



Statement for Record

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I'd like to take this opportunity to mention the critical role that private working forests play in our rural economies. Many rural communities are located in heavily forested states where the forest products sector suffered historic economic setbacks during the Great Recession. In these communities, forestry and forest products manufacturing have historically been a primary source of good paying jobs that provide lumber, paper, packaging, energy and more than 5,000 other economically valuable products.

Most working forests – over seventy percent nationally – are privately owned by families, small and large businesses, and an increasingly broad array of Americans who invest in forest ownership through pension and mutual funds. The economic importance of these forests is evident from the 2.4 million domestic jobs supported and \$280 billion in value generated across a supply chain that includes foresters, loggers, truckers, mill workers, equipment suppliers, service providers, and many others. An increase in global demand for forest products has corresponded with a 50% increase in overall tree volume domestically over the past 60 years – because markets for forest products provide an incentive to keep working forests as forests. In turn, increased volume in forest products has enabled the United States to meet much of our domestic demand for wood products.

Timber is an attractive investment opportunity featuring a non-volatile asset, a hedge against inflation, and access to significant long-term yield. Investments in forests provide unique built-in, biologic growth that is immune from market volatility. That is one reason why public and private pension funds maintain sizable investments in timberlands through timberland investment management organizations (TIMOs) and publicly traded timberland real estate investment trusts (REITs). Working forests are a part of most Americans' retirement portfolios.

The economic growth and opportunity fostered by private working forests is rooted in tax policies that recognize the unique, capital-intensive, long-term nature of timberland stewardship. These tax policies encourage sound management practices and investments that keep forestlands and the economy they support productive for generations to come. By ensuring tax reform recognizes the policies that make working forests strong, we secure a bright future for the rural families, individuals, and communities that rely on them.

Four provisions in the tax code help maintain the economic viability of private working forests.

- **Capital gains treatment of timber revenue.** Since 1943, the tax Code has recognized the need to treat proceeds from timber harvests and the sale of standing trees as capital gains in order to promote the economic and other public benefits of forest retention. Treating timber revenue as long-term capital gain helps provide a return on investment to compensate for long-term risk. It also promotes forest retention by reducing pressure to convert timberland to other uses that generate ordinary income more quickly with less risk.
- **Deduction for timber growing costs.** For more than 30 years, tax law has allowed forest landowners to deduct operating costs in the year that they are incurred, rather than capitalizing these costs. Allowing forest owners to deduct timber growing costs enables them to afford forest health treatments that reduce the risk of natural disturbance and makes road maintenance, research, protecting wetlands and wildlife habitat, and paying interest expenses and taxes, affordable through the long growing cycle. Forests are mostly uninsurable, requiring forest owners to bear, for long periods, the significant risk of destruction by fire, pests, disease and other natural disturbances.
- **Treatment of timberland as real property for purposes of the real estate investment trust (REIT) rules.** The principle of treating timberland as real property – which underlies the REIT structure, a common ownership form chosen by many current forest owners and investors – reflects the significant long-term capital investment made by forest owners to produce marketable trees that take 25 to 80 years to mature. Trees are different from inventory, because they are held for decades rather than days or months, and they appreciate rather than depreciate in value.
- **Deduction and amortization of reforestation costs.** The Code allows forest owners to deduct up to \$10,000 of reforestation costs per stand as they are incurred and amortize the remaining costs over 7 years. The separate deduction for tree planting recognizes the need for long-term investment in forest management and encourages the economic and public benefits from retaining land in forests.

We urge Congress to recognize the long-term capital investments and risks associated with forest ownership and management by ensuring the federal tax code continues to encourage long-term investment in private forests. Provisions that ensure the continued capital gains treatment of timber revenue, the deductibility of timber growing and reforestation costs, and the treatment of timberland as real property are critical to the health of working forests and rural communities.