

COST-SHARING PROGRAMS AND TAXES FOR FOREST LANDOWNERS

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AGENDA

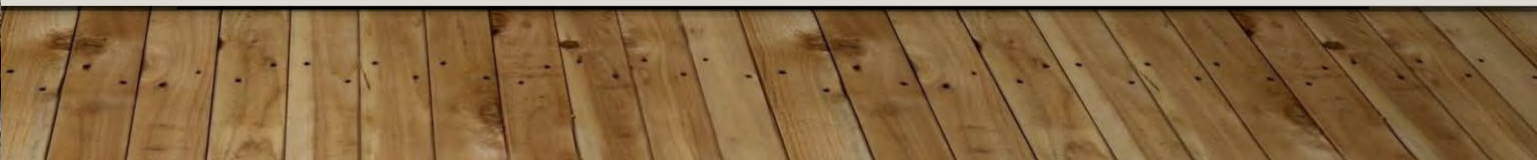
What is cost-share?

Federal Programs

Sign me up!

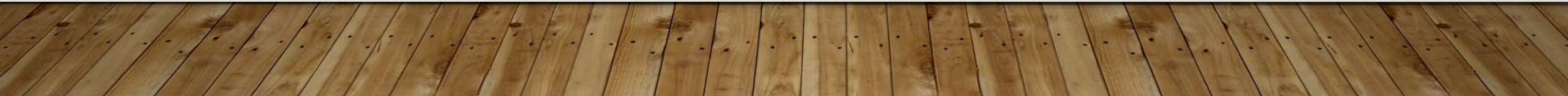
Funding

Tax Implications



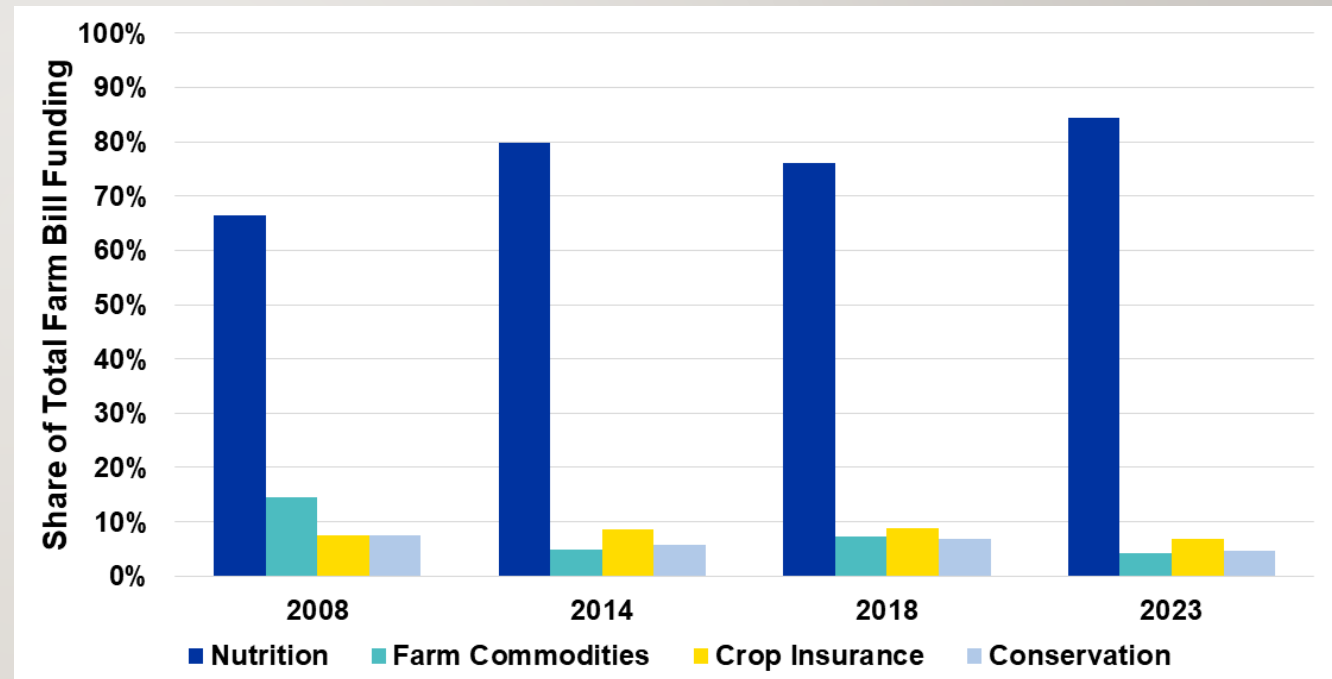
LANDOWNER ASSISTANCE

TECHNICAL AND FINANCIAL ASSISTANCE
PROVIDED BY A FORM OF GOVERNMENT AGENCY.



FEDERAL FINANCIAL ASSISTANCE: COST SHARE

- Authorized in the Farm Bill
- Since 1930s to help farm economy and to “protect and sustain America’s vital natural resources”
- Every 5 years
- Currently under 2018
- Under extension



FEDERAL COST SHARE PROGRAMS



CONSERVATION RESERVE
PROGRAM



ENVIRONMENTAL
QUALITY INCENTIVE
PROGRAM



CONSERVATION
STEWARDSHIP PROGRAM

CONSERVATION RESERVE PROGRAM

- Administered through FSA
- Yearly rental payment
- Removal environmentally sensitive land from production
- 10-15 years in length
- “re-establish valuable land cover to improve water quality, prevent soil erosion, & reduce loss of wildlife habitat”



ENVIRONMENTAL QUALITY INCENTIVES PROGRAM (EQIP)

- Administered through NRCS
- Assistance with development of conservation plan
- Solve on-farm resource issues
- Usually water, air, soil, wildlife related
- Financial assistance available
- Targeted programs include longleaf initiative, Northern bobwhite, Great Lakes Restoration, MS River Basin Healthy Watershed

CONSERVATION STEWARDSHIP PROGRAM



-
- Administered through NRCS
 - Technical assistance
 - Annual payments for implementation of conservation practices

HOW DO I GET COST SHARE?



HAVE A PLAN!

- Most programs require some form of management plan
- Visit with forester
- Discuss your objectives
- Cost?

STEWARDSHIP PLANNING WORKSHEET

Answering these questions will help record your goals and visions for your property. Your private forester and state Service Forester will use this information to insure that the management plan and recommendations accurately reflect your ideas. The resulting plan will help you learn about your property, achieve your goals, and become a better steward of the land.

Ownership

1. How many years have you or your family owned this property? _____
2. How many more years do you expect to own it? ___ 1 to 10 ___ 11 or more
3. Have you done any estate planning? ___ yes ___ no
4. What do you think you will eventually do with this property?
___ Will it as is to heirs ___ Divide among heirs ___ Sell for development
___ Protect some or all land from development ___ Don't know ___ Other _____
5. Are you interested in classifying the property under Chapter 61, 61A or 61B for tax purposes?
___ Yes ___ No ___ Already is ___ Don't know

The Land

1. Are you aware of any important natural or cultural features on your land? (Check all that apply)
___ Abandoned Fields ___ Apple Trees
___ Beaver Pond ___ Springs or Seeps
___ Brooks or Streams ___ Waterfalls
___ Forested Wetlands ___ Stone Walls
___ Rock Outcrops or Ledges ___ Old Foundations
___ Very Large or Unique Trees ___ Vernal Pools
___ Mowed Fields _____
2. Is your property posted against: Trespassing ___ Hunting ___ Fishing ___ Motorized vehic. ___
3. Are your property boundaries well marked? ___ Yes ___ No

Accomplishing Goals

1. How much of the management work do you plan on doing yourself?
___ None ___ Some of it ___ Most of it
2. How many days of free labor per year do you have (self, family, friends)?
___ None ___ 1 to 5 ___ 10 to 20 ___ more than 20
3. What percent of earnings from woodland are you are willing to reinvest in the land?
___ None ___ 10% to 25% ___ 33% to 50% ___ more than 50% ___ don't know
4. How much out-of-pocket money are you willing to invest to improve your property?
___ None ___ \$100 to \$500 ___ \$1000 to \$2000 ___ more than \$2000
5. Are you willing to work with your neighbors to accomplish mutual goals?
___ Yes ___ No ___ Don't know

COMPLETE THE APPLICATION!

CONSERVATION PROGRAM APPLICATION

Applicant (Decision Maker):	Application Date:
Address:	Location where assistance is requested:
Email:	
Telephone:	Receive text messages(optional):
Assistance Requested:	

[Click here for instructions](#) to complete this form or contact the local office for assistance.

1. Do you have a customer record with the Farm Service Agency (FSA)?

Yes No

2. Interested in participating in the following (select all that apply):

- | | |
|---|---|
| <input type="checkbox"/> Agricultural Conservation Easement Program-Wetland Reserve Easement (ACEP-WRE) | <input type="checkbox"/> Environmental Quality Incentives Program (EQIP) |
| <input type="checkbox"/> Agricultural Management Assistance (AMA) | <input type="checkbox"/> Regional Conservation Partnership Program (RCPP) |
| <input type="checkbox"/> Conservation Stewardship Program (CSP) | |

a) Program enrollment type, activity type, and/or project name, as applicable:

3. Applicant Information:

Select the business structure and enter the legal name, and tax identification number for all applicants who will be participants on the contract or agreement including the decision maker.

Business Structure (Mark with an X)		Applicant Legal Name	Tax Number (last four digits)
Individual	Entity		
<input type="checkbox"/>	<input type="checkbox"/>		
<input type="checkbox"/>	<input type="checkbox"/>		

COMPLETE THE APPLICATION!

Click here for [instructions](#) to complete this form or contact the local office for assistance.

1. Do you have a customer record with the Farm Service Agency (FSA)?

Yes No

2. Interested in participating in the following (select all that apply):

Agricultural Conservation Easement
Program-Wetland Reserve Easement

Environmental Quality Incentives Program
(EQIP)

COMPLETE THE APPLICATION!

b) Control of Land Documentation (check all that apply):

- Deed or other evidence of land ownership
- Written lease agreement
- Other agreement or legal conveyance (describe):

c) Is the land currently enrolled in other USDA conservation program(s)?

- Yes
- No

Which program(s):

BRING WITH YOU:

- An official tax ID (Social Security number or an employer ID)
- A property deed or lease agreement to show you have control of the property; and
- A farm tract number (FSA).



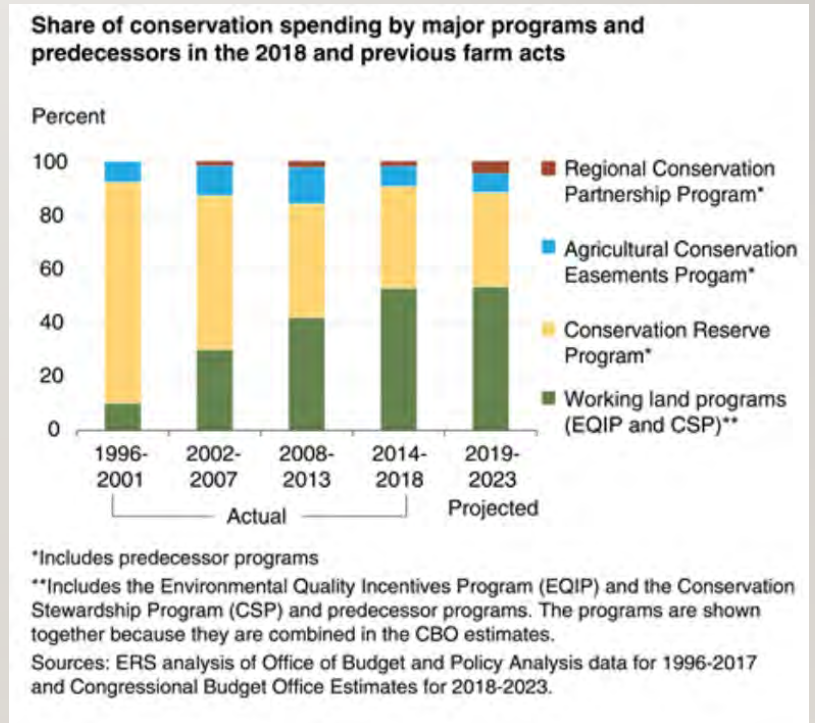
WAIT....

- NRCS will evaluate and rank applications
- Notification and contract
- Implementation of practice



IT IS COMPETITIVE!

- Between forest landowners
- Between programs!



FEDERAL PROGRAMS

Conservation Reserve Program (CRP)

- \$1.77 billion in 2023
- 24.8 million acres in 2023
- Capped at 27 million acres

Conservation Stewardship Program (CSP)

- Up to \$1 Billion in 2023

Environmental Quality Incentives Program (EQIP)

- 2.025 Billion in 2023

COST SHARE PAYMENTS

- Income is taxable unless specifically excluded
- May qualify to exclude part of payment from income
- May include in taxable income



TAXES AND COST SHARE PAYMENTS

Payment must
be for capital
expenditure

From an
approved
agency

For
conservation
purpose

EXCLUDABLE AMOUNT

“...the present fair market value of the right to receive annual income from the affected acreage of the greater of 10 percent of the prior average annual income from the affected acreage or \$2.50 times the number of affected acres...”

26 CFR § 16A.126-1



EXCLUDING COST SHARE

Greater of:

- 10% of avg. annual income for three tax years immediately prior
- OR
- Amount equal to \$2.50 per acre times number of acres treated

Use interest rate from Farm Credit Bank

LIMITATIONS

- Cannot exclude if deductible in year incurred
- Cannot deduct reforestation expense and exclude cost share



EXCLUDABLE AMOUNT

STEP 1

$10\% \times$ Average annual income from the affected acreage in the past 3 years

STEP 2

$\$2.50/\text{ac} \times$ affected acreage

STEP 3

The **larger** number from Step 1 and 2
Farm Credit Bank interest rate

STEP 4

Compare number from Step 3 and cost-share payment received. **Smaller** amount is excludable

EXAMPLE

Mr. Thomas received **\$6,000 from CRP cost share** for qualified capital expenditure in 100 acres of his timberland. If he had no income from the property in the last 3 years, **how much could he exclude?**

Farm Credit Bank interest rate is 5.09%.

STEP 1	$10\% \times \$0.00$	$10\% \times \text{Avg Ann. income from affected acres in past 3 years}$
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STEP 2	$\$2.50 \times 100 = \250.00	$\$2.50/\text{ac} \times \text{affected acreage}$
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STEP 3	$\$250.00 \div 5.09\% = \$4,912$	The larger number from step 1 & 2 \div Farm credit bank interest rate
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STEP 4	$\$4,912 \text{ vs. } \$6,000$	The smaller of the numbers from Step 3 & cost-share payment received
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EXAMPLE

What if he had \$9,600 of income from the 100 acres in the last three years?

STEP 1

$$10\% \times (\$9,600/3) = \$320$$

10% x Avg Ann. income from affected acres in past 3 years

STEP 2

$$\$2.50 \times 100 = \$250.00$$

\$2.50/ac x affected acreage

STEP 3

$$\$320.00 \div 5.09\% = \$6,287$$

The larger number from step 1 & 2 ÷ Farm credit bank interest rate

STEP 4

\$6,287 vs. \$6,000

The **smaller** of the numbers from Step 3 & cost-share payment received

COST SHARE PAYMENTS

- When excluding:
Include statement showing total cost, amount of cost share, date received, purpose of payment, amount excluded and how amount was determined



RECAPTURE RULE

If the property established with an excluded cost-share payment is disposed of within 20 years, recapture provisions apply



See IRC Section 1255

Include or Exclude?

The cost-share payment may be subject to self-employment tax and state income tax

Income on the
property in the
past 3 years

How long are you
going to hold the
property

Your income tax
bracket

State income
taxes



QUESTIONS?

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