FY 98 will be funded. An effort to restore SIP funding in the FY 2000 budget is expected.

Some forestry and wildlife habitat practices that qualified for SIP cost sharing may be covered under other

federal or state programs. Contact your DNR forester and the Natural Resources Conservation Service for information on other cost sharing opportunities.

On a more positive note, the federal Renewable Resource Extension Act (RREA) was funded for FY99 at the same level as FY98. In Maryland, RREA funds are leveraged with others to support Cooperative Extension natural resource education programs such as this *Branching Out* newsletter, riparian buffer programs, forest stewardship seminars, and the Coverts Project.

#### ***Branching Out***

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## OTHER POSSIBLE ARTICLES:

### New Wildlife Software Available

New software on wildlife and their habitats has been developed by the USDA Forest Service as a companion to the NED forest management software that supports ecosystem management decision making. Featuring 338 species of vertebrates in New England and their habitats, the NEWILD software can be downloaded from [www.fs.fed.us/ne/burlington/ned/download.htm](http://www.fs.fed.us/ne/burlington/ned/download.htm).

## RESOURCES

Software and e-mail:

Software on *Woody Plant Identification*, Kendall/Hunt, ISBN 0-7872-3803-1; \$50; call 1-800-228-0810.

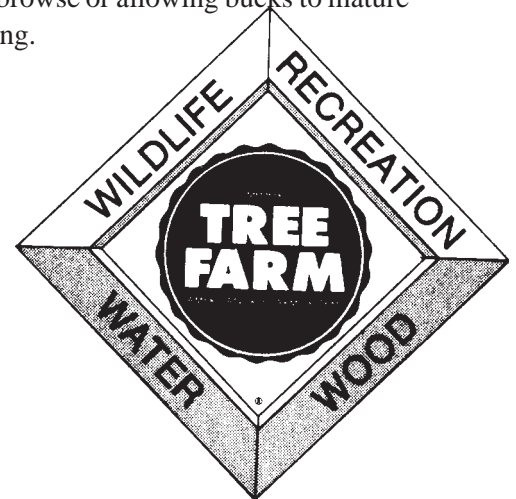
*VegSpec* is a web-based program to help landowners/managers make sound decisions on what to plant on specific sites, e.g., reforested areas, buffer strips, and wildlife habitats. It also provides native plant alternatives to traditional introduced plant materials. Developed by the Natural Resources Conservation Service, the U.S. Construction Engineering Research Labs, and the U.S. Geological Survey, it is accessed on the Internet at [www.plants.usda.gov](http://www.plants.usda.gov), or contact Keith Ticknor, 202-720-8578.

Free agroforestry e-mail newsletter, *The Overstory*, features sustainable, tree-based agriculture in the tropics. For a sampling of past issues, visit <http://www.agroforester.com/overstory/osprev.html>. [Since this is "the tropics," should it be omitted?]

## SALT LICKS

Many hunters and wildlife watchers put out supplemental mineral licks to enhance the body size and antler development of white-tailed deer. A recent article in the *Wildlife Society Bulletin* questions this.

Wildlife biologists evaluated a sampling of commercially-available mineral supplements sold for deer. Body and antler size of deer harvested in areas with mineral blocks were compared with those in comparable habitats without supplemental blocks. The biologists found no difference in either body or antler mass of deer from the two areas. Instead of placing salt licks, woodland owners may consider improving browse or allowing bucks to mature more before harvesting.



### Now is the Time to . . .

. . . prepare your forest roads for spring rains. As you enjoy a winter walk in your forest land, check your roads and trails. Are they stable? Are they too steep? Does water soak in or run off? How long does water lay on them? Does sunlight hit the surfaces? What impact do the trails and roads have on wildlife? Are the roads aesthetically appealing? For help with your trails and forest land, contact your DNR project forester.

