

Timber Income Tax

Chapter 15

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State Income Taxes

Chapter 15

Overview

- State tax departments have an incentive to cooperate with the IRS – they share information and piggy back on federal returns
- State tax departments who track Federal rules may find up to 90% of amounts on federal returns that are omitted on state returns
- Most States have limited resources for audit and tax compliance, and most have constitutional provisions for a balanced budget
- See p 15.1

Income Taxes in the South

Journal of Forestry: 97(4)10-15

- Deductions for federal income taxes, tax rate-schedule interaction, standard deductions and exemptions were most important for determining state income tax
- At 8 percent, LEVs ranged 19% to 79% below potential with good tax management as capital gains, expenses, depletion, ITC and reforestation, are omitted
- See also FLA update of southern provisions
- See p 15.1

State Income Taxes in the United States

- State income taxes increase the total tax levy on timber sale incomes
- Major changes in State taxes occurred following the 1986 Tax Reform Act
- Nathan Smith updated State tax provisions and impact on forestry for the Northeast and Midwest, West, and South for the SAF regional journals
- See p 15.1

Investment Analysis

- Maximum effective long-term capital gains rates ranged from 3.92% to 8.25%
- As these rates are adjusted they are added to the Federal rate to get a Federal-state effective rate for after-tax returns
- Rates after adjustment are sufficient to affect competitive investment returns.
- See p 15.2

Wrap-up and Summary

- Timberland can be an excellent investment no matter what the purpose of ownership
- A sound understanding of business and tax principles is essential for best results
- Accounting records are necessary to supplement our memory (recall becomes slower with time) and supply pertinent details

Wrap-up (Continued)

- There is no substitute of good advisors – forester, accountant and attorney
- Market information is a critical element
 - Specifications are always in flux
 - Price trends e.g., Timber Mart-South
- Science is changing
 - Genetics and tree improvement
 - Chemicals for vegetative control and nutrition

Wrap-up (continued)

- Appreciation of the forest dynamics
 - Beauty and growth
 - Wildlife
 - Vegetative cover
 - Always something new to behold
 - A source of joy with wonders of nature