

# Financial Considerations for Forest Landowners

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# Disclaimer

- The information presented here is for educational purposes only.
- This is not intended to be legal or accounting advice.

# Estate Conservation

- Manage assets during your lifetime
- Distribute assets upon your death

# Benefits of Estate Conservation

- Organize assets to meet objectives and manage risk
- Streamline tax reporting
- Select who will receive your assets
- Determine distribution of estate
- Reduce settlement costs
- Choose guardian for any minor children
- Provide liquid capital

# Challenges to Estate Conservation

- **Complex Assets**
- Family Discord
- Lack of Planning
- Long Term Care
- Taxes

# Assets – Consider All of Them

- Forest land and other real estate holdings
- 401ks and IRAs
- Investment accounts
- Annuities
- Insurance policies
- Pensions
- Businesses
- Collectibles

# Record Keeping

- Management plans, maps, receipts, invoices, contracts
- Keep tax returns indefinitely
- Keep records to support current deductions for 6 years
- Keep records for capital accounts for 6 years beyond ownership

# Form T – Timber Activities Schedule

- Acquisition
- Timber Depletion
- Profit or Loss from Land or Timber Sale
- Reforestation and Timber Stand Activities
- Ownership

# Cost Basis – What Is This?

- The original value of an asset (usually purchase price)
- Used to determine capital gain for tax purposes
- Capital Gain = difference between cost basis and current market value

# Cost Basis – Why Is This Important?

- Will reduce timber sale proceeds, which reduces the amount of taxable gain
- If the property is sold, cost basis will determine the change in total value
- Will help determine loss for a timber casualty claim

# Forest Accounts

- Land
- Timber
- Equipment and Buildings

# Timber Account

- Merchantable Timber – measured in MBF or cords
- Young Growth – volumes in acres
- Reforestation – record costs of natural and artificial regeneration
- Reforestation Amortization – record annual amount

# Timber Basis Example

NR Oak Sawtimber	100 MBF	\$51,000
Cherry Sawtimber	50 MBF	\$31,000
Hardwood Pulpwood	1000 tons	\$ 5,777
Pine Pulpwood	1500 tons	\$10,665
Total		\$98,442

# Reforestation Expenses

Direct costs to establish or re-establish a stand of timber

Hired labor

Site preparation

Seedlings

Competition control

# Reforestation Expenses Deduction

- The first \$10,000 of reforestation expense may be deducted in the first year. (Married filing joint)
- Additional expenses may be amortized over the next 84 months.

# Reforestation Deduction Example

- Total Cost of Reforestation = \$21,000
- Initial Deduction - \$10,000
- Amortization

$$\text{Year 1} = \$21,000 - \$10,000 = \$11,000/14 = \$787$$

$$\text{Years 2-7} = \$21,000 - \$10,000 = \$11,000/7 = \$1,571$$

$$\text{Year 8} = \$21,000 - \$10,000 = \$11,000/14 = \$787$$

# Challenges to Estate Conservation

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# Family Conversations

- Pick the right time
- Be clear about your intentions
- Emphasize the benefits
- Engage in conversation
- Develop a common understanding

  

- Allow family to take advantage of best financial strategies
- Dividing assets fairly may not mean equally

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# Estate Documents

- Will
- Power of attorney – legal and financial matters
- Durable power of attorney – if disabled or incapacitated
- Medical durable power of attorney – medical treatment
- Living will – medical procedures you will allow in event of debilitating illness

# Beneficiary Review

- Is beneficiary form current?
- Primary beneficiaries?
- Contingent beneficiaries?
- If multiple beneficiaries, is each beneficiary's share clearly stated?
- Do the shares total 100%?
- Do all relevant parties have copies of beneficiary forms?

# Challenges to Estate Conservation

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# Misconceptions About Long Term Care

- It will never happen to me

# Long Term Care

35% of people 65 and over think they will need long term care.

70% of those turning 65 this year actually will require it.

# Women and Long Term Care

- Women live, on average, 5-6 years longer than men.
- Older women are more likely to live alone.  
The average age of widowhood in the US is 55.
- Older women often need more assistance with activities of daily living (ADLs).
- Older women tend to have fewer financial assets.

# Misconceptions About Long Term Care

- It will never happen to me
- My health insurance (SS/Medicare) will cover it

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# Rising Costs of Long Term Care

Years	Home Care	Facility Care
Current	\$175	\$285
5	203	330
10	235	383
15	273	440
20	316	515
25	366	597
30	425	692

Daily cost of care, assuming 3% rate of inflation annually

# Misconceptions About Long Term Care

- It will never happen to me
- My health insurance (SS/Medicare) will cover it
- It can't be that expensive
- **My family will take care of me**

# Challenges to Estate Conservation

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- Lack of Planning
- Long Term Care
- **Taxes**

# Federal Estate Taxes

- 2011 - \$5,000,000 exemption – 35% tax on remainder
- 2012 - \$5,120,000 exemption – 35% tax on remainder
- TRA 2010 expires on December 31, 2012  
Rates revert to 2001 levels  
2013 - \$1,000,000 exemption – 55% tax on remainder
- 2013 - \$5,250,000 exemption – 40% tax on remainder
- 2014 - \$5,340,000 exemption – 40% tax on remainder
- 2015 - \$5,430,000 exemption – 40% tax on remainder
- 2016 - \$5,450,000 exemption – 40% tax on remainder
- 2017 - \$5,490,000 exemption – 40% tax on remainder

# State Death Taxes

- Estate Tax – based on value of deceased person's estate
- Inheritance Tax – based on who receives a deceased person's property and how the beneficiary is related

# Pennsylvania Inheritance Tax

- 0%      Surviving Spouse or Child 21 and under
- 4.5%      Direct Descendants
- 12%      Siblings
- 15%      Other Heirs (except charitable or exempt organizations)

# Act 85 – Agricultural Exemptions

- Agricultural commodities – includes Christmas trees
- Agricultural conservation easements
- Agricultural reserves – non-commercial open space lands for outdoor recreation open to the public
- Agricultural use property – producing agricultural commodities
- Forest reserves – 10 acres or more stocked by forest trees and capable of producing timber. Transfer to lineal descendants and siblings.

# Property Taxes

- Ad valorem tax – based on the value of the land and the value of the trees
- Flat tax – tax per acre regardless of timber value
- Yield tax – tax on the value of the harvested timber
- Severance Tax – flat tax on specific volume

# Property Taxes - Pennsylvania

- Current use tax based on productivity; not FMV
- PA Farmland and Forest Land Assessment Act
  - Clean and Green, Act 319
  - Encourage landowners to preserve ag and forest land
  - Requires ongoing forest use
  - Minimum - 10 acres
- Change in Land Use - penalty is roll back taxes for the last 6 years plus 6% interest

For More Information

[www.timbertax.org](http://www.timbertax.org)

# Conservation Easements

- Legal agreements that permanently limit uses of the land to protect conservation values
- Allow landowner to continue to own and use land
- May have current income tax benefits
- Removing development rights lowers market value of property and reduces estate tax impacts

# Conservation Easements

If an easement is donated:

- Deduct appraised value of the easement if value does not exceed 50% of adjusted gross income (AGI) in the year of the gift
- Excess balance of easement may be deducted over 15 years subject to 50% limitation

# The Forest Estate Plan

- Forest management or stewardship plan
  - Activity records
  - Appraisal and tax records
- Long term goals
- Other legal and financial documents
- Conduct a family meeting
- Select and meet with Succession Planning Team
- Identify a successor
- Create a family business entity

# Review Your Estate Plan

- Every 1-2 years
- Change in the law
- Life changes
  - Marriage
  - Retirement
  - Move to another state
  - Change in family members
  - Buy or sell a business
  - Changes in financial status

# Action Steps

- Determine your long term goals for your forest
- Meet with your family to discuss goals
- Consider whether your plans align with interests of your heirs
- Develop options for Forest Succession Plan
- Create Succession Planning Team

# The Succession Planning Team



# Action Steps

- Organize all financial documents
- Conduct an insurance review – update where needed
- Review beneficiary statements and ensure they are current
- Establish Powers of Attorney
- Develop estate plan or review/update existing plan
- Keep your Succession Planning Team informed

# Questions?

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