

April 15, 2013

Rep. Kenny Marchant
Chair, Working Group on Debt, Equity and
Capital
Committee on Ways and Means
U.S. House of Representatives
1110 Longworth House Office Building
Washington, DC 20515

Rep. Jim McDermott
Vice Chair, Working Group on Debt, Equity
and Capital
Committee on Ways and Means
U.S. House of Representatives
1035 Longworth House Office Building
Washington, DC 20515

Rep. Jim Gerlach
Chair, Working Group on Manufacturing
Committee on Ways and Means
U.S. House of Representatives
2442 Rayburn House Office Building
Washington, DC 20515

Rep. Linda Sanchez
Vice Chair, Working Group on
Manufacturing
Committee on Ways and Means
U.S. House of Representatives
2423 Rayburn House Office Building
Washington, DC 20515

Dear Representatives Marchant, McDermott, Gerlach, and Sanchez:

In response to the invitation from the Committee on Ways and Means regarding the Tax Working Group process, we wish to express our views about the existing tax treatment of working forests across America. We appreciate this opportunity to provide input to the Committee and wish to highlight three provisions in the tax code that Congress has adopted to reflect the unique nature of the forest products industry which are critical to sustaining private ownership of forestland.

The undersigned organizations represent all facets of the forest products industry and have members that own forest land or operations in virtually every state of the Union. Even with that, we represent only a small subset of the estimated 11.3 million private forest owners. Private forest land, which constitutes more than 50% of forest land in the U.S., produces over 90% of the timber used to manufacture forest products.

Congress has long recognized that growing forests have unique economic attributes that do not necessarily match easily with general tax principles. It can take between 20 and 80 years before a forest stand is harvestable. This investment in forests ties up large amounts of capital in the land, but the forest owner must also bear substantial annual costs to maintain the forest (including fire prevention, road maintenance and pest control) to improve the growth and productivity of the trees. Additional costs are incurred for replanting after harvest as well as for environmental protections and set-asides for wetlands, protected species and other significant resources. Moreover, healthy forests provide significant societal value by consuming carbon dioxide, curtailing erosion, creating wildlife habitat, sourcing drinking water and maintaining natural open space for human recreation for which the forest owner receives little or no compensation.

In response, Congress has crafted specific provisions in the Internal Revenue Code to reflect this unique economic framework and challenge. These provisions allow all forest owners, whatever their size, to:

- Deduct the costs of forest management, including prevention measures (fire, pest and disease), thinning, fertilization, interest, taxes, protection of wetlands and endangered species, and forestry activities. (Sections 162 and 263A(c)(5));
- Receive capital gains treatment for the harvest of timber or sales of standing trees. (Sections 1231(b)(2) and 631(a)&(b)); and

- Deduct up to \$10,000 of reforestation costs per stand, with the remainder amortized over 7 years. (Section 194).

These timber tax provisions have provided long-term, stable returns for the many individuals who directly or through pension funds rely on their forestland investment for retirement and other needs. At the same time, these timber tax provisions have well-served the nation, consumers and manufacturers, forest owners and the environment. Overall, the forest products industry sustains over 2 million direct, indirect, and induced jobs nationwide. These provisions have worked so well that since the 1950's timber volume has increased by about 50% on approximately the same amount of forested acres. Two-thirds of that increase has occurred on private forestland.

As you examine various options for tax reform, we urge the Committee to consider, as Congress has long recognized, that timber is a long-term investment, decisions to invest in timber were made decades ago, and changing the tax treatment would significantly and negatively impact investments in working forests that contribute to economic growth and environmental quality.

Sincerely,

National Alliance of Forest Owners
Alabama Forestry Association
Allegheny Hardwood Utilization Group
American Farm Bureau Federation®
American Forest Foundation
American Loggers Council
Arkansas Forestry Association
Associated Logging Contractors of Idaho
Associated Oregon Loggers, Inc.
Association of Consulting Foresters
California Forestry Association
Empire State Forest Products Association
Family Forest Foundation
Florida Forestry Association
Forest Landowners Association
Forest Landowners Tax Council
Forest Resources Association
Georgia Forestry Association
Great Lakes Timber Professionals Assn.
Hardwood Federation
Idaho Forest Owners Association
Kentucky Forest Industries Association
Louisiana Forestry Association
Maine Forest Products Council
Michigan Forest Product Council
Minnesota Forest Industries
Minnesota Timber Producers Association
Mississippi Forestry Association

Missouri Forest Products Association
Montana Wood Products Association
National Association of Conservation Districts
National Association of State Foresters
National Woodland Owners Association
New Hampshire Timberland Owners Assn.
North Carolina Association of Professional Loggers
North Carolina Forestry Association
Ohio Forestry Association
Oklahoma Forestry Association
Oregon Forest Industries Council
Oregon Small Woodlands Association
Oregon Women in Timber
Pennsylvania Forest Products Association
South Carolina Forestry Association
Southeastern Lumber Manufacturers Assn.
Tennessee Forestry Association
Texas Forestry Association
Virginia Forest Products Association
Virginia Forestry Association
Washington Farm Forestry Association
Washington Forest Protection Association
Wisconsin Paper Council
Wisconsin Woodland Owners Association
West Virginia Forestry Association

Cc: Rep. Dave Camp, Chairman, House Ways and Means Committee
Cc: Rep. Sander Levin, Ranking Member, House Ways and Means Committee