

TAPPING INTO FOREST MANAGEMENT ASSISTANCE PROGRAMS

John L. Greene and Terry K. Haines

ABSTRACT: Use of federal and state forest management assistance programs can enable nonindustrial private forest owners to reduce their management expenses and practice better stewardship. This paper summarizes six federal and twelve state assistance programs available to owners in the North Central states. It also describes how to calculate the amount of a government conservation cost-share payment that can be excluded from the recipient's gross income for federal income tax purposes.

INTRODUCTION

Use of federal and state forest management assistance programs can enable nonindustrial private forest (NIPF) owners to reduce their forest management expenses, increasing their financial return and permitting them to practice better stewardship of their land. This paper summarizes the federal and state assistance programs available to owners in the eight North Central states: Illinois, Indiana, Iowa, Michigan, Missouri, Minnesota, Ohio, and Wisconsin. It also describes how to determine the amount of a government cost-share payment that can be excluded from the recipient's gross income.

FOREST MANAGEMENT ASSISTANCE PROGRAMS

Federal Programs

Forestry Incentive Program (FIP). FIP was established by the Cooperative Forestry Assistance Act of 1978 to encourage timber production and the use of good forest management practices on NIPF lands. It provides cost-share assistance for practices associated with tree planting, timber stand improvement, and site preparation for natural regeneration. To qualify, land must be suitable for afforestation, reforestation, or improved forest management and be located in a county identified by the USDA Forest Service (USFS) as suitable for producing timber products. Participants generally must own between 10 and 1,000 acres of eligible land (exceptions for up to 5,000 acres can be authorized) and cannot be primarily engaged in manufacturing forest products or providing public utility services.

State forestry agencies have the lead role in implementing FIP. The state agency helps participants develop a forest management plan and, if necessary, helps them find vendors to perform practices called for in the plan. Some agencies have arranged for some or all management plan development work to be done by consulting foresters. The agency also must certify that practices are satisfactorily completed before cost-share payments can be made. Cost-share payments are limited to \$10,000 per participant per year and are not to exceed 65 percent of the cost of practices performed.

FIP is administered by the USFS and Natural Resources Conservation Service (NRCS), in cooperation with the State Foresters. Fiscal year (FY) 1997 funding was \$6.3 million, nationwide.

Contact your USDA Service Center, Cooperative Extension office, or state forestry office to participate.

Conservation Reserve Program (CRP). CRP was established by the 1985 Food Security Act to convert highly erodible cropland or other environmentally sensitive land to protective vegetative cover. It provides cost-share assistance to establish long-term resource-conserving cover, land rental payments under a 10- to 15-year contract, and incentive payments to encourage wetland restoration or use of continuous sign-up provisions. To qualify for CRP, land must be cropland that is defined as erodible or associated with non-cropped wetlands or marginal pasture land that is suitable for use as a riparian buffer. Applicants generally must have owned or operated the land for at least 12 months. A new owner must have inherited the land, acquired it as the result of a foreclosure, or be able to demonstrate that it was not acquired for the purpose of placing it in CRP.

Applicants offer bids for CRP contracts, which are ranked and selected according to the Environmental Benefits Index (EBI). The EBI rates the relative environmental benefits of land according to several factors, including wildlife habitat, water, and air quality benefits; on-farm benefits of reduced erosion; probable long-term benefits; and cost. Tree covers consistently rate at or near the top of the EBI scale. Cost-share payments are limited to 50 percent of the cost of practices performed, with an incentive of an additional 25 percent available for practices to restore wetlands. Land rental payments are based on the relative productivity of soils in the county, with an incentive of 10 to 20 percent available to encourage landowners who implement specific environmentally-related practices to take advantage of continuous sign-up provisions.

CRP is administered by the Farm Service Administration (FSA). FY 1997 funding was \$200 million for cost-shares, land rental payments, and incentives. Contact your USDA Service Center, Cooperative Extension office, or state forestry office to participate.

Stewardship Incentives Program (SIP). SIP was established by the 1990 Farm Bill to encourage use of multiple resource management on NIPF lands. It provides technical and cost-share assistance to implement practices called for in a Forest Stewardship Plan. To qualify for SIP, land must be rural and forested or suitable for growing trees. Participants can be any type of legal private entity—for example, an individual, group, association, corporation, or American Indian tribe. They generally must own no more than 1,000 acres of eligible land (exceptions for up to 5,000 acres can be authorized).

The state forestry agency helps participants develop a Forest Stewardship Plan. Participants agree to maintain their land as described in the Plan and to maintain and protect SIP-funded practices for at least 10 years. SIP cost-shares help pay for a variety of forest management activities, including development of the Forest Stewardship Plan; reforestation and afforestation; forest and agroforest improvement; establishment, maintenance, and improvement of hedgerows; protection and improvement of soil, water, riparian areas, or wetlands; and enhancement for fisheries habitat, wildlife habitat or recreation. Cost-share payments are limited to \$10,000 per participant per year and are not to exceed 75 percent of the cost of practices performed.

SIP is administered by the USFS in cooperation with the State Foresters. FY 1997 funding was \$6.5 million, nationwide. To participate, contact your state forestry office (your USDA Service Center or Cooperative Extension office also will know about this program).

Other programs. Three additional federal programs provide management assistance for which NIPF owners and other rural landowners can qualify: 1) Wetlands Reserve Program (WRP), 2) Environmental Quality Incentives Program (EQIP), and 3) Wildlife Habitat Incentive Program (WHIP). WRP uses a unique approach—federal purchase of permanent or long-term conservation easements with the USDA paying all or most of the restoration costs—or cost-share assistance to restore lost or degraded wetland habitat on private lands. EQIP combines and replaces four earlier federal assistance programs: Agricultural Conservation Program (ACP), Water Quality Incentives Program, Great Plains Conservation Program, and Colorado River Basin Salinity Control Program. It provides technical help and cost-share assistance under 5- to 10-year contracts to implement structural, vegetative and management practices called for in a site-specific conservation plan. EQIP also offers incentive payments for up to three years to encourage adoption of desired land management practices on qualifying farm and ranch land. WHIP provides technical and cost-share assistance under 5- to 10-year agreements to implement practices associated with wildlife habitat improvement on qualified private land not enrolled in another conservation program.

WRP and EQIP are administered by the NRCS in cooperation with FSA, and WHIP is administered by the NRCS. FY 1997 funding was \$76 million for WRP, \$200 million for EQIP, and approximately \$8 million for WHIP. Contact your USDA Service Center, Cooperative Extension office, or state forestry office to participate in any of these programs.

State Forestry Incentive Programs

Reduced funding for federal forest management assistance programs has stimulated initiation of programs in a number of North Central states. Between 1983 and 1998, seven incentive programs promoting forest development and stewardship were initiated in five states—Illinois, Missouri, Indiana, Wisconsin, and Minnesota. Each of the states has a program that provides cost-share payments to offset NIPF owners' expenditures for a wide range of silvicultural practices. In addition, Illinois has a program to provide seedlings to landowners free of charge and Minnesota has a program to encourage the culture of a particular species—eastern white pine.

The purposes of the state cost-share programs are similar. A composite of the stated purpose in the enabling legislation of each would read, "The purpose of this program is to improve forest management for environmental, social, and economic benefits and for timber production (Illinois); promote sustainable forestry (Wisconsin); provide a multi-resource approach for forest management (Missouri); encourage stewardship of private lands (Indiana); and provide supplemental funding to the federal SIP (Minnesota)." The programs are administered by the forestry agency in each state, on a first-come, first-served basis as funding permits.

Written management plans, which are required for all participating properties, are provided in three ways: 1) by state forestry agency resource personnel, free of charge, at the request of the landowner (as agency workload permits); 2) by consulting foresters with cost-share payments offsetting charges

to the landowner; or 3) through contracts established by the state forestry agency with consulting foresters, where the state pays the consultants directly at no charge to the landowner.

Illinois Forestry Development Act (IFDA). IFDA was enacted in 1983 and is funded by a 4 percent severance tax on harvested timber. FY 1999 funding was \$625,000. Eligible participants include: NIPF owners, corporate or industrial owners, private conservation groups, and municipalities owning a minimum of five acres. Timber production must be a primary management goal of the participant. IFDA provides: 1) 75 percent cost-share payments for management plan development, site preparation, tree planting, timber stand improvement (TSI), and other silvicultural practices; 2) a 50 percent rebate of the state harvest fee assessment if the funds are applied to practices covered in the management plan; and 3) a reduced property tax assessment. The program permits concurrent payments from state and federal incentive programs. In 1997, 9,000 acres of tree planting and 4,500 acres of TSI were accomplished under IDFA; between 1985 and 1997, 5,200 management plans were written for 250,000 acres.

Illinois Trees, Shrubs, and Seedlings at No Cost Program. This program was enacted in 1992, to provide planting stock at no cost to landowners. The program is funded using general state appropriations. Projects associated with the federal CRP program have priority. Between 4.0 and 4.5 million seedlings are distributed annually under the program.

Missouri Stewardship Incentive Program. The Missouri Stewardship Incentive Program was enacted in 1993 and is administered as one program with the federal SIP. The state provides funds to match federal SIP allotments for the state. State funding for 1997 was \$110,000. Only NIPF ownerships of 10 to 1,000 acres are eligible for enrollment. The program provides payments for up to 75 percent of the cost for management plan development; site preparation and tree planting; forest improvement practices; agroforestry establishment; and practices for soil and water, wetlands, and fish and wildlife habitat protection.

Indiana Forest Stewardship Program (KIP). KIP was initiated in 1996 and is funded with 55 percent of the state's federal SIP allocation. FY 1996 funding was \$86,000. NIPF and other nonindustrial private ownerships with 10 or more contiguous acres capable of growing trees are eligible for the program. KIP provides a 50 percent cost-share for site preparation; tree planting; TSI; windbreak establishment; practices for the protection of soil, water, wetlands, and riparian areas; and wildlife habitat improvement. In 1997, 329 acres of trees were planted and 4,156 acres of TSI were accomplished under KIP.

Minnesota Forestry Association Program (MFAP). MFAP was enacted in 1997. A unique feature of the program encourages state agency foresters to solicit private donations which are then matched with state funds. \$50,000 in private donations are anticipated in 1999. Additionally, MFAP is slated to receive \$700,000 from cigarette tax revenues and general state funds for FY 1999 through 2001. One-half of the funds from general appropriations is dedicated to the development of management plans. Eligibility is limited to NIPF owners and payments are limited to \$10,000 per owner per year. A 50 percent cost-share is available for site preparation, tree planting, implementing state forestry Best Management Practices, and wildlife and fish habitat improvement projects. The

program administrator anticipates that between 1997 and 1999 practices will be implemented on 8,500 acres through MFAP.

Minnesota White Pine Restoration Fund. This fund was initiated in 1998 to provide an incentive for the planting and care of eastern white pine on NIPF and state forest lands. For FY 1999 through 2001, general state appropriations will provide \$120,000 for planting and timber stand improvement—\$50,000 for NIPF lands and \$70,000 for state lands. The program is available only in designated counties and requires a minimum purchase of 500 seedlings.

Wisconsin Landowner Grant Program. Enacted in 1997, the Wisconsin Landowner Grant Program is funded with revenues from the state's forestry mill tax. The FY 1999 allocation is \$1.5 million. NIPF ownerships of 10 to 500 acres of contiguous forest land are eligible and payments are limited to \$10,000 per participant per year. Enrolled landowners are eligible for 65 percent cost-share payments for management plan development; site preparation; reforestation; practices for the protection of soil, water, wetlands and riparian areas; and habitat enhancement for wildlife and threatened and endangered species. The program administrator anticipates assisting 300 to 500 landowners each year.

State Conservation Incentive Programs

In addition to the forest management incentive programs just described, four North Central states offer programs that promote tree planting to convert marginal cropland or other erodible sites to permanent vegetative cover. Incentives include cost-share payments, payments for long-term easements, or both. These programs include: 1) the Iowa Resource Enhancement and Protection Program of 1989, 2) the Missouri Conservation Reserve Program Supplement of 1989, 3) the Missouri Agroforestry Program of 1993, 4) the Illinois Conservation Reserve Enhancement Program of 1998, and 5) the Minnesota Conservation Reserve Enhancement Program of 1998.

EXCLUDING COST-SHARE PAYMENTS FROM GROSS INCOME

Under Section 126 of the Internal Revenue Code, the recipient of a cost-share payment from a qualifying government conservation program can choose to exclude all or some of the payment from their gross income for federal income tax purposes. To be excludable, the payment must be made to help establish or reestablish trees on an area. Of the programs discussed in this paper, FIP, SIP, WRP, EQIP, WHIP, and the IFDA program have been approved for exclusion. Neither CRP lease or cost-share payments qualify for exclusion.

Determining the excludable amount is a four-step process:

- Step 1: Calculate 10 percent of the average annual income from the affected acres over the last three years.
- Step 2: Multiply \$2.50 times the number of affected acres.
- Step 3: Calculate the present value of the right to receive annual income equal to the larger number from Steps 1 and 2. An accepted method is to divide the annual payment by an appropriate rate of interest. The **Forest Owners' Guide to the Federal Income Tax** (Siegel and others 1995) uses the mid-term Applicable Federal Rate, an interest rate published by the Internal

Revenue Service (the mid-term Applicable Federal Rate for December 1998 is 4.52 percent). Recipients will want to use the lowest rate they can justify, because the result of the calculation increases as the interest rate used decreases.

Step 4: Compare the number from Step 3 with the cost-share payment; the smaller of the two is the excludable amount.

EXAMPLE 1: Last year you harvested 40 acres and received \$84,500 for the timber. This was your only income from the property for many years. This year you reestablished trees on the 40 acres at a total cost of \$6,000 and received a \$3,900 FIP cost-share payment. How much of the FIP payment can you exclude from your federal gross income?

Step 1: $0.10 \times (\$84,500 / 3) = \$2,817$

Step 2: $\$2.50 \times 40 = \100

Step 3: \$2,817 from Step 1 is the larger number; $\$2,817 / 0.045 = \$62,600$

Step 4: \$62,600 is much larger than \$3,900; you can exclude the entire FIP payment.

EXAMPLE 2: Last year you converted 12 acres of streamside pasture to a filter strip by planting it to trees. The practice cost \$1,800 and you received a \$1,350 EQIP cost-share payment. The converted area contributed an average of \$280 per year to your livestock production income. How much of the EQIP payment can you exclude from your federal gross income?

Step 1: $0.10 \times \$280 = \28

Step 2: $\$2.50 \times 12 = \30

Step 3: \$30 from Step 2 is the larger number; $\$30 / 0.045 = \667

Step 4: \$667 is less than \$1,350; you can exclude \$667 of the EQIP payment.

The recipient of a cost-share payment from a government conservation program can expect to receive a Form 1099-G for the amount of the payment. To exclude any part of a payment from their Federal gross income the recipient must file a statement with their tax return showing the amount of the cost-share payment, the date they received it, the amount of the payment that qualifies for exclusion, how they calculated that amount, and the amount they choose to exclude. Any tax saved is subject to recapture if trees established using an excluded cost-share payment are disposed of within 20 years.

LITERATURE CITED

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THE AUTHORS

John L. Greene and Terry K. Haines are Research Foresters with the Forest Resource Law and Economics Research Unit, USDA Forest Service, Southern Research Station, New Orleans, LA 70113.