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Hardwood Federation Update

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The Biden Administration is moving quickly and aggressively to deliver on key promises made during the Presidential election campaign. In addition to the $1.9 trillion Covid economic relief package passed into law in late January, the Administration has introduced two additional major policy initiatives - The American Jobs Plan and the American Family Plan. The aspect of both plans that has attracted the most attention is how to pay for all this new spending!

- Plan specifics are scarce, but media coverage has focused on the jump in the corporate tax rate to 28 percent, from 21 percent. Also receiving attention are the many provisions to curb off shoring—most notably the doubling of the global minimum tax (known as GILTI or Global Low Tax Intangible Income) from 10.5 to 21 percent. These two major tax increase planks are tagged as the funding mechanisms for the programs outlined in the American Jobs Plan.
- Additional tax increases are outlined in the American Family Plan, most prominently the proposed capital gains increase to 39.6 percent, from 20 percent, for those earning $1 million or more. The other widely discussed proposed change is ending the long-standing capital gains tax break on inheritances known as "step-up in basis," which allows taxpayers to use the market value of assets at the time of inheritance, rather than the actual purchase price, as the cost basis for capital gains when the holdings are sold.
- What has not been widely reported on are the many **potential** revenue raisers not in either proposal that will almost certainly surface as the Congressional tax writing committees begin their task of fashioning actual legislation to implement these plans.

Getting the Hardwood Federation's attention …
Is a potential increase in taxes S-corporations and other pass-through entities currently pay. Beginning in 2018, after enactment of the Tax Cuts and Jobs Act (TCJA), a new tax deduction for owners of pass-through businesses took effect allowing qualifying owners to deduct up to 20 percent of net business income from their income taxes, reducing their effective income tax rate by 20 percent. Unless extended by Congress, this deduction is slated to run through 2025.

Given that pass-through businesses employ a majority of private sector workers (58 percent), pay a significant share of all business taxes (51 percent) and that large S-Corporations (over 100 employees) pay 20 percent of all business taxes, it seems reasonable to conclude that at some point, as they sharpen the pencil on raising revenue, Congress will turn to pass-throughs.

Another proposal that has previously received serious consideration is eliminating the preferential tax treatment on standing timber.

- Currently, standing timber is assessed at the capital gains rate. However, so called "pay fors" have surfaced in Congress in recent years that would eliminate capital gains preferential tax treatment for revenue derived from harvesting timber, and instead assess gains as ordinary income at the top tax rate.
- More than doubling the tax rate on timber proceeds would be devastating for forest landowners across the spectrum. The downstream effects on companies in the hardwood manufacturing sector that rely on forest fiber for product and energy are consequential.

To gather intelligence on these proposals, and to discuss the impact that increased taxes will have on our sector, the Hardwood Federation team is fanning out, virtually, to offices on both sides of the Capitol. We will keep you apprised of what we encounter, and as threats—and opportunities—materialize, we may be calling upon you to help engage Congress.