The Florida Forest Steward

A Quarterly Newsletter for Florida Landowners and Resource Professionals

Volume 13, No. 4 Spring 2007

In this issue:

Stewardship FOREST

Tour Announcements Inside

Florida Forest Stewardship Program and Cost-share Update

The number of landowners receiving technical and educational services through Florida's Forest Stewardship Program continues to grow. As of January 1 there are about 2,386 landowners, owning a total of about 673,760 acres. About 350 of these ownerships (161,250 acres) are certified Forest Stewardship properties, meaning they have implemented many of the practices recommended in their Forest Stewardship Management plans and have received a plaque and sign to display.

Division of Forestry foresters and Fish and Wildlife Conservation Commission biologists are now using GIS technology to map Stewardship properties in the development of management plans. This technology greatly improves the timeliness and quality of service to landowners and the ability of the agencies to manage the data, identify trends and provide information to the USDA Forest Service regarding federally sponsored programs.

Welcome David Smith, new DOF Conservation Programs Manager

We welcome David Smith, Division of Forestry Conservation Programs Manager, to Florida's Forest Stewardship team. His forest management experience over the last 20 years or so has been in both the private and public sectors. He managed timberlands for Georgia Pacific Corporation, Packaging Corporation of America and Bowater Corporation in Florida, Alabama, Tennessee and Georgia. He was also employed by the Florida Division of Forestry as the Conservation Reserve Program Forester in the western Panhandle of Florida in 1988. David was born and raised in the Pensacola area of Florida and is glad to return to his native state. His family roots run deep in the farm and forest lands of northern Escambia County. Both parents grew up on farms near Byrneville, FL raising cotton, grain, livestock, pecans and other crops. Talking about his return to Florida from other positions in the region he said, "Some of my fondest childhood memories are of hunting, fishing and exploring the woods, streams and rivers of the Florida Panhandle. With that background, pursuing a career in forest land management and returning to Florida was in my blood (in spite of my ramblings throughout the South!)".

Cost-share program update

FLEP and FLRP: Sign-ups for the Forest Land Enhancement and Forest Land Recovery Programs have ended and requests for cost-share funds exceeded available funding in both programs. FLEP cost share requests were almost 3 times greater than available funds. FLRP requests slightly exceeded funds.

CRP: There is a continuous Conservation Reserve Program (CRP) signup underway for the Longleaf Pine Initiative. The initiative covers cost sharing for planting seedlings and an annual rent agreement. To be eligible, land must be located in the National Longleaf Pine Conservation Priority Area (historic range of longleaf pine forests, which includes most of Florida) and must be capable of being restored to a viable ecosystem. Sign-up began Dec. 1, 2006 at local FSA offices and runs continuously until the 250,000-acre goal is met, or Dec. 31, 2007, whichever comes first. Refer to the USDA Farm Service Agency website for more details at: http://www.nrcs.usda.gov/programs/crp/.

Emergency Forestry CRP (EFCRP) signup has ended. This program only applied to damage from the 2005 hurricane season (for Florida -- Wilma, Dennis & Katrina). Only Escambia, Santa Rosa & Walton counties had offers. Offers are being processed by the Farm Service Agency.

EQIP: The Environmental Quality Incentives Program (EQIP) provides a voluntary conservation program for farmers and ranchers that promotes agricultural production and environmental quality as compatible goals. EQIP offers financial and technical help to assist eligible participants install or implement structural and management practices on eligible agricultural land. These practices and initiatives are new for 2007:

Tree Planting: A minimum of 20 acres and maximum of 200 acres per contract will be allowed under this practice. Cost share assistance for this practice is available under the following criteria:

- The applicant is willing to plant longleaf pine seedlings on an 8 x 12 spacing or wider (in approved counties) AND agree to prescribe burn same acres on a 2 to 3 year rotation to benefit wildlife and improve diversity.

- All Class III or greater cropland (which require complex or intensive cultivation practices) will be converted to permanent cover (trees).

- The applicant is willing to plant pine seedlings (longleaf, slash, loblolly, etc.) in low density (8'x12' or wider) AND establish permanent firebreaks around stand AND establish 10% of stand in openings to benefit wildlife and improve diversity.

Invasive Plant Control: Plant species such as cogongrass, tropical soda apple and climbing fern can have devastating effects on Florida's pasture and forest land. Once these non-native plants invade an area, they rapidly decrease the quality and quantity of forage and cropland available which leads to environmental damage and economic loss. To conserve these important natural resources, Florida NRCS has made it a state priority to reduce the presence of Category I invasive plant species on our cropland, pasture and forestlands through EQIP funds.

For more information about EQIP and other USDA cost-share programs, contact your local USDA Service Center. Find your local number at: http://offices.sc.egov.usda.gov/locator/app.

Timber Tax Tips for 2006

Filling the shoes of Larry Bishop, former USDA Forest Service Taxation Specialist, is Linda Wang. John Greene is still in the USDA Research Forester position and coauthors the USDA Forest Service's Tax Tips for Forest Landowners for the 2006 Tax Year (Management Bulletin R8-MB 128), from which this information is summarized. The full version of this bulletin is available at sref.info/spotlight/taxtips2006link.

This summary is not exhaustive and we strongly recommend consulting other sources for a more comprehensive treatment of topics that may be particularly important to you. This information is current as of December 1, 2006, and supersedes USDA Forest Service Management Bulletin R8-MB 126. Some useful on-line resources are provided at the end.

Your Basis and Tax Records

Your basis is your investment in timber and forest land. The original cost of purchased timberland, or the value of inherited land, should be allocated proportionally to land, timber, and other capital assets. The fair market value of inherited forest land should be allocated similarly but keep in mind that the fair market value of inherited property is usually higher than the descendant's basis in it resulting in a step-up in basis. Adjust the basis up for new purchases or investments and down for sales or disposals. Keep good records, including a written management plan with a statement that you are growing timber for profit, a map of your property, and documents supporting current deductions six years beyond the date the return is due.

Reforestation Tax Incentives

You can deduct outright the first $10,000 spent on qualifying reforestation expenses and amortize all additional amounts over 84 months (8 years due to accounting convention). The reforestation provisions apply to both the cost of establishing a plantation and practices which promote natural regeneration. They also apply to reforestation expenses reimbursed under an approved cost-share program if you included the payment in your gross income (more details on this under "Cost-share Payments" below). To qualify, the reforested tract must be at least one acre in size, located in the U.S. and held to produce commercial timber products. Individual taxpayers, estates, partnerships and corporations are eligible for both the deduction and amortization provisions.

Cost-share Payments

All of the cost-share payments received in 2006 under any of the Federal or State cost-share programs must be reported. If the program qualifies for exclusion you can either include the payment in your gross income and make full use of beneficial tax provisions or calculate and exclude the excludable amount.

The excludable amount of a qualifying cost-share payment is the present value of the greater of $2.50 times the number of affected acres or 10% of the average annual income from the affected acres over the last 3 years. The process for calculating this amount is described in detail in the full version of the Tax Tips bulletin linked above. If you decide to exclude, you must attach a statement to your return that states specifically what cost-share payments you received, that you choose to exclude some or all of them, and how you determined the excludable amount. Cost-share programs approved for exclusion by the IRS include the Conservation Reserve Program, Forest Land Enhancement Program, Wetlands Reserve Program, Environmental Quality Incentive Program, and the Wildlife Habitat Incentive Program.

The only way to determine whether it benefits you more to include a cost-share payment as gross income or exclude the excludable amount is to figure your tax both ways.

Timber Management Expenses

You can choose either to deduct the annual expenses for maintaining and managing your timber or capitalize them. In most cases you are better off to deduct management expenses on your return for the tax year they are incurred.

The passive loss rules determine what expenses you can deduct and where you take the deduction. Under the rules you can be classified in 1 of 3 categories:

1. <u>Materially participating in a trade or business</u>: You are materially participating if your involvement is regular, continuous, and substantial. If you meet this qualification, deduct management expenses, including property taxes and interest on debts, on Form 1040 Schedule C against income from any source. You must show material participation with thorough records. Keep records of

all business transactions related to managing your timber stands and other business activities such as landowner meetings. Odometer readings to and from landowner meetings, canceled checks for registration fees, and copies of meeting agendas are some examples of documentation of meeting attendance.

2. Passive participant in trade or business: If you don't meet the qualifications for material participation, deduct management expenses, property tax and interest expenses on Form 8582. These expenses are deductible only to the extent that their combined total does not exceed your income from passive activities for the year, although any unused amount can be carried forward to future years.

3. Investor: If you are an investor, deduct property taxes against income from any source, and interest on debt.

If it is not to your advantage to itemize deductions you should capitalize these expenses. Keep in mind that you cannot capitalize expenses in any year your property is productive. Forest land is productive in any year that it produces income, including that from a hunting lease or other non-timber source.

Timber Sales

Under current law, revenue from standing timber sold lump-sum or pay-as-cut basis generally qualify as a long-term capital gain (if you have met the 12-month holding requirement – owned the timber for one year before it was cut). Capital gains are not subject to the self-employment tax, as is ordinary income. When you sell timber you can take a *depletion deduction* against the gross sale proceeds. The deduction is computed this way: (total basis in your timber account / total volume just before the sale) x number of units sold. File a Form T in years that you claim a timber depletion deduction, acquire land, perform reforestation or silvicultural activities or have changes in land ownership.

Timber Losses

A casualty loss must result from an event that is identifiable, damaging to the property, and sudden or unexpected or unusual in nature (e.g., wildfires and storms). Losses resulting from drought or beetles do not qualify for a casualty loss deduction but may qualify for a non-casualty loss. Your claim for casualty and non-casualty losses cannot exceed the adjusted basis minus any insurance or other compensation.

Hurricane Relief Provisions

Cost-share payments from the 2005 agricultural disaster recovery programs -- Emergency Watershed Protection, Emergency Conservation and Emergency Forestry Conservation Reserve Programs -- are approved for exclusion from gross income.

Congress passed laws establishing Gulf Opportunity Zones for the counties/parishes on the Gulf Coast affected by the 2005 Hurricanes. Provisions for these Zones in Florida include an increase in the reforestation deduction and enhanced deductions for net operating losses. See the GO Zone Guide Web site at www.gozoneguide.com for details.

Conclusion

Proper tax planning is a tedious but important part of timberland management. We strongly recommend contacting a professional tax advisor to help you with this task if you are uncertain of the procedures.

Timber Tax Resources on the Internet

See the **National Timber Tax Web Site** for a comprehensive treatment of timber taxes at www.timbertax.org.

IRS publications and forms are available at www.irs.gov.

New Tax Benefits for Landowners Donating Conservation Easements in 2007

On August 17, 2006 the President signed the Pension Protection Act which increased the tax benefits to landowners donating conservation easements. The legislation allows:

- A conservation agreement donor to deduct up to 50% of their adjusted gross income in any year;
- Qualifying farmers and ranchers to deduct up to 100% of their adjusted gross income; and
- Donors can take deductions for their contribution over as many as 16 years.

These changes allow many landowners to deduct much more than they could under the old rules. A "qualified farmer or rancher" is a defined term that means a taxpayer whose gross income from the business of farming (as defined under Section 2032A(e)(5) of the tax code) is greater than 50% of the taxpayer's gross income for the taxable year in which the conservation easement is donated.

For example, the fair market value of a landowner's donated conservation easement is $500,000 and the terms of the easement assure that the land will remain available for agriculture use. If the landowner qualifies as a farmer and has an adjusted gross income of $80,000, then the charitable deduction for the year of the transfer is $80,000 (100% of $80,000). This leaves $420,000 ($500,000 - $80,000) to carry over for about the next 6 years (5 years x $80,000/year = $400,000; in the 6th year, $20,000 can be deducted). Thus, in this example, the taxpayer will have zero federal taxable income for six years plus $20,000 deducted from the seventh year.

If a charitable deduction limitation exists, taxpayers can make donations over several years to overcome this limitation. However, the outlined tax incentives will only apply for land donated in 2006 and 2007, unless the law is extended. For more resources on these new tax incentives, see the Land Trust Alliance Web site at http://www.lta.org/publicpolicy/tax_incentives_updates.htm.

References

Anon. 2006. New Federal Law Gives Better Tax Break for Conservation Agreements to Save Farms and Other Rural Lands. Fact Sheet, Conservation Trust for Florida, Inc. Gainesville, FL.

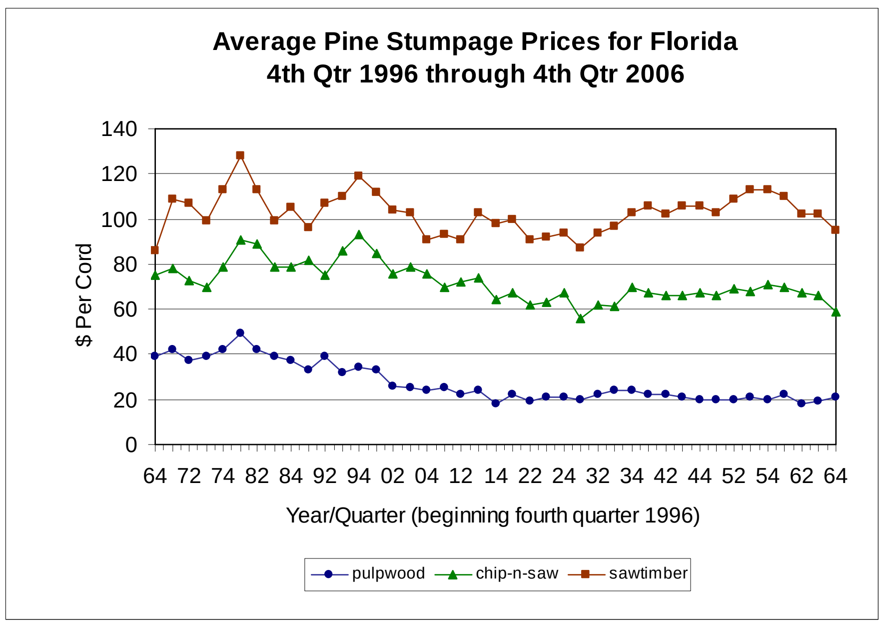
Main, M., K. Annisa and M. Hostetler. 2006 (rev). Conservation Options for Private Landowners in Florida. CIR 1441. Coop. Ext. Serv., IFAS, University of Florida, Gainesville, FL. 26p.

Timber Price Update

The timber pricing information below is useful for observing trends over time, but does not necessarily reflect current conditions at a particular location. Landowners considering a timber sale are advised to solicit the services of a consulting forester to obtain current local market conditions. Note that price ranges per ton for each product are included in parentheses after the price per cord.

Stumpage price ranges reported across Florida in the **4th Quarter 2006** Timber Mart-South (TMS) report were:

- <u>Pine pulpwood</u>: \$14 - \$29/cord (\$5 - \$11/ton), ↑ (on average from 3rd Quarter 2006)
- <u>Pine C-N-S</u>: \$52 - \$66/cord (\$19 - \$25/ton), ↓
- <u>Pine sawtimber</u>: \$76 - \$113/cord (\$28 - \$42/ton), ↓
- <u>Pine plylogs</u>: \$83 - \$119/cord (\$31 - \$44/ton), ↓
- <u>Pine power poles</u>: \$138 - \$192/cord (\$51 - \$72/ton) ↑
- <u>Hardwood pulpwood</u>: \$6 - \$26/cord (\$2 - \$9/ton), ↓



Trend Report

With the exception of those for pulpwood and power poles, average stumpage prices for most of the major wood products were down in the 4th Quarter 2006 in Florida. The continuing price slump for pine sawtimber is conspicuous. Across the Southeast region, the average pine sawtimber stumpage price was down more than one dollar per ton from 3rd Quarter 2006 and down more than two dollars per ton from 4th Quarter 2005. Market indicators for lumber remained weak in the last quarter of 2006 but strengthened slightly in the final weeks of the year.

Order Containerized Longleaf Seedlings Now for the 2007-2008 Planting Season

If you are planning on planting *containerized longleaf pine seedlings* during the winter planting season of **2007-2008**, place your order now. Supplies are short and some nurseries will be sold out soon. Your DOF County Forester can help you determine how many seedlings you'll need.