

# Woodland Owner Notes

## Financial Incentives for Forest Management

*Managing your forestland can be an excellent long-term investment. Over the years, income from managed timber stands has exceeded that from most other crops in terms of value added per acre per year. Even managed pre-salable timber stands have increased the property value of forestland substantially over bare or unmanaged, cutover woodland. Annual returns from 0 to 40 percent are possible from forest management. The range of returns is wide because of variations in soil productivity, stand condition, tree species, markets (both availability and price fluctuations), intensity of management, and availability of financial incentives.*

Both federal and state governments offer financial incentive programs for woodlot owners. Several of these programs provide cost-sharing payments that reimburse landowners for timber management activities. Other programs provide tax incentives, tax credits, and deductions for reforestation expenses.

### COST-SHARING PAYMENTS

**The North Carolina Forest Development Program (FDP)** is a reforestation cost-sharing program administered by the North Carolina Division of Forest Resources. Under FDP, a landowner is partially reimbursed for the costs of site preparation, seedling purchases, tree planting, release of desirable seedlings from competing vegetation, or any other work needed to establish a new forest. To qualify for this assistance, the landowner must have a forest management plan approved by the division before any work is started.

FDP currently reimburses up to 40 percent of the actual cost per acre or 40 percent of the prevailing rate for management practices in the region, whichever is less. FDP cost-share rates increase to 60 percent for the planting of longleaf pine, hardwood, or wetland species. Any private individual, group, association, or corporation may qualify on as little as one acre up to a maximum of 100 acres per year. Landowners may sign up by contacting the nearest North Carolina Division of Forest Resources office.

**The Forest Land Enhancement Program (FLEP)** is a federally funded, cost-sharing program administered by the North Carolina Division of Forest Resources. FLEP provides technical, educational, and cost-share assistance to promote sustainability of nonindustrial, private forestlands. In North Carolina, FLEP reimburses from 40 percent to 60 percent of the cost of specific forestry practices and wildlife habitat improvement practices.

Distributed in furtherance of the acts of Congress of May 8 and June 30, 1914. North Carolina State University and North Carolina A&T State University commit themselves to positive action to secure equal opportunity regardless of race, color, creed, national origin, religion, sex, age, or disability. In addition, the two Universities welcome all persons without regard to sexual orientation. North Carolina State University, North Carolina A&T State University, U.S. Department of Agriculture, and local governments cooperating.

It is unique when compared to most other forestry cost-share programs because it emphasizes practices that will improve the condition of an existing forest stand. Such practices can include precommercial thinning, prescribed burning, seeding and mulching for erosion control, tree planting, and release of seedlings from vegetative competition. Any individual is eligible to participate who owns at least five acres of forestland and is not principally engaged in the process of producing wood products or engaged in hunting operations that charge fees. The North Carolina Division of Forest Resources bases cost sharing on approval of a forest management plan that explains the need for the proposed practices. Any landowner who participates in cost sharing may receive a maximum of \$10,000 annually under FLEP. For more information or to sign up, contact the nearest North Carolina Division of Forest Resources office.

To learn more about FDP, FLEP, or other cost-sharing programs administered by the N.C. Division of Forest Resources, contact the county forest ranger or visit [www.dfr.state.nc.us](http://www.dfr.state.nc.us).

**The Conservation Reserve Program (CRP)** protects millions of acres of highly erodible, marginal cropland from erosion and is designed to safeguard the nation's natural resources. Landowners participating in CRP will retire cropland to produce permanent wildlife habitat or to grow trees, permanent introduced grasses and legumes, permanent native grasses and legumes, or combinations of permanent covers.

The Farm Service Agency (FSA) will reimburse participating landowners up to 50 percent of the cost of establishing permanent covers and will pay an annual rental fee over a 10- to 15-year period. Retired acreage may not be grazed, harvested, or used in any commercial manner other than for hunting leases during the 10-year period. Landowners may sign up for the program during open enrollment periods at the county FSA office. For more information, contact the local FSA office: [www.fsa.usda.gov/nc/](http://www.fsa.usda.gov/nc/).

**The North Carolina Agriculture Cost-Sharing Program (ACP)** is intended to reduce runoff of sediment, nutrients, animal wastes, and pesticides into the state's surface waters. The program offers cost sharing for conversion of fields and pastures into permanent cover including trees, wildlife cover, or both. Participating

land owners are reimbursed up to 75 percent of the average cost of the control practices used. The local Soil and Water Conservation District Office administers the program. Check with that office or the Natural Resources Conservation Service (NRCS), North Carolina Forest Service, or county Cooperative Extension Service Center for information on the availability of funds in your county.

### TAX CREDITS AND DEDUCTIONS

**Reforestation Tax Credit and Amortization Deduction.** Landowners can immediately deduct up to \$10,000 of qualifying reforestation expenses annually per qualified property in the year incurred when reporting federal income taxes. The cost of site preparation, seedlings or seeds, planting, tools, and depreciation on equipment may be included. Cost-sharing funds may be included if reported as income.

In addition, landowners can deduct (amortize) all reforestation expenses incurred in any one year that cannot be expensed, without limit to the amount. These expenses can be deducted from gross income that comes from other sources over an 84-month period.

**Excluding Cost-Sharing Payments from Income.** Federal and North Carolina tax laws allow a landowner to partially or totally exclude cost-sharing payments received under certain programs from taxable income. Check with a tax advisor to see which programs are available. Most people will gain maximum tax advantage, however, by including the payments as income and reporting any unreimbursed expenses that qualify for the investment credit and amortization deductions discussed in the previous section.

**Annual Deductions.** Part or all of the management expenses incurred each year may be deductible, even if no timber income is received in that tax year. The Tax Reform Act of 1986 instituted passive loss rules that dictate how a forest landowner may deduct expenses. Three classes of ownership, based on extent of participation in management of the property, are defined:

1. Material participants in a trade or business. In this class, all management expenses and business interests are fully deductible from income from any source.

2. Materially participating investor. Property taxes are fully deductible, interest on indebtedness related to the timber is deductible only up to the amount of investment income from all sources, and all other management expenses are deductible as miscellaneous itemized deductions.
3. Passive participants in a trade, business, or investment. Management expenses can be deducted only up to the amount of passive income from all sources.

Material participation requires active, regular, continuous, and substantial involvement. Accurate records and consultation with a tax expert are recommended because final IRS rules defining material participation have not yet been issued.

In addition, most management expenses not claimed annually may be capitalized and recovered in future years when the timber is sold.

**Long-Term Capital Gains.** Income from the sale of timber owned for more than 12 months should qualify as long-term capital gains for federal tax purposes. An individual may wish to report timber income as long-term capital gains for several reasons:

1. Capital gains may be used to offset capital losses. Only \$3,000 of ordinary income may be offset by capital losses each year. A landowner with large capital losses may use capital gains to offset those losses in that tax year.
2. Landowners who are self-employed must pay self-employment taxes. Capital gains are exempt from self-employment taxes.
3. Capital gains from involuntary cutting, if put back into timber management within a certain time, are not recognized as taxable income and taxes are deferred.
4. The maximum long-term capital gains tax rate is 15 percent.
5. North Carolina income tax law does not recognize long-term capital gains income and, therefore, all income is ordinary.

For more information on tax credits and deductions, visit [www.timbertax.org](http://www.timbertax.org).

## FORESTRY PRESENT-USE VALUATION

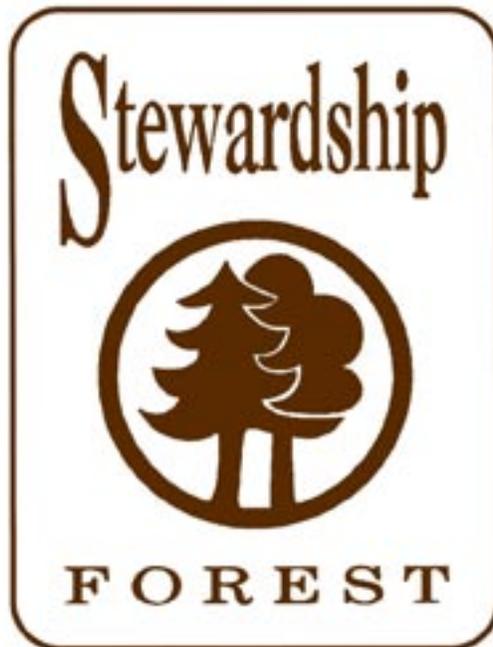
### *Property Tax Relief*

Qualifying North Carolina forest landowners can receive, upon approval of their application, property tax relief for managed timberland. The land must be:

1. Individually owned, including ownership by certain types of corporations.
2. In compliance with a written, sound forest management plan for the production and sale of forest products.
3. Within a parcel of land in actual timber production of at least 20 acres not included in a farm unit.
4. The owner's residence. In addition, the land must be owned by the present owner for four years preceding January 1 of the year in which application for special assessment is made. If the land is currently under present-use valuation in which the deferred taxes remain a lien on the land, the new owner becomes liable for the deferred taxes, and the deferred taxes become payable if the land fails to meet any other condition or requirement for classification. The county tax supervisor accepts applications during the regular listing period. The amount of tax relief varies widely from county to county. Contact your county tax assessor for prevailing forestry present-use rates.

## FURTHER INFORMATION

This publication provides an introduction to the various financial incentives available to woodlot owners. For additional information, contact your local county Cooperative Extension Center, a qualified tax expert, the Internal Revenue Service, a consulting forester, or a representative of the North Carolina Division of Forest Resources.



---

*Prepared by*  
*Robert E. Bardon, Extension Forestry Specialist*  
*Rick A. Hamilton, Extension Forestry Specialist*

*3,000 copies of this public document were printed at a cost of \$598.40, or \$0.19 per copy.*

Published by  
**NORTH CAROLINA COOPERATIVE EXTENSION SERVICE**