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Taxing Forests to Death

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Proponents of the estate tax claim it affects only the very rich. However, forest owners, many of whom are cash-poor, are more likely to incur the estate tax than the general population. Suburban growth has caused timber prices to rise; thus substantial increases in the value of forest acreage are not unusual. This makes it difficult for forest owners to avoid the estate tax and ensure their acreage remains intact for their heirs. Likewise, efforts to sustainably and efficiently manage forests are often undercut by estate taxes. They create a perverse incentive for owners to log their forests or sell them to developers before they die. This devastates small, family-owned businesses and wildlife habitats alike.

The Estate Tax and Southern Forest Preservation. Southern states are especially affected by the estate tax since the vast majority of southern forests are privately owned. Florida's forests are 90 percent privately owned, while 70 percent and 84 percent of forests in Mississippi and Arkansas, respectively, are privately owned. In Florida, forest land is increasing in value faster than other undeveloped land in general. In 2001, small acreages (defined as less than 10,000 acres) of family-owned timberland increased in value an average of 9 percent more than private commercial forest land.

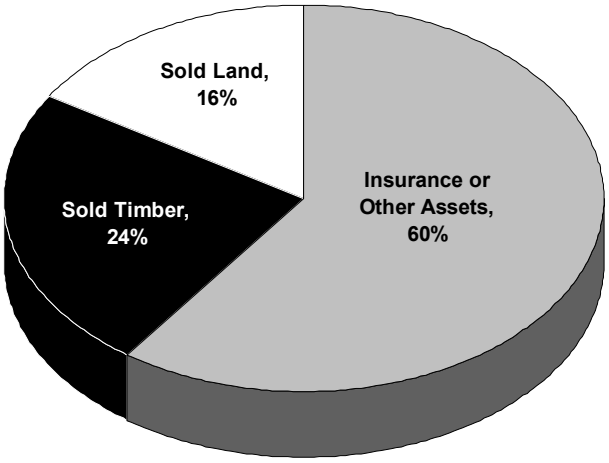
According to a study by the Southern Forest Resource Assessment:

- The estate tax forces landowners nationwide to sell 1.4 million acres per year and to harvest more than 2.6 million acres of timber.
- One-quarter of the acreage sold to pay the estate tax is developed for commercial or residential uses.

A 1998 survey of more than 1,300 Mississippi forest owners by the U.S. Forest Service and Mississippi State University found:

- About 14 percent of the respondents were involved in an estate tax transaction, with 12 percent of those reporting an estate valued at over $3 million.
- Some 35 percent of those who were involved in an estate transaction paid the estate tax in amounts ranging from $1.00 to more than $1,098,000.
- Around 67 percent of forest land sold in Mississippi was developed for commercial, residential and transportation uses.

Assets Used to Pay Estate Tax



Source: John Greene, et al., "Effect of the Federal Estate Tax on Rural Landholdings in the USA," in L.D. Teeter et al., eds., *Forest Policy for Private Forestry* (Cambridge, Mass.: CABI Publishing, 2002).

In a 2000 follow-up study, researchers involved in the state survey discovered that nationally about 33 percent of forest owners were subject to the estate tax. Of those who paid estate tax, 40 percent sold timber or land in order to make the payment. [See the Figure.]

The report also found that:

- Some 67 percent of those who sold timber had no other assets available to pay the estate tax.
- About 57 percent of those who sold land had no other assets available to pay the estate tax.

According to the Forest Landowners Tax Council (FLTC), most private, noncommercial forest owners conserve their land for such uses as recreation and wildlife habitat preservation. Indeed, while 49 percent of private forests are harvested, timber revenues are not the main source of income for most forest owners.

The FLTC estimates that half of today's private forest owners are over the age of 60. Many of them do not take advantage of professional estate planning

services because they lack knowledge concerning their need for estate planning and because of its cost. Since the tax must be paid within nine months after the landowner's death, families have little time to make wise decisions regarding their inheritance. This often leads to early and increased harvests and the subdivision of land for development. Forests will increasingly be sold for development as older landowners die and their heirs face the problem of paying the estate tax.

The Estate Tax's Impact on Small Business. The estate tax doubly impacts the heirs of small forest owners who are also in the timber business or a related industry, forcing family members to pay more in taxes than they reap in profits from the business. The average tree farm is valued at about $2 million, while the average annual household income of a tree farmer is less than $50,000. Many families who depend on their small businesses to earn a living worry about the future burden of the estate tax. For example, according to the Heritage Foundation:

- One North Carolina forest owner of a farming and lumber business that employs 70 people predicts his son, who makes approximately $31,000 annually, will owe about $1.5 million in taxes upon his death.
- Chester Thigpen, a middle-income Mississippi man who has spent his life building an 850-acre tree farm, worries his children will have to sell the farm upon his death in order to pay the estate tax.
- According to the *St. Petersburg Times*, Elwood Geiger (age 76), a third generation Florida forest owner, does not expect his daughter to enjoy his inheritance; with rising timberland prices in a rapidly growing state, he seems resigned to selling to a developer in order to avoid the estate tax.

In cases where families are able to retain their businesses, the estate tax causes unemployment — about 75 percent of families paying the tax lay off workers.

The Estate Tax and the Destruction of Wildlife Habitat. The Isaak Walton League and other environmental groups have called for major reforms or complete abolition of the estate tax due to the environmental damage it wreaks on wildlife habitats. Many species thrive in large tracts of contiguous forestland, so even small acreages sold to developers put them at risk. For example, according to the Heartland Institute, the endangered Florida panther needs as much as 450 square miles of land. A biologist with the Florida Game and Fresh Water Fish Commission concluded that "if death taxes were not assessed . . . thousands of privately owned acres of land would be protected from development."

Current Solutions – Too Little, Too Late. Lawmakers have made some progress in alleviating the burden of the estate tax on forest owners. Over time, the Economic Growth and Tax Relief Reconciliation Act of 2001 will raise the exemption of assets from $675,000 to $1,000,000 and reduce the top federal estate tax rate to 44 percent. However, increasing exemptions does little for those whose forest land is increasing rapidly in value. Special valuation and conservation easements may help reduce the taxable value of forest estates, but such provisions often prevent forest owners from harvesting their land for at least 10 years after the land is transferred, even for purposes of fire or insect damage. In addition, the long term effectiveness of these reforms is questionable. The estate tax will be eliminated entirely by 2010, but the Act "sunsets" in 2011, which means that the original tax will come back into full force unless lawmakers act to make the changes permanent.

Conclusion. The United States has one of the highest marginal estate tax rates in the developed world and despite recent reforms, the tax still costs families time, money and land. Permanent abolition of the tax would help families preserve forests, save wildlife and protect small businesses. It is time to bury the death tax.

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