



Taxes and Laws:

One Piece of the Parcelization Puzzle

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Do taxes and laws really affect decisions?

Various landowners, various motivations

Private forest
owners

Own 46 % of Michigan Forests, over 8 million acres.
Heterogeneous group – hard to assign motivation.

Corporate land
owners

Along with other private owners (trusts, non-prof) they own 16%
of Michigan Forests.

State Govt.
Landowners

Own 21% of Michigan Forests

Federal Govt.
Landowners

Own 15% of Michigan Forests

Local Govt.
Landowners

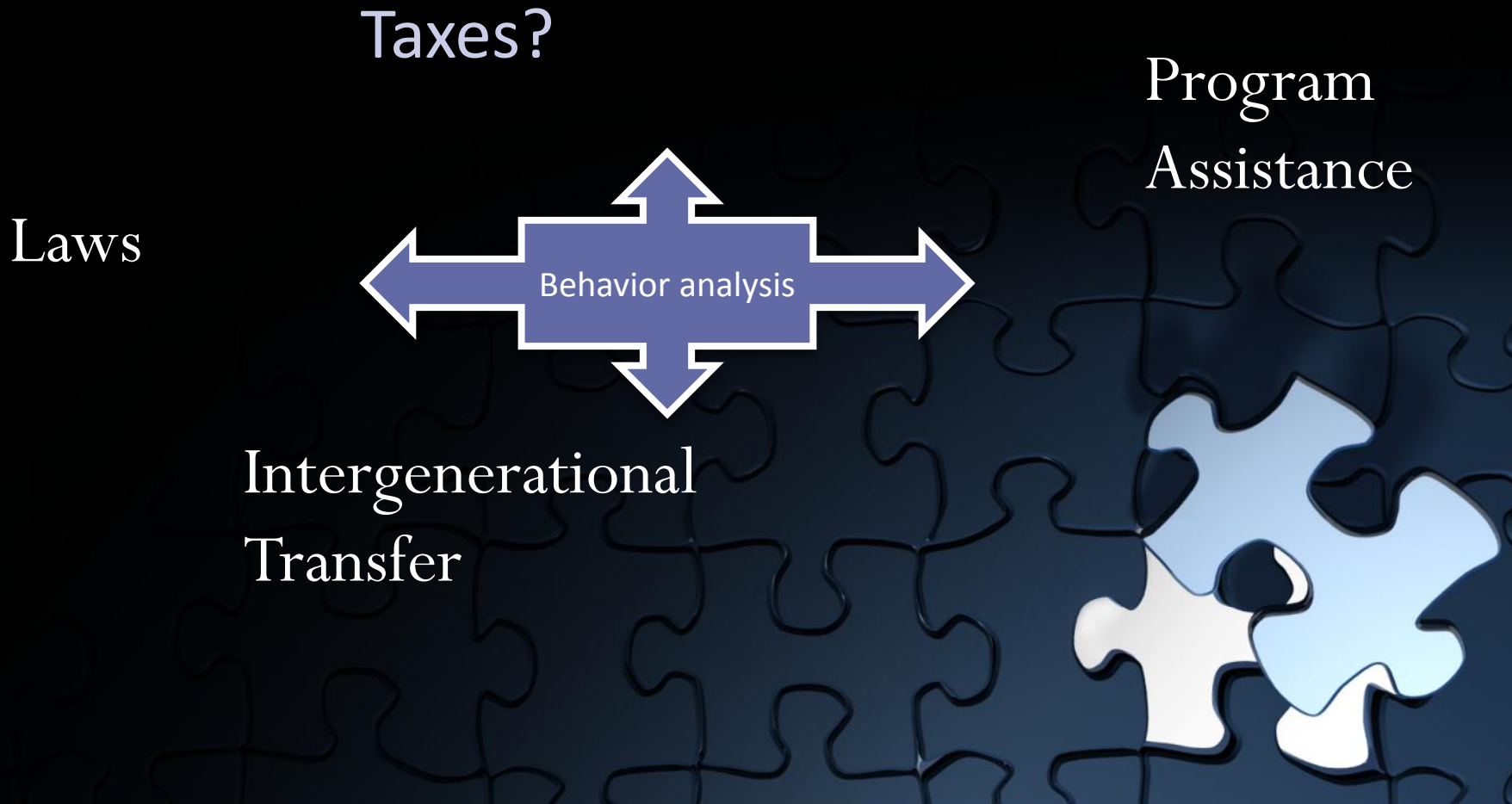
Minimal

Trusts, Non –
profits, others

Included with Corporate



What is Driving Parcelization?



The argument about taxes

Do taxes matter?

- Brett Butler found that high taxes are in the top five concerns of private forest owners.
- Historically, evidence shows that taxes DO matter



What kind of taxes?

Do owners keep their forests as a result?

- Property Taxes
 - Modified Assessment
 - Exemption, rebate, yield, lower rate

Estate Taxes

- Capital Gains Taxes
 - Corporate tax vs. REIT
 - Personal business

Michigan Forest Property taxes

Modified assessment

- **Commercial Forest**
 - Landowners pay \$1.25 per acre per year.
 - Landowners must have 40 acres of productive forest,
 - must allow public access for hunting and fishing,
 - must follow a forest management plan for timber production.
 - No buildings may be present. Withdrawal fees apply.
- **Qualified Forest Property**
 - Landowners are exempt from up to 18 mills of school operating taxes.
 - Landowner must have 20 acres of productive forest.
 - Public access is not required.
 - Must follow a forest management plan, which includes a harvest.
 - No buildings may be present.
 - Currently, large withdrawal fees apply.



Michigan Taxes – Current issues

Changes to the Recapture Tax provision of the Qualified Forest Property program:

SB 1060 Booher Modifies the Michigan Tax Act

BILL ANALYSIS : Amends 2006 PA 379, entitled "Qualified forest property recapture tax act," part of the Tax Act, (section 4 (MCL 211.1034).

Discussion	This amendment changes the withdrawal penalty calculation to use the Taxable value (instead of SEV) and also to only pay back the school operating mills, not all mills including what had already been paid!
Importance	Private forestland owners will receive a fairer treatment upon withdrawal from the Qualified Forest Property Act.

Michigan Taxes – Current Issues

Amends Act 1994 PA 451, “Natural resources and environmental protection act,”

Introduced :	Senators BOOHER, GREEN, BRANDENBURG and CASPERSON
Date	March 29, 2012, referred to the Committee on Natural Resources, Environment and Great Lakes

MFA opinion – SB 1059

Rationale for position

Section	Changes from original law
Discussion	This amendment transfers the authority to administer the Qualified Forest Property Tax Act and the responsibility for approving forest management plans and the subsequent verification to the Dept. Agriculture and Rural Development from the Dept of Natural Resources
Importance	Private forestland enrolling under the tax act would be the responsibility of Conservation Districts, instead of the Department of Natural Resources forestry staff.

Michigan Taxes - Current Issues

Amends 1893 PA 206, entitled "the general property tax act" by amending section 7dd (MCL 211.7dd), as amended by 2011 PA 100

SB 1062	I	Senator GREEN, BRANDENBURG, BOOHER and CASPERSON
Date	Referred to Senate committee Natural Resources, Environment, & Great Lakes on 3/29/12	

Section	Changes from original law
	This amendment allows farmers or landowners to qualify their land under the Qualified Agricultural Property IF MORE THAN 50% OF THE PARCEL'S ACREAGE IS DEVOTED TO A COMBINATION OF AGRICULTURAL USE AND USE AS QUALIFIED FOREST PROPERTY.
Importance	This amendment would allow a change from the requirement that more than 50% of the parcel's acreage must be devoted to agriculture to include forest property.

SB 1059 - Substituted

Changes:

- This bill calls for a landowner to be removed from the QF property status if a harvest does not occur in the year in which it is prescribed in the forest management plan!
- This bill calls for a \$500 fine to be paid to the MDARD if the owner has a practice or harvest and does not report it.
- This bill calls for MDARD to approve any forest management plan and subsequent amendments.
- This bill requires the owner to agree to manage according to the plan for 30 years.
- Prescribes that MDARD will determine if a property is eligible
- Drops acreage to 10,



SB 1060

Transfers forestry responsibility from DNR FRD to MDARD

- Transfers authority to manage private lands from DNR to MDARD
- Requires foresters to submit a registration to MDARD to be a qualified forester – and requires continuing education.
- MDARD will maintain this list of registered foresters.
- MDARD will be granted authority to sign agreements with federal agencies to provide private forestland assistance.



Senate draft of HB 4969

CF amendment

- Increases the requirement to 160 acres
- Requires removal if less than 40 acres, allows for transfer to QF
-



2012 PA 248 HB 4913

Passed into law

- This bill would allow tax exempt organizations to withdraw land from the commercial forest program penalty free. These organizations are already exempt from ad valorem property tax requirements and receive no additional tax benefit by enrolling in the Commercial Forest program. Since they are realizing no benefit it would be unfair to penalize them for withdrawing from the program.



SB 1287

Proceeds of QF Recapture tax to go to Private Forestland Development fund in the MDARD

- Beginning January 1, 2013, the bill would require the proceeds to be credited, instead, to the Private Forestland Enhancement Fund (which Senate Bill 1057 (S-2) would create).



SB 1288

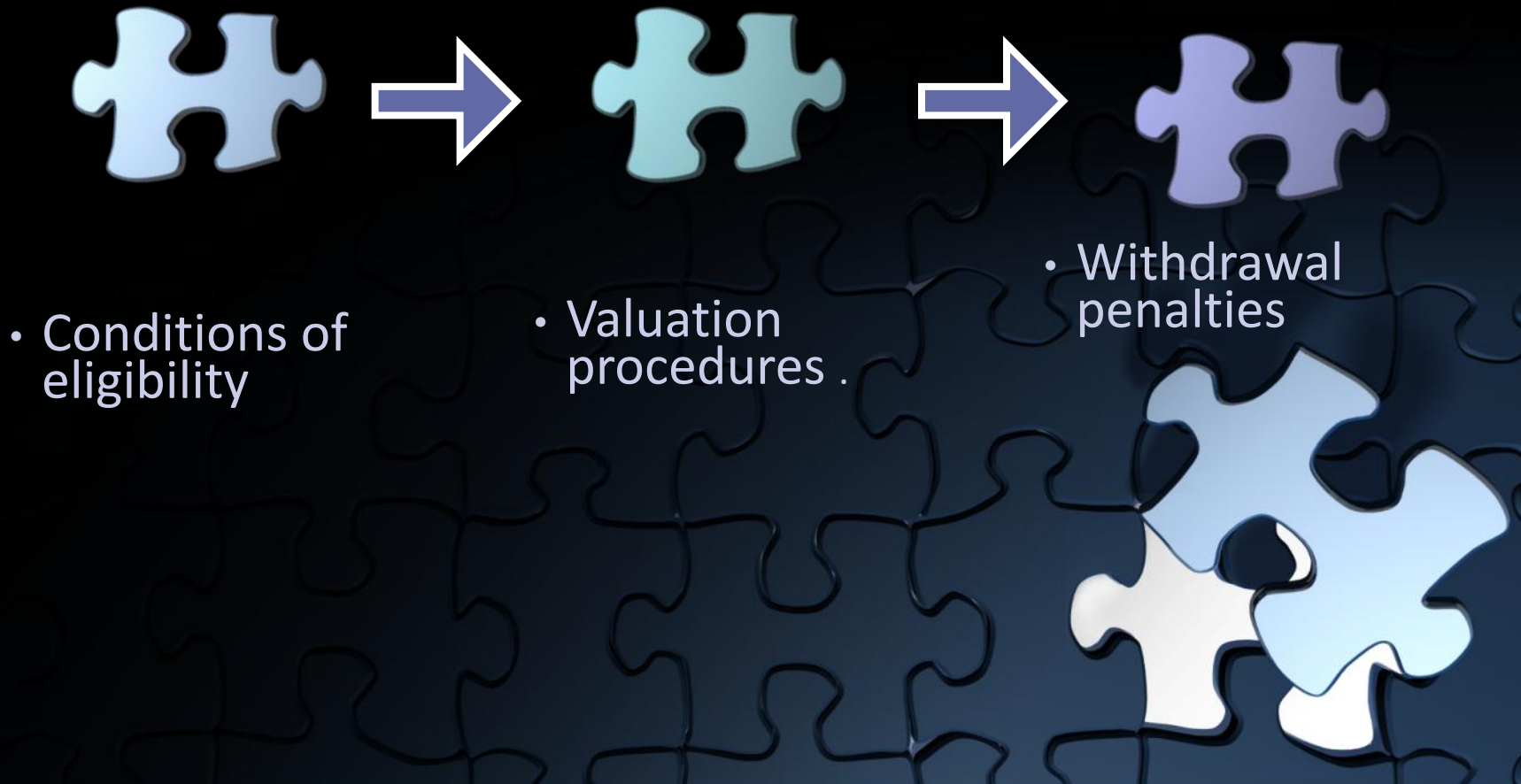
Adds new tax on private forest owners!

- **Senate Bill 1288 would create the "Qualified Forest Specific Tax Act" to exempt qualified forest property from the property tax; impose a specific tax on the owner of qualified forest property; and allocate a portion of the specific tax to the Private Forestland Enhancement Fund.**
- **Requires collecting a tax (taxable value x 2 mills) and depositing it in the Private Forestland Enhancement Fund.**



How Effective are Modified Assessment Taxes?

Do they work to protect forests? Depends.....



Federal Estate Tax!

Does it matter?

Economic Growth and Tax Relief Reconciliation Act of 2001

- Increased in steps till 3.5 million in 2009
- 2010, Congress raised to over 5 million and lowered marginal rate to 35% (from 55)

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act

Will sunset on December 31, 2012, meaning that on January 1, 2013, the federal estate tax exemption and rate will default to the numbers that were in effect in 2001/2002.

If no action, will revert to 2001, 1 million and 55%

Despite tax breaks, forestland owners are far more likely to owe an estate tax than other taxpayers, by a margin of 38–2%

The estate tax can force heirs of a forest property to harvest timber prematurely or to sell off forestland to pay the tax. An estimated 19% of forestland owners are forced to sell some of their land to help pay the estate tax, and 22% are forced to sell some of their timber.

- GREENE, J.L., S.H. BULLARD, T.L. CUSHING, AND T. BEAUVAIS. 2006. Effect of the federal estate tax on nonindustrial private forest holdings. *J. For.* 104(1):15–19.



Next steps on the Estate Tax?

AFF has formed a Forest Policy Coalition

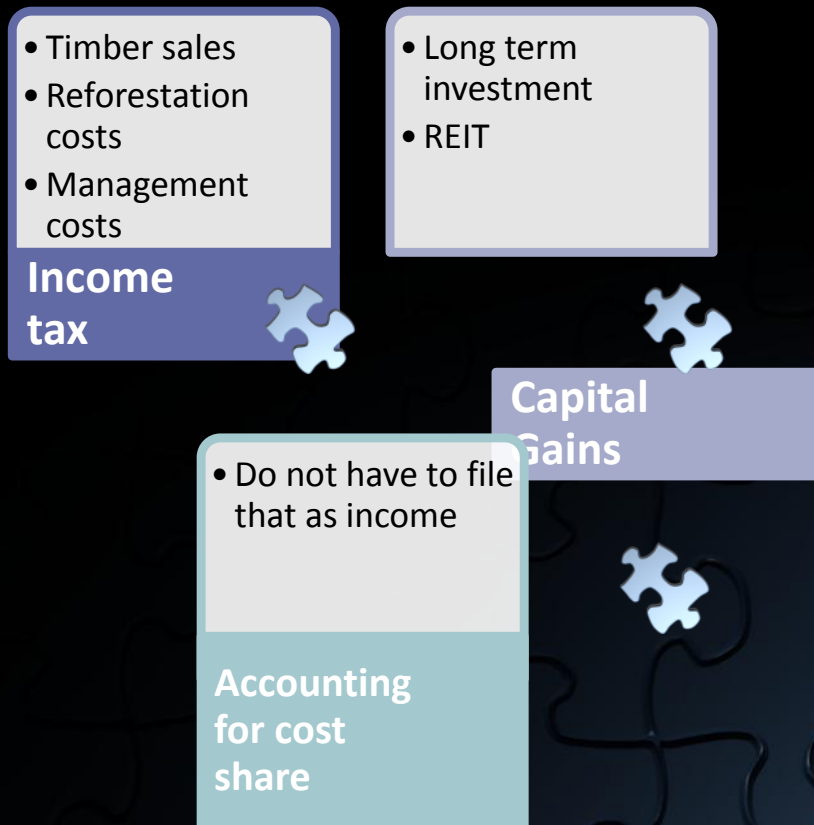
Keep the Forest and the Farm in the Family Act, H.R. 6439

- makes improvements to Special Use Valuation to help reduce the estate tax burden on for family forest owners
- **Increase the Limitation on the Adjusted Value:** Forest owners and farmers would be allowed to reduce the value of their estate by up to \$5 million (adjusted for inflation) instead of the current \$1 million
- **Fix the Timber Harvesting Penalties:**
 - Forest owners who elect special use valuation would be allowed to harvest timber without estate tax penalties if they meet ONE of the following:
 - harvest consistent with a forest stewardship plan (or equivalent)
 - harvest under the guidance of a professional forester
 - Or, are third-party certified



Income tax and Capital Gains

Do they conserve forestlands?

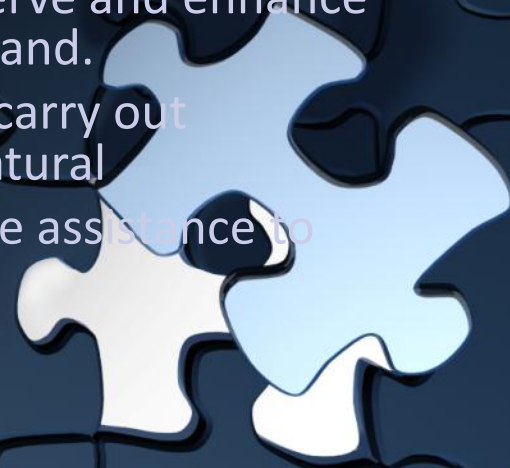


Capital gains and income tax incentives can be powerful

Their effectiveness is variable, depending on corporate tax treatment and on development values.

Cost Share Programs for Forest owners

- The Environmental Quality Incentives Program (EQIP) to implement structural and land management conservation practices on eligible agricultural land.
- The Wildlife Habitat Incentives Program (WHIP) enhance or protect wildlife habitat by types of wildlife habitat.
- The Wetlands Reserve Program (WRP) for restoration and enhancement practices that are implemented on the WRP easement.
- The Conservation Reserve Program (CRP) to establish long-term, resource conserving covers on eligible farmland.
- The Biomass Crop Assistance Program (BCAP)
- The Conservation Stewardship Program (CSP) to conserve and enhance soil, water, air, and related natural resources on their land.
- The Emergency Forest Restoration Program (EFRP) to carry out emergency measures to restore land damaged by a natural
- The Forest Stewardship Program (FSP) offers cost share assistance to landowners for preparing FSP plans.



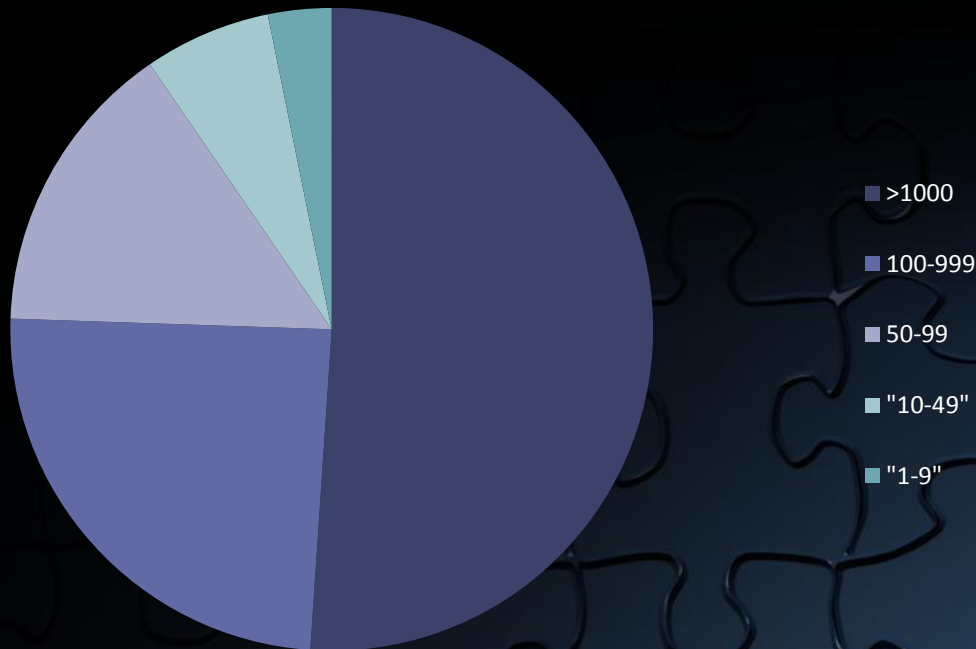
Do cost share incentives **WORK?**

- Unclear – some yes, some no
- Substitution effect – spend govt. \$ instead of own investment?
- Does it conserve forests or contribute to management of forests?
- Need more research!



Size matters! Percentage of Owners using Cost Share

Broken down by size of ownership



Farm Bill Recommendations for Forestry

- Strengthen cost-share opportunities for family forest owners.
- Provide Tools for Forest Conservation
- Modify Beginning Farmer and Rancher set asides to include forest owners on equal footing with farmers and ranchers in conservation title provisions.
- Continue to fund FSP and other forestry initiatives for private forest owners



Intergenerational Transfer

What do forest owners need to be able to keep it as forest?

- Estate taxes
- Outreach and Education
- Assessment taxes



Who cares about what?

Landowners care about their land. Different owners have different priorities.



Larger owners care more about:

- Passing land on to their heirs
- Land as an investment
- Hunting and fishing and recreation
- Timber

Smaller ownerships care more about:

- Beauty and scenery
- Privacy
- Land as part of a home or cabin



Parcelization

Points to consider

Property taxes matter

- Need to make it financially worthwhile
- Need to make them fair, especially withdrawal penalties.

Estate taxes matter

- Older owners, large group will be passing on the forest land.
- Federal estate tax is critical.

Cost share programs help make better forests!

- Good forestry is enhanced through the cost share programs.
- Information that is helpful with Intergenerational transfer may help.
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Heterogeneous owners make simple drivers impossible!

- It is hard to say ONE thing that all owners want.....

Parcelization is a function of many variables.

These items contribute to some landowner decisions regarding divesture.

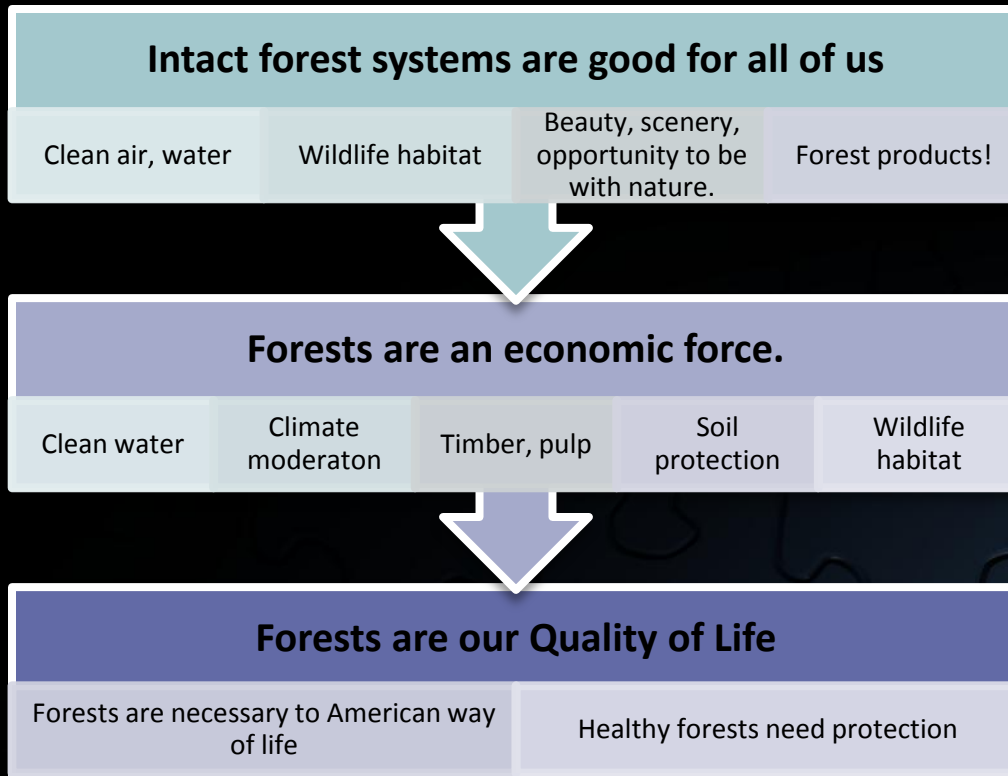
Taxes appear to be a driver in many circumstances.

Age and intergenerational transfer appears to be another driver, which is related to programs and taxes.



Foresters Matter

How important is it to slow down parcelization?

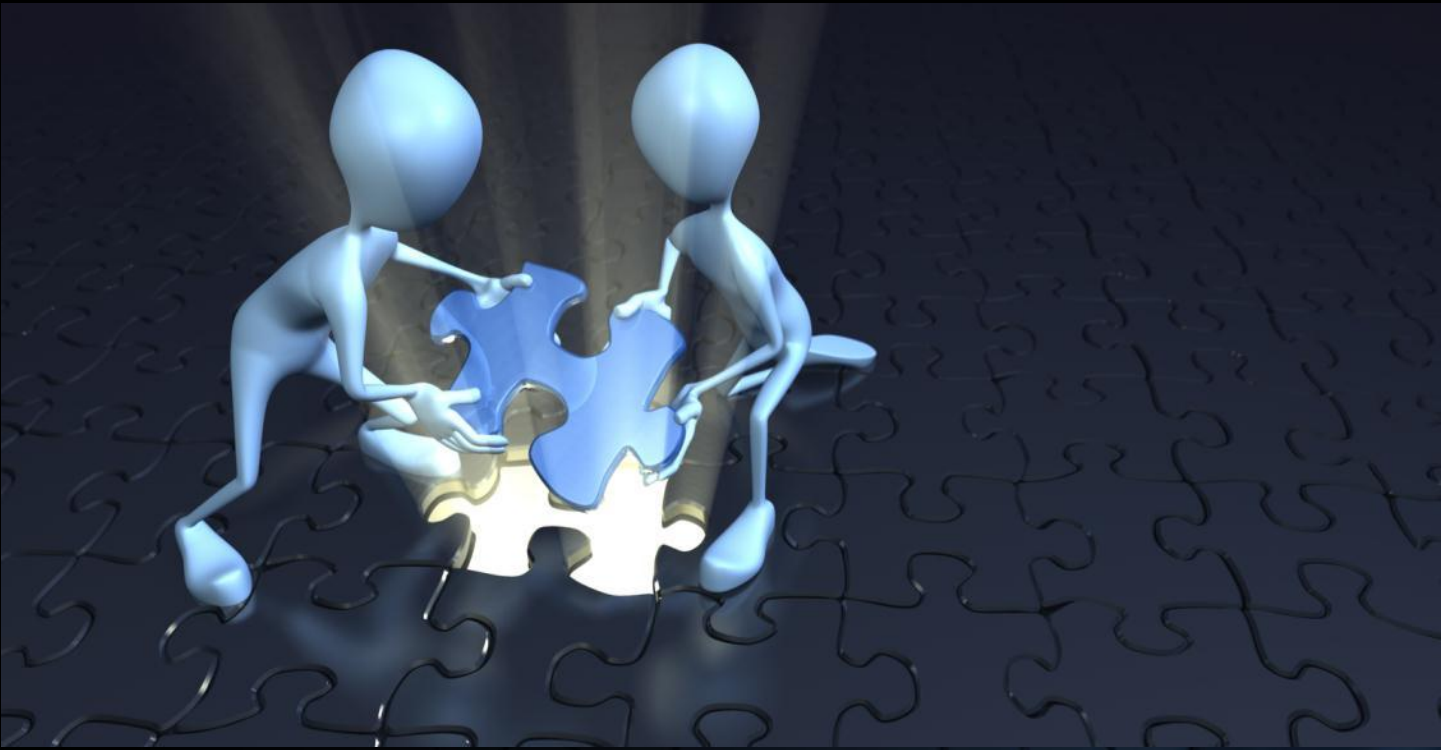


As a forester, there are many reasons to care about this issue.

It will be your job to also communicate this.

Development advocates have a strong voice, forests do not.





Foresters are the Bridge

Helping landowners figure out how to piece this together.





American Tree Farm System
We grow stewardship from the roots.



Who speaks for the Forest?

Who testifies? Who writes Letters? Who communicates? Who examines the issues?



Thank YOU!

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