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Timber provides certainty amid tax reform questions

By Dave Tenny, Opinion Contributor - 08/09/17 12:15 PM EDT

Working forests – those managed to grow and harvest timber – have a long history as economic drivers and valuable assets. For many rural communities, timber *is* the local economy – working forests support 2.4 million jobs and $98 billion in payroll, mostly in rural communities. For the private forest owners who plant, grow and manage working forests, and for the increasing number of Americans who invest in working forests as part of their retirement portfolios, timber is an attractive long-term investment that withstands market volatility.

As they grow, working forests are an environmental asset too – filtering 25 percent of our drinking water, providing habitat for 60 percent of our at-risk species, and sequestering enough carbon to offset 12 percent -15 percent of our industrial carbon emissions annually. These valuable environmental benefits are largely underwritten by the investments of private landowners over decades, and in most cases are provided to the public for free.

As Congress embarks on the challenge of modernizing our tax code, there is one surefire way to support rural communities, the economy and the environment all at the same time –

maintain provisions supporting long-term private investment in our nation’s 460 million acres of abundant, privately owned working forests.

The economic viability of private working forests depends on tax provisions that recognize that growing trees is unlike any other business or investment. Timberland stewardship is uniquely long-term. Unlike business or investment cycles tracked annually or over a few years, forests are managed over decades. Timber takes between 20 and 80 years to mature, so landowners face an investment horizon of between 20 and 80 years. That means that landowners planting seedlings today won’t see a return on their 2017 investment until at least 2037; trees that take longer to mature might not be ready to harvest until 2097.

As trees grow, forest owners make significant investments – often millions of dollars – in regular operating costs like road maintenance, weed control, thinning and many rounds of fertilization. Tax law allows forest landowners to deduct these operating costs, which in turn, allows them to afford forest health treatments that reduce the risk of forest fires and other natural disturbances. It also keeps other beneficial investments like research and conservation projects affordable. Tax provisions that allow the deduction of reforestation and tree planting costs encourage landowners to continue investing in trees, keeping our nation’s forests abundant and strong.

The tax code also rightly treats timber revenue as long-term capital gain and properly defines timberland as real property instead of inventory. Trees are different from inventory because they are held for decades rather than days or months, and they appreciate rather than depreciate in value. Current provisions in the code appropriately accommodate these facts, treating timber as a long-term real property investment. This allows ordinary investors to own professionally managed timberlands; in fact, working forests are now part of most American’s retirement portfolios.

Forest owners will always face the dual challenge of low liquidity and substantial risk. These tax provisions ensure their economic viability. Without them, forest owners will face mounting pressure to convert timberland to other uses in search of a better return on their investment. Fewer forests is not a good outcome for anyone.

When it comes to the complex task of tax reform, this piece is a no-brainer – working forests are an economic and environmental asset that legislators on both sides of the aisle can get behind.

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