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Information on Timber Harvesting, Planting,  
Federal Assistance Programs, and Tax Provisions

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Before the  
Committee on Ways and Means  
House of Representatives



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Mr. Chairman and Members of the Committee:

We are pleased to present information on timber harvesting and planting, federal timber assistance programs, and federal tax provisions that affect the industry. Our testimony is based on information we obtained from the Department of Agriculture and the Internal Revenue Code in response to a request from Representative Sander Levin. Because of the short time frame available to respond, we did not verify the information nor evaluate the effects of Agriculture's assistance programs or tax provisions on the timber industry.

We were specifically asked to identify (1) timber harvesting, planting, and seeding levels from 1986-88, (2) available federal timber assistance programs and their costs over this period, (3) federal income tax provisions which apply to the timber industry, and (4) projections of future timber harvesting and employment both nationally and regionally over the next 50 years.

In summary we found:

-- Timber harvesting increased 4 percent from 1986 to 1988. Tree planting and seeding increased 23 percent over this same period. Both of these increases represent a continuation of generally steady upward trends dating back over several decades.

- About 90 percent of the increase in national tree planting and seeding came from increases in the number of trees planted under three Department of Agriculture programs which expanded rapidly over the period.
  
- Various tax code provisions affect the industry's calculation of taxable income. The Joint Committee on Taxation recently estimated that two such provisions reduce federal revenues by \$460 million annually.
  
- The Forest Service projects that timber harvesting nationally will increase by more than one-half over the next 50 years, from nearly 18 billion cubic feet to over 27 billion cubic feet. Over the same period, it projects that industry employment will drop by about one-fourth because of increased labor productivity. However, these changes are expected to vary considerably by region.

Before elaborating on these points, I would like to point out that a description of the scope and methodology of our work is contained in an appendix to this statement. Also, I would like to briefly provide some background on the timber industry.

## BACKGROUND

The latest data available from the Forest Service indicate that in 1986, timber was the nation's number one agricultural crop, comprising about one-fourth of the total value of all major agricultural crops. Timber also ranked in the top three manufacturing industries in most regions of the country, especially in the southern and Pacific coastal states.

There are three types of forest landowners: Private farmers and other small woodland owners; the forest products industry; and public agencies. In 1986, about 50 percent of the nation's annual timber harvest, by volume, came from private farmers and other small individual woodland owners who comprise the predominant forestland ownership group in the eastern United States. Lands owned by forest products firms themselves, located in all timber-producing areas of the nation, produced about 30 percent of the harvest. National forests and other public holdings, located principally in the western United States, supplied the remaining 20 percent.

## TIMBER HARVESTING AND PLANTING, 1986-88

According to data from the Forest Service, timber harvesting nationally increased 4 percent from 1986 to 1988, going from slightly less than 17 billion cubic feet to about 17.7 billion

cubic feet. Planting and seeding increased by 23 percent over this period, going from about 2.8 million acres to about 3.4 million acres. These increases reflected a continuation of generally steady upward trends for harvesting and planting which date back several decades.

#### TIMBER PLANTING ASSISTANCE PROGRAMS AND THEIR COSTS

USDA's Agricultural Stabilization and Conservation Service (ASCS), in coordination with the Forest Service and State Foresters, administers three major timber planting assistance programs. These programs are:

- (1) Agricultural Conservation Program (ACP), which is an environmental conservation program under which ASCS makes payments to owners of small woodland tracts to conserve water, reduce erosion, improve wildlife habitat, and develop timber resources;
- (2) Forestry Incentives Program (FIP), which is designed to enhance timber generation on promising land through ASCS cost-sharing payments to private landowners for tree planting; and
- (3) Conservation Reserve Program (CRP), which is an acreage reduction program designed to encourage conversion of

more erodible cropland to vegetative cover, including merchantable timber, for 10 years through ASCS land rental and cost-sharing payments to farm owners.

Large increases in trees planted or seeded under these three programs comprised 90 percent of the increase in total tree planting and seeding that occurred between 1986 and 1988.

Funding for these programs increased by an average of 60 percent for 1987-88 versus 1986, going from about \$24 million annually to an average of about \$38 million. The largest funding increase was in the Conservation Reserve Program.

As a result, these programs' share of the nation's planting and seeding increased from about one-sixth of the total in 1986 to an average of over one-fourth of the total during 1987 and 1988. According to the Forest Service and ASCS, the Conservation Reserve Program will be the largest publicly sponsored tree-planting program thus far in the nation's history.

#### INCOME TAX PROVISIONS AFFECTING THE TIMBER INDUSTRY

Income from timber sales is now taxed at ordinary income tax rates, a maximum effective rate of 28 percent for individuals and 34 percent for corporations. Timber growers may elect to

(1) recognize income when trees are cut rather than upon the sale of the timber and (2) report income on a cash or accrual basis.

Two special rules apply to reforestation expenses. One allows for amortizing up to \$10,000 of reforestation expenses annually over an 84-month period. The other provides a 10-percent investment tax credit for reforestation expenditures.

Indirect timber production expenses are exempt from uniform cost capitalization rules that require a broad range of costs to be capitalized, or added to the basis of goods sold, rather than currently deducted. As a result, most indirect costs incurred after establishing a stand of trees are deductible currently in a fashion similar to maintenance expenses. Finally, certain publicly traded partnerships with significant income from timber sales are exempted from corporate tax treatment.

Other general tax code provisions affecting all industries, including the timber industry, limit the deductibility of losses from nonactively managed timber stands and specify depreciation write-off periods for capital assets such as equipment and structures.

The Joint Committee on Taxation has, at various times, estimated the impacts on federal revenues of some, but not all, of these provisions. Last year, it estimated that the amortization of

reforestation expenses and the related investment tax credit would reduce federal revenues by \$400 million for the 5-year period from 1990 through 1994. Allowing the deduction of timber growing expenses after establishing a stand of trees rather than capitalizing them was estimated to reduce federal revenues by \$1.9 billion over this same period. Accordingly, these two provisions reduce federal revenues by \$460 million per year.

#### PROJECTED FUTURE TIMBER HARVESTING AND INDUSTRY EMPLOYMENT

The Forest Service has projected that timber harvesting nationally will increase 55 percent over the next 50 years, from less than 18 billion cubic feet annually in 1988 to more than 27 billion cubic feet in the year 2040. However, shifts are expected in different regions' rankings as producers, due to relative timber supply declines in some areas. In particular, the North is expected to surpass the Pacific coastal region as the nation's second-ranking production region over this period.

Although harvests are projected to increase substantially over the next half century, the Forest Service has projected that timber industry employment will likely decline about 27 percent over this period. This is because of labor productivity gains due to mill renovations. However, this is expected to vary by region. The sharpest regional employment decline, about 36 percent, is expected to take place in the southern states.



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In summary, Mr. Chairman, national timber harvesting and planting from 1986-88 continued their generally steady upward trend of the previous several decades. Much of the recent increase in planting can be linked to rapid expansion in USDA financial assistance programs which currently are costing about \$38 million annually. We did not evaluate whether any relationship exists between changes in harvesting or planting levels and tax provisions which affect the industry.

This concludes my statement, Mr. Chairman. I will be happy to answer any questions you or the other members may have.

SCOPE AND METHODOLOGY

We obtained information in December and January from the Forest Service and the Agricultural Stabilization and Conservation Service (ASCS) in the Department of Agriculture. Because of the short time frame for our work, we did not independently verify the information provided by these agencies. The projections of future harvesting and employment were obtained from a draft Forest Service report. Also, we did not assess the accuracy or reasonableness of the Forest Service's mathematical model on which it bases these estimates. We discussed our findings with the Forest Service and ASCS, who said they were fair and accurate. The information we obtained is the latest available and generally covers the years 1986-88. In some instances, there may be slight discrepancies between these data and previously published data because of minor adjustments due to subsequent reestimation. Information on tax provisions was largely extracted from a review of the Internal Revenue Code. We did not evaluate effects of tax provisions or assistance programs on the timber industry.