

## Economic Considerations of Forest Stewardship

The 125,000 private individuals who own more than 85 percent of Maryland's forests have diverse reasons for owning their forestland. Although most forest landowners do not look to their property primarily as a source of income, many are interested in deriving some economic return if only to pay the property taxes. Forest surveys show that a large percentage of landowners will consider harvesting timber in the next decade. However, income from timber is infrequent and by itself fails to recognize all the economic factors that impact private forest stewardship. Landowners can enhance the economic benefits of forestland by reducing taxes, increasing the value of their forests, and pursuing nontraditional sources of income.

As a forest landowner, you need to evaluate seriously your personal and physical resources before you jump into any activity on your property.

### Look Before You Leap

Discuss with your family, or others involved, your goals for the use of the property. Just as important, discuss *their* goals for the property. Often an enthusiastic forest landowner assumes that family members or other forest stewardship partners are willing to commit more to an endeavor than is the case. Time committed to the proper management of your forestland can reduce the time available for other endeavors.

Realize how your residency affects your objectives for your forestland. Do you live on the property? If you live off the property, you may need to eliminate income possibilities that

require regular attention. You also may need to address security of the property.

Let's look at steps that you can take to affect the economics of your forest stewardship:

- **Take advantage of tax features.**

1. *Property tax assessments.* Maryland forest landowners can reduce significantly their property tax assessment by implementing a forest stewardship plan. They can enter a 15-year Forest Conservation and Management Agreement with the DNR Forest Service or submit a forest stewardship plan to the county assessor every three years. The three-year option may carry a slightly higher assessment but has fewer strings attached. Farmers can have forestland associated with the farm assessed at a forestry rate that may be lower than the agricultural value assessment. Contact your DNR state forester for more information on these options.

2. *Timber sale taxes.* If you sell timber, be certain you pay as few taxes as legal. The value of timber on property when you purchase or inherit it is known as *basis value*. This must be separated from the buildings and other improvements. The basis value and certain costs related to producing the timber can be subtracted from harvest income to lower the amount on which you pay taxes.

Timber sale income can be taxed at the capital gains rate, which is lower than the ordinary income rate. Before you sell timber, determine the most advantageous receipt of income. The financial return can be significant. A licensed

**Add an inch, gain 6 feet**

If a tree that yields a log 8 inches x 16 feet is allowed to grow 1 inch in diameter, it adds 8.9 cubic feet.

If a tree that yields a log 14 inches x 16 feet is allowed to grow 1 inch in diameter, it adds 15.18 cubic feet.

**What a difference an inch on a larger tree makes!**

professional forester can establish your basis value. Contact your DNR forester for a list of licensed foresters or go to the online forester at [www.dnr.state.md.us](http://www.dnr.state.md.us). Find an accountant or tax preparer knowledgeable in timber taxes to help with your income and tax strategies.

**3. Estate planning and taxes.** Learn what will happen to your estate when you die. Understand and apply the estate planning tools that can protect the future stewardship of your property, if that is your objective. Increased land values or the non-liquidity of your forestland may force your heirs to sell the property or conduct a quick timber sale to pay the estate taxes. Contact an estate planning attorney. Remember, if you do not plan your estate, the government will.

- **Use a consultant forester when selling forest products.** The strong demand for forest products encourages timber buyers to solicit landowners. Landowners are tempted to accept an attractive price for the best trees without considering the impact a harvest will have on the future value of the forest. That is similar to a livestock farmer selling his blue-ribbon breeding stock and keeping the runts, hoping they will flourish. A wise long-term strategy for landowners is to remove poorer trees and leave the better ones to grow. A timber harvest that removes trees above a certain diameter and leaves the smaller ones typically degrades future economic values as well as wildlife and other non-timber features. Frequently, the remaining smaller trees can be the same age as the larger trees and not have good growth potential. Contact a professional forester who can help you fulfill your objectives and increase the value and benefits of the forest.

- **Realize that trees growing in your forest are like compound interest.** A healthy tree 14-inches in diameter, though approaching market size, increases in value significantly each year. Its continued growth over several years adds more volume, and thus more value, than that of a smaller tree during the same years. Thinning your forest

can open the forest canopy, let in sunlight, and increase the growth rate. A 14-inch diameter tree growing in a crowded forest may take 6 years to grow 1 inch in diameter, an annual growth rate of 2.5 percent. In a thinned the forest, the same tree could take only 3 years to grow 1 inch in diameter, a rate of 4.9 percent (see chart 1). Thinning the forest also can benefit wildlife habitat and trail access.

Chart 1. Growth Rate of 14" tree				
	Rapid growth ← → Slow growth			
Years to grow 1" of diameter	2 years	3 years	4 years	6 years
Compound rate of increase	7.4%	4.9%	3.7%	2.5%

- **Consider other natural resource income opportunities.** Collect information on a few enterprises that interest you and see how they fit with your goals and those of your family or forest stewardship partners. To be certain you will make a profit, develop an enterprise budget that lists your costs and revenues. Tap into the resources of your county Cooperative Extension office, your DNR state forester, and even the Internet to explore these possibilities. Most of these opportunities are included in three broad areas:

- 1. Forest farming and utilization enterprises:** Firewood, high-quality sawtimber and veneer, ginseng, goldenseal, other medicinals, mushrooms, Christmas trees, maple syrup, pine straw, native plants and materials, wooden and native crafts, custom sawmilling, and kiln-drying services.

- 2. Recreational access and tourism enterprises:** Fee hunting and fishing, hunting preserve, sporting clay, guide service, wildlife viewing, camping, outdoor sports, high-risk recreation, bed & breakfast, and vacation cabins.

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**Branching Out**

Vol. 8, No. 1, Winter 2000

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Supported in part by the Maryland Tree Farm Committee. Published quarterly by Maryland Cooperative Extension and distributed to more than 4,500 forest landowners, 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*, Maryland Cooperative Extension, 18330 Keedysville Road, Keedysville MD 21756. Deadlines are the 10th of January, April, July, and October.

### 3. Alternative agricultural and horticultural enterprises that use non-forest resources:

Aquaculture, small fruits, vegetables, herbs, specialty livestock, deer farming, and greenhouses.

There is much more to be said about the economic factors affecting the stewardship of your forest. A 3-hour video conference on April 15 presents a group of experts who will address these subjects. Check the article on this page that lists the sites across the state and register to attend. Bring along family members or forest stewardship partners as well as other forest landowners.



## Help Youth Study Forestry

Every year 4-H youth compete in the National 4-H Forestry Judging Invitational. Before the competition, they study tree identification, forest evaluation, tree measurement, compass orienteering, insects and diseases, and more. You are needed to help organize and train youth for a team in your county or region. All the training manuals are provided.

For more information, contact your county Cooperative Extension 4-H agent or the state coordinator Bonnie Dunn, at 301-390-7259, [bd61@umail.umd.edu](mailto:bd61@umail.umd.edu). Information about the contest and training manuals, also useful for school activities, are available at [www.invitational.uiuc.edu](http://www.invitational.uiuc.edu).



## EPA Proposes Silviculture Changes

Under proposed Environmental Protection Agency regulations, private forest landowners and others engaged in silviculture could be required to obtain federal permits before conducting management activities near certain waterways, reversing a 27-year determination under the Clean Water Act. Activities affected would include harvesting, site preparation, reforestation, and prescribed burning near designated waterways. For more information, contact your DNR forester, representatives in Congress, or [www.treefarmssystem.org](http://www.treefarmssystem.org), [www.safnet.org/policy](http://www.safnet.org/policy), or <http://frwebgate5.access.gpo.gov/>.



## Forest Economics Videoconference

Forest landowners throughout the Northeast can learn about the economic and financial aspects of forest stewardship through a videoconference, Saturday, April 15, 9 a.m. to noon. National experts will discuss strategies for taking control of the revenue potential of your land and reducing your tax burden.

"Economic Considerations to Enhance Forest Stewardship of Private Landowners in the Northeast" includes

- A landowner's perspective on the value of recognizing economic issues,
- Assessing your situation when considering a natural resource enterprise,
- Managing your tax burden,
- Examples of natural resource enterprises,
- Landowner examples of natural resource enterprise development,
- Planning your estate, and
- Panel discussion when viewers can telephone in questions to be answered live by the presenters.

The videoconference currently is scheduled for the sites listed below. Register with the contact person by **April 6**. Participants should be seated by 8:45 a.m. and are encouraged to bring a bag lunch to eat during the followup questions and answer session. Registration fees include conference proceedings and coffee and doughnuts.

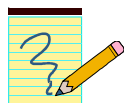
**Carroll Community College**, Westminster, \$10 also includes breakfast; contact Mike Bell, Carroll County Extension, 410-386-2760, [mb232@umail.umd.edu](mailto:mb232@umail.umd.edu);

**Harford Community College**, Bel Air, \$5; Bob Halman, Harford County Extension, 410-638-3255, [rh6@umail.umd.edu](mailto:rh6@umail.umd.edu);

**Western Maryland Research and Education Center**, 18330 Keedysville Road, Keedysville, \$5; Sharon Bartlett, 301-432-2767 x305, [sb274@umail.umd.edu](mailto:sb274@umail.umd.edu);

**Wye Research and Education Center**, Cheston Lane near Carmichael, Queenstown, \$5; Bob Tjaden, 410-827-8057, [rt20@umail.umd.edu](mailto:rt20@umail.umd.edu).

Some sites may have afternoon activities to complement the morning sessions.



## Take Note

- "Tax Tips for Forest Landowners for the 1999 Tax Year," Bulletin R8-MB 86, 2 pages. Contact your county Cooperative Extension office or [www.r8web.com/taxtips/taxtips\\_99/pdf](http://www.r8web.com/taxtips/taxtips_99/pdf). **County Cooperative Extension** offices are listed under "county government" in the telephone book or [www.agnr.umd.edu/ces/cooffices.html](http://www.agnr.umd.edu/ces/cooffices.html).

- **Timber taxes.** National website. <http://www.fnr.purdue.edu/ttax>.
- **Best Management Practices** and water quality for each state, with federal, state, and local legislation, requirements and permits, training and education opportunities, and state ratings. <http://www.us.abmp.net>.

## *Upcoming Stewardship Events*

**March 15-May 17: *Beginning a Successful Small Farm Operation-Part III***, Maryland Cooperative Extension, Frederick; weekly sessions provide basic knowledge for new farmers. Contact Terry Poole, 301-694-1594 x3577, [tp8@umail.umd.edu](mailto:tp8@umail.umd.edu).

**March 21: *Fencing technology workshop***, 10 a.m. to 3 p.m., near State College, PA; indoor and outdoor sessions with topics on deer fencing design, fencing alternatives, economics of fencing, contracting, deer policies, and deer behavior; for forestry professionals and others. Vera Williams, 814-863-040; registration limited.

**March 22-23: *Using Native Plants in the Landscape: Issues and Opportunities***, Canaan Valley Resort and Conference Center, Davis, WV; Contact Paula Worden, 800-922-3601.

**March 23: *Natural Resource Income Opportunities for Forest Landowners***, Oldtown School, Oldtown (Allegany County), 7-9 p.m. Call Georgene McLaughlin, 301-478-5548.

**March 23-25: *Income Opportunities from Specialty Products-Agroforestry in the Northeast***, Portland, ME; for professionals and laypeople. Call 207-657-3131; [rcd@cybertours.com](mailto:rcd@cybertours.com); [www.thresholdomaine.org/agroforestry](http://www.thresholdomaine.org/agroforestry).

**March 25: *Coverts refresher***, for all Coverts Cooperators; Trentman and American Chestnut Land Trust properties, Calvert County. Call 301-432-2767 x323 or [sb274@umail.umd.edu](mailto:sb274@umail.umd.edu).

**April 4: *Dollars from Woodlots: Marketing Forest Products***, Appalachian Laboratory, Frostburg, 7-9:20 p.m.;

preregistration required. Contact Bill Knepp, Allegany County Extension, 301-724-3320; [wk34@umail.umd.edu](mailto:wk34@umail.umd.edu).

**April 5: *Arbor Day in Maryland***; Maryland Tree Farm representatives visit the state legislature.

**April 6: *Deadline*** for registering for April 15th forest economics videoconference; see article on page 3.

**April 15: *Economic Considerations to Enhance Forest Stewardship of Private Landowners in the Northeast*** videoconference; see article on page 3.

**April 29: *Walnut Council meeting and workshop***, tree farm of Peter and Barbara Luchsinger, Urbana; for walnut growers and anyone interested. Contact Edgar Wright, 717-263-5084; [eawright@hotmail.com](mailto:eawright@hotmail.com).

**May 20: *Forestry Field Day***, Forestry Demonstration Area, Sugarloaf Mountain, forest and wildlife management, management, tree id, harvesting, portable sawmill, financial assistance programs, for landowners and others; fee; includes lunch; contact Mike Kay, 301-473-8417.

**June 3-4: *Women in the Outdoors***; focuses on hunting, habitat management, and outdoor skills; historic Woodmont Lodge, Washington County; fee; sponsored by National Wild Turkey Federation. Call 301-432-7121.

**June 15-16: *Managing Nuisance Wildlife in Urban & Suburban Areas***, Baltimore. Call 540-231-5486.

**Sept. 21-24: *Coverts Project training*** for selected participants. Learn forest and wildlife management principles to use on your own property and share with others. For information, call 301-432-27677, e-mail [sb274@umail.umd.edu](mailto:sb274@umail.umd.edu), or [www.welcome.to/coverts](http://www.welcome.to/coverts).

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**Recently announced:  
Mr. and Mrs. Roy Shryock,  
Allegany County, are Maryland's  
2000 Tree Farmer of the Year.  
Look for an article in the next  
Branching Out.**