HARDWOOD FEDERATION

1101 K Street NW, Suite 700, Washington, D.C. 20005
Phone: 202-463-2452 • Fax: 202-463-4702
www.hardwoodfederation.com

Hardwood Federation on tax reform

By Dana Lee Cole
Hardwood Federation Executive Director

The last time Congress enacted comprehensive reforms to the federal tax code Ronald Reagan was President. Since that time, tax preparation in the U.S. has become a $75 billion industry, as tax payers wrestle with tax laws and requirements that are tweaked annually and are increasingly complex. So, comprehensive tax reform is long overdue and recent developments have set the table for serious discussion, after the election and into 2015.

The Camp Plan

In February, House Ways & Means Committee Chairman Dave Camp (R-MI) unveiled a plan that he and his staff had been working on for well over a year. At the press conference announcing his plan, Chairman Camp stood alone - no House leadership by his side - which gives a hint as to its current political viability. But make no mistake. A lot of time and effort went into this draft and it is being taken very seriously on and off Capitol Hill.

The Good

What's in it? Let's start with the positive. The guiding principle for Chairman Camp's tax reform plan was **lowering** the corporate tax rate for U.S. businesses—currently among the highest, compared to our trading partners.

Camp's Plan reduces the corporate tax rate from 35 percent to 25 percent over a 5 year transition period. Reduction of the top rate has been a long standing priority of not only the forest products industry, but U.S. manufacturers in general.

The other positive is that the plan greatly simplifies the tax code. According to the Chairman and his staff, the approach was to start with a blank slate and include only those components that made sense from a fiscal and policy perspective.

Now, it is important to remember that this proposal is a starting point for discussion. Most, if not all, of the tax provisions in existing law that were jettisoned by Camp have strong constituencies that will be working to retain the tax benefits they enjoy, currently.

The Not So Good

Unfortunately, in its zeal for simplicity and for achieving the 25 percent objective, the Camp proposal eliminates some pretty important tax benefits for the forest products industry.
Probably the hardest hit, under Mr. Camp's proposal, are those that own standing timber.
The hits come in four key areas:

HARDWOOD FEDERATION
1101 K Street NW, Suite 700, Washington, D.C. 20005
Phone: 202-463-2452 • Fax: 202-463-4702
www.hardwoodfederation.com

1. The Camp Plan eliminates the current capital gains preferential tax treatment (15 percent) for revenue derived from harvesting timber. If enacted, this bill would tax timber gains as ordinary income at a rate as high as 39.6 percent. Since 1943, the federal tax code has treated timber harvest proceeds and the sale of standing trees as capital gains. In the view of House Ways & Means Committee staff however, standing timber should be treated as "inventory" and not as real estate. By re-characterizing timber in this fashion, the Camp proposal splashes timber out of capital gains treatment and also disqualifies timber from Real Estate Investment Trust (REIT) rules.

Doubling the tax rate on timber proceeds would be devastating for forest landowners across the spectrum - from small private landowners trying to put a kid through college with a timber sale or thinning project, to large industrial forest landowners. The downstream effects on companies in the hardwood manufacturing sector that rely on forest fiber for product and energy are consequential.

2. Mr. Camp and his team propose repealing the current deduction for timber growing costs. Right now forest landowners can deduct operating costs in the year in which they were incurred, rather than capitalizing these costs over time.

3. The Camp Plan eliminates the deduction and amortization of reforestation costs. Currently, forest owners can deduct up to $10,000 of reforestation costs per stand. They also can amortize the remaining costs over 7 years.

4. The Camp document eliminates timber as "real property" under Real Estate Investment Trust rules. As you know, many of the large forest ownerships in the U.S. have structured as REITS for tax purposes.

Our high level concern with eliminating these tax benefits is that any time we make it more difficult economically for landowners to keep their lands in timber; we risk a scenario in which landowners simply decide to exit the business. This could take the form of selling their lands to non growing interests such as developers, or converting land to row crop agriculture. In either scenario, it takes productive lands out of fiber production—which is bad for all of us—loggers, truckers, lumber producers and pulp and paper manufacturers.

Other Provisions
The Camp Plan contains several other recommendations that would not help the forest products industry, including scaling back or eliminating renewable tax credits and repealing LIFO (Last-In First-Out) accounting measures.

Bottom Line
It is difficult to imagine an undertaking as large and complicated as tax reform being enacted by Congress in its current state. However, the document is viewed as a blue print for 2015 activity and is being taken very seriously by most of the business

HARDWOOD FEDERATION

1101 K Street NW, Suite 700, Washington, D.C. 20005
Phone: 202-463-2452 • Fax: 202-463-4702
www.hardwoodfederation.com

groups in Washington. The **key** here is to start talking to members of Congress **NOW**…and not find ourselves in a position of fighting to remove harmful language that finds its way into the "next generation bill" in 2015 or 2016.

I have always been taught that a good offense is built on a good defense. **Now** is definitely the time for us to be planning…and implementing…our defensive strategy - something that will no doubt keep us busy during the hot summer months in D.C!