



# Woodland Owner Notes

## Financial Incentives for Forest Management

*Managing your forestland can be an excellent long-term investment. Over the years, income from managed timber stands has exceeded that from most other crops in terms of value added per acre per year. Even managed pre-salable timber stands have increased the property value of forestland substantially over bare or unmanaged, cutover woodland. Annual returns from 0 to 40 percent are possible from forest management. The range of returns is wide because of variations in soil productivity, stand condition, tree species, markets (both availability and price fluctuations), intensity of management, and availability of financial incentives.*

Both federal and state governments offer financial incentive programs for woodlot owners. Several of these programs provide cost-sharing payments that reimburse landowners for timber management activities. Other programs provide tax incentives, tax credits, and deductions for reforestation expenses.

### **COST-SHARING PAYMENTS**

**The North Carolina Forest Development Program (FDP)** is a cost-sharing program focused on timber production and creating the benefits associated with active forest management. The FDP is administered by the NC Division of Forest Resources (NCDFR). Under FDP, any private individual, group, association, or corporation is eligible who owns a minimum of 1 acre to a maximum of 100 acres of nonindustrial private forestland in North Carolina. FDP partially reimburses landowners for the costs of site preparation, seedling purchases, tree planting, release of desirable seedlings and trees from competing vegetation, removal of undesirable species, prescribed burning, and forest fertilization. The program has differ-

ent qualification standards for upland and bottomland hardwood commercial species, southern yellow pine (including loblolly, longleaf, shortleaf and pond), eastern white pine, and baldcypress and Atlantic white cedar. Landowners are reimbursed based on the specific practice, its actual cost, and the prevailing cost-share rates (up to a cap) for FDP practices specific to each state forest service region. To qualify for this assistance, the landowner must have a forest management plan approved by NCDFR before any work is started. Participation in the program is on a first-come, first-serve basis. Landowners may sign up by contacting the nearest NCDFR office: [http://www.dfr.state.nc.us/contacts/contacts\\_main.htm](http://www.dfr.state.nc.us/contacts/contacts_main.htm)

**The Southern Pine Beetle Prevention Program (SPBPP)** reduces the risk of southern pine beetle outbreaks by reducing the stress of overstocked loblolly pine and white pine stands through precommercial thinning. Under SPBPP, any private individual, group, association or corporation

owning at least 5 acres of nonindustrial private forestland located in North Carolina is eligible. The program will partially reimburse landowners to reduce the number of trees per acre through precommercial thinning of loblolly pine or white pine stands. Landowners are currently reimbursed up to 50 percent of the actual cost per acre or 50 percent of the prevailing rate for precommercial thinning practices in the region, whichever is less. To qualify for treatment, the loblolly pine stand must have 700 or more pine stems per acre and the crop trees must be 12 years or less in age. For pine stands with a mixed hardwood component, the pine component must make up 70 percent of the composition. For a white pine stand to be eligible for treatment, it would have 700 or more pine trees per acre, or 150 square feet of basal area, with a maximum crop tree age of 30 years. Landowners must also have a forest management plan approved by NCDNR for the stands to be treated. Participation in the program is on a first-come, first-serve basis. Landowners may sign up by contacting the nearest NCDNR office: [http://www.dfr.state.nc.us/contacts/contacts\\_main.htm](http://www.dfr.state.nc.us/contacts/contacts_main.htm)

**The Environmental Quality Incentives Program (EQIP)** is focused on working lands conservation and the creation of the benefits associated with active forest management. Under EQIP woodland owners are eligible to receive financial assistance up to 75 percent of the cost for practices and activities carried out according to an EQIP plan (forest management plan) of operations developed in conjunction with the landowner that identifies the appropriate conservation practice or measures needed to address identified natural resource concerns. In North Carolina these concerns may address restoration and management of declining forest habitat, improving timber quality, enhancing wildlife habitat, reducing soil erosion, preventing spread of exotic species, and other forest health concerns. To participate in the program landowners must have a forest management plan and their landownership verified in the Farm Service Agency system. EQIP is administered by the Natural Resources Conservation Service (NRCS) with applications pooled throughout the year and those that rank the highest in addressing identified concerns will be contracted first. Landowners may sign up for the assistance by contacting their local NRCS office: <http://www.nc.nrcs.usda.gov/contact/directory/index.html>

**The Wildlife Habitat Incentives Program (WHIP)** is focused on developing and improving wildlife habitat, including threatened and endangered species, on private land. Through WHIP, the USDA—NRCS provides both technical assistance and up to 75 percent of the cost for practices

and activities carried out according to a management plan developed with the landowner. The plan identifies the appropriate conservation practices or measures needed to establish and improve fish and wildlife habitat. WHIP agreements between NRCS and the participant generally last from 5 to 10 years from the date the landowner signs the agreement. To participate in the program, landowners must have a management plan addressing wildlife concerns and their landownership must be verified in the Farm Service Agency system. WHIP is administered by the NRCS with applications pooled throughout the year. Applications that rank the highest in addressing identified concerns will be contracted first. Landowners may sign up for the assistance by contacting their local NRCS office: <http://www.nc.nrcs.usda.gov/contact/directory/index.html>

### **Incentive Programs with Conservation Easements**

The Conservation Reserve Enhancement Program (CREP), Conservation Reserve Program (CRP), Wetland Reserve Program (WRP), and Forest Legacy Program are programs managed by federal and state agencies that are interested in protecting natural resources via conservation easements. A conservation easement limits the uses of a property to those consistent with the landowner's and the easement holder's conservation objectives. These easements are legal agreements that benefit landowners and the public because easements protect land while leaving it in private ownership. Easements can vary in length, such as 10-, 15-, and 30-year and permanent conservation easements. To learn more about the programs, contact the following agencies.

#### **CRP — USDA Farm Service Agency:**

<http://www.fsa.usda.gov/>

#### **CREP — NC Division of Soil and Water Conservation:**

<http://www.enr.state.nc.us/dswc/pages/crep.html>

#### **Forest Legacy — NC Division of Forest Resources:**

[http://www.dfr.state.nc.us/fsandfl/what\\_is\\_forest\\_legacy.htm](http://www.dfr.state.nc.us/fsandfl/what_is_forest_legacy.htm)

#### **WRP — USDA Natural Resources Conservation Service:**

<http://www.nc.nrcs.usda.gov/programs/WRP/index.html>

## **TAX CREDITS AND DEDUCTIONS**

**Reforestation Tax Credit and Amortization Deduction.** Landowners can immediately deduct up to \$10,000 of qualifying reforestation expenses annually per qualified property in the year incurred when reporting federal income taxes. The cost of site preparation, seedlings or seeds, planting, tools, and depreciation on equipment may be included. Cost-sharing funds may be included if reported as income.

In addition, landowners can deduct (amortize) all reforestation expenses incurred in any one year that cannot be expensed, without limit to the amount. These expenses can be deducted from gross income that comes from other sources over an 84-month period.

### **Excluding Cost-Sharing Payments from Income.**

Federal and North Carolina tax laws allow a landowner to partially or totally exclude cost-sharing payments received under certain programs from taxable income. Check with a tax advisor to see which programs are available. Most people will gain maximum tax advantage, however, by including the payments as income and reporting any unreimbursed expenses that qualify for the investment credit and amortization deductions discussed in the previous section.

**Annual Deductions.** Part or all of the management expenses incurred each year may be deductible, even if no timber income is received in that tax year. The Tax Reform Act of 1986 instituted passive loss rules that dictate how a forest landowner may deduct expenses. Three classes of ownership, based on extent of participation in management of the property, are defined:

1. Material participants in a trade or business. In this class, all management expenses and business interests are fully deductible from income from any source.
2. Materially participating investor. Property taxes are fully deductible, interest on indebtedness related to the timber is deductible only up to the amount of investment income from all sources, and all other management expenses are deductible as miscellaneous itemized deductions.
3. Passive participants in a trade, business, or investment. Management expenses can be deducted only up to the amount of passive income from all sources.

Material participation requires active, regular, continuous, and substantial involvement. Accurate records and consultation with a tax expert are recommended.

In addition, most management expenses not claimed annually may be capitalized and recovered in future years when the timber is sold.

**Long-Term Capital Gains.** Income from the sale of timber owned for more than 12 months should qualify as long-term capital gains for federal tax purposes. An individual may wish to report timber income as long-term capital gains for several reasons:

1. Capital gains may be used to offset capital losses. Only \$3,000 of ordinary income may be offset by capital losses each year. A landowner with large capital losses may use capital gains to offset those losses in that tax year.

2. Landowners who are self-employed must pay self-employment taxes. Capital gains are exempt from self-employment taxes.
3. Capital gains from involuntary cutting, if put back into timber management within a certain time, are not recognized as taxable income and taxes are deferred.
4. The maximum long-term capital gains tax rate is 15 percent.
5. North Carolina income tax law does not recognize long-term capital gains income and, therefore, all income is ordinary.

For more information on tax credits and deductions, visit [www.timbertax.org](http://www.timbertax.org).

## **FORESTRY PRESENT-USE VALUATION**

### **Property Tax Relief**

Qualifying North Carolina forest landowners can receive, upon approval of their application, property tax relief for managed timberland. The land must be:

1. Individually owned, including ownership by certain types of corporations.
2. In compliance with a written, sound forest management plan for the production and sale of forest products.
3. Within a parcel of land in actual timber production of at least 20 acres not included in a farm unit.
4. The owner's residence. In addition, the land must be owned by the present owner for four years preceding January 1 of the year in which application for special assessment is made. If the land is currently under present-use valuation in which the deferred taxes remain a lien on the land, the new owner becomes liable for the deferred taxes, and the deferred taxes become payable if the land fails to meet any other condition or requirement for classification. The county tax supervisor accepts applications during the regular listing period. The amount of tax relief varies widely from county to county. Contact your county tax assessor for prevailing forestry present-use rates.

## **FURTHER INFORMATION**

This publication provides an introduction to the various financial incentives available to woodlot owners. For additional information, contact your local county Cooperative Extension Center, a qualified tax expert, the Internal Revenue Service, a consulting forester, or a representative of the North Carolina Division of Forest Resources.



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