

Tax and Estate Planning for Maryland Forest Landowners

Forest landowners in Maryland can increase the financial returns on their forest stewardship efforts by minimizing property, income, and estate taxes. Described below are some laws and programs—often overlooked—that enable forest landowners to decrease their tax liabilities. An extensive list of resources appears at the end. While not intended as a substitute for advice from a forester, accountant, lawyer, or other professional, this publication will familiarize you with tax issues. Consequently, when you are ready to talk with the experts, you will be prepared to ask the right questions of the right people.

Reducing Property Taxes

Forest landowners in Maryland have several options available to them for obtaining a lowered property tax assessment. These options are:

- enrolling in a forest management program;
- qualifying for an agricultural assessment; and
- donating or selling a conservation easement.

Forest Management Programs

Enrollment in a forest management program is one way private forest owners in Maryland can reduce their property tax burden. Maryland's Department of Assessments and Taxation offers two programs for this purpose, the **Forest Conservation Management Agreement (FCMA)**

and the **Forest Management Plan (FMP)**.^{*} In 2002, the woodland assessment/valuation for the FCMA is \$125 per acre; the valuation for the FMP option is \$187.50 per acre. Neither the FCMA nor the FMP has an effect on the property's fair market value, which is used for assessing estate taxes.

To take advantage of either the FCMA or the FMP, however, landowners are first required to have a forest stewardship plan for their property. The plan, which a licensed professional forester must develop, has to meet the basic requirements for either one of two programs: the Forest Stewardship program, which requires a minimum of 5 forested acres, or the Tree Farm program, which in Maryland requires a minimum of 10 forested acres. A Maryland registered forester can develop stewardship plans that meet individual landowners' objectives. The registered forester can be a Department of Natural Resources (DNR) forester, a private consulting forester, or an industrial forester.

FCMA

Any owner of 5 or more connected acres is eligible to enter into a **Forest Conservation Management Agreement** with the Maryland Department of Natural Resources. Although house sites, cropland, and other nonforest open spaces are not eligible, land recently planted with forest tree seedlings or Christmas trees is eligible one year after planting. An FCMA is based on a

^{*}Both programs are cited in the State of Maryland Property Tax Article 8-211.

Checklist for Minimizing Your Taxes

“Checklist for Minimizing Your Taxes,” has two purposes: it offers you a quick rundown of various tax-reduction methods and it serves as an outline of the issues this publication addresses. Forest landowners are encouraged to investigate these items as well as other tax and estate planning tools and methods (see “Sources of Information” on pages 10–12).

Type of Tax	Tax Reduction Items	Sources of Information
<i>Property Taxes</i>	Enroll in an approved woodland assessment program.	State forester
	Take property taxes on forestland as an itemized deduction on your federal tax return, the same as property taxes on a home.	Consultant forester
<i>State & Federal Taxes</i>	Claim timber revenue as capital gains, not ordinary income.	Tax preparer or accountant
	Deduct timber sale expenses (consultant fee, travel expense, etc.) before calculating capital gains.	
	Calculate the basis value of the timber and subtract it from the capital gain.	Consultant forester
	Be certain that any cost-share payments are handled properly.	Accountant familiar with timber taxes and rural land issues.
	Use reforestation tax credit for federal and state taxes, if applicable.	
	Use tax deductions associated with donation of conservation easement.	
<i>Estate Taxes</i>	Communicate with heirs about mutual expectations, needs, and plans for the future of your forestland.	Heirs
	Have your forestland and the rest of your estate appraised, to understand your potential estate tax.	Estate-planning attorney
	Learn about different estate-planning tools and techniques. Be certain that each spouse takes advantage of the unified tax credit.	
	Select an estate-planning attorney and other needed members of your estate-planning team.	
	Develop an estate plan and communicate it to your heirs.	

forest management plan developed by a Maryland registered forester in consultation with the landowner. The plan, which outlines several forest management activities that must be completed, is a *legal agreement* recorded in land records, binding for 15 years, and renewable. The plan and associated activities can be modified with the agreement of the state forester. In return, the property is assessed at \$125 per acre regardless of its location in the state. The valuation is frozen at the assessed level for the 15 years of the agreement. If the plan is not followed for the full 15 years, the landowner will be assessed penalty taxes for the noncompliant years.

Landowners will be charged fees during the lifetime of the FCMA. These fees, which can be deducted from your federal income tax return, are:

- A stewardship plan development fee of from \$200 to \$300, if developed by a DNR forester and depending on the acreage. This fee is not eligible for cost sharing if a DNR forester develops the plan.
- An entry fee that is equal to 0.55 percent of the land's assessed value, but not less than \$50; and
- Inspection fees equal to 20 percent of the entry fee but not less than \$100, for required inspections by a DNR forester every 5 years.

Information about the FCMA is available from your local DNR forester.

FMP

The **Forest Management Plan**, unlike an FCMA, is not a legal agreement and does not require an entry fee. As with the FCMA, however, a Maryland registered forester consults with the landowner and prepares a forest stewardship plan. The landowner has the responsibility of submitting the plan to the county assessor. Many county tax assessment offices require that a Maryland registered forester inspect the land every 3 years. Some consulting and industrial foresters do not charge an inspection fee for existing clients. In 2002, land under an FMP is valued at \$187.50 per acre. This value is not frozen and can change during the 3 years of the agreement.

The FMP requires these fees:

- A stewardship plan development fee. Maryland state foresters charge from \$200 to \$300, depending on the acreage. Most consultant foresters will develop a management plan, but fees vary. Some

industrial foresters will develop plans for their clients as a professional service.

- Inspection fees. If inspections are required by the county tax assessment office, state and consultant foresters can provide this service. Fees, which vary, typically start at \$100.

As Table 1 illustrates, the difference in landowner tax bills between the FCMA and FMP options can be small. However, FMP has no entry fee, no legal attachment in the land records, and a shorter length of commitment. In comparison the FCMA offers a direct relationship with the state forester, which eases communication and service, and a per acre assessment that will not change for 15 years.

Some county assessment offices may be reluctant to acknowledge the FMP option; however, it is a state tax assessment option that counties are legally bound to honor, according to Property Tax Article 8-211. For more information, contact your county tax assessment office, a DNR forester, or a consulting or industrial forester. A list of licensed professional consulting and industrial foresters is available from your local DNR forester or county Extension office and on the Internet at www.dnr.state.md.us/forests/offlists/caif.html. Landowners need to evaluate their individual situations to determine which plan, FCMA or FMP, is more advantageous to them. DNR foresters have computer software for analyzing each forest landowner's data to determine which agreement is more beneficial.

Qualifying for an Agricultural Assessment

Forest landowners are eligible to enroll their land in an agricultural district, thereby reducing land assessment value and property taxes. Requirements are a minimum of 100 acres (less acreage if land is adjacent to an existing agricultural district) and a natural resources conservation plan developed by the Natural Resources Conservation Service in consultation with the landowner or land manager. Eligibility is based partly on soil types.

Enrollment in an agricultural district is for renewable 5- or 10-year periods, depending on the county. By enrolling your land you agree to continue your existing agricultural and/or forestry operations. Enrollment provides some protection against nuisance complaints by neighbors regarding the odors, noise, or harvesting activities

associated with these operations. Enrollment is also a prerequisite for selling a conservation easement to the Maryland Agricultural Land Preservation Foundation. Contact your county's department of planning for more information.

Donating or Selling a Conservation Easement

A conservation easement is an agreement between a landowner and a land trust, ensuring that a property will not be developed beyond an

accepted limit. The landowner gives up the right to develop the property in perpetuity. Whether through a sale or a donation, the agreement provides for permanent protection of natural resources and can create property tax, as well as income and estate tax, benefits. At the same time the agreement reserves for the landowner all rights of ownership, occupancy, and privacy. This includes the right to practice forest stewardship or agriculture, to construct some family residences, and to transfer the property by sale or through inheritance to others.

Table 1. Comparison of Taxes for 40 Acres of Forestland^a

Fair market value (FMV)—\$3,000/acre

Tax rate—\$1.00/\$100 assessed value

Land Enrolled in Forest Conservation Management Agreement (FCMA)	Land Enrolled in Forest Management Plan (FMP)	Land Not Enrolled in FCMA or FMP
15-year commitment (renewable)	3-year tax assessment period (renewable)	No commitment
40 acres x \$125 (FCMA rate; fixed for 15 years of FCMA) = \$5,000 agricultural use assessed value	40 acres x \$187.50 (FMP rate; can vary during 3 years of FMP) = \$7,500 agricultural use assessed value	40 acres x \$3,000 = \$120,000 FMV
\$5,000/100 x \$1.00 (tax rate) = \$50 annual tax or \$1.25/acre	\$7,500/100 x \$1.00 (tax rate) = \$75 annual tax or \$1.88/acre	\$120,000/100 x \$1.00 (tax rate) = \$1,200 annual tax or \$30/acre
+ management plan \$225	3 years 15 years	
+ FCMA entry fee (FMV x .0022) \$264	+ management plan \$225 ^c \$225 ^c	
+ 5-year inspections (\$100 ^b x 3) \$300	+ 3-year inspections (@\$100 ^c /inspection) \$100 \$500	
Total \$789	Total \$325 \$725	
<i>Average annual FCMA cost:</i> \$789/15 years = \$52.60 Or \$52.60/40 acres = \$1.31/acre	<i>Average annual FMP cost:</i> \$325/3 years = \$108.33 or \$2.70/acre \$725/15 years = \$48.33 or \$1.20/acre	
Annual tax bill + FCMA cost = \$50 + \$52.60 = \$102.60 \$102.60/40 acres = \$2.56/acre	Annual tax bill + FMP cost: 3 years ► \$75 + \$108.33 = \$183.33/40 acres = \$4.58/acre 15 yrs ► \$75 + \$48.33 = \$123.33/40 acres = \$3.08/acre	Annual tax bill = \$1,200 \$1,200/40 acres = \$30/acre

^aFigures are for illustration purposes only and can vary among counties; landowners should evaluate their individual situations and make calculations based on their property before deciding which option best meets their needs.

^bBased on DNR fees.

^cBased on DNR fees. A consulting or industrial forester's fees may vary.

“Forest Landowners’ Guide to the Federal Income Tax,” Agricultural Handbook 718, is an invaluable reference for forest landowners and their accountants. Download from the National Timber Tax web site at www.timbertax.org, an excellent source of up-to-date information about tax treatment of timber. To purchase, see page 11.

Working forest conservation easements (WFCE) are a type of conservation easement that does more than restrict specified development rights on a property. WFCEs can protect forest values by assuring sustainable forest practices, including timber harvesting, all in accordance with the goals of the easement donor. This type of easement enables landowners to continue to derive economic value from the land through the harvest of products, to manage for wildlife and other forest benefits, and to support the ongoing cost of ownership and land stewardship.

Working-forest conservation easements can require that future owners develop, implement, and monitor a written forest management plan. The form of working-forest conservation easements varies; options can include a statement of basic overall management objectives, requirements for a forest management plan, and notification of harvest activities. Working-forest easements can help assure landowners that their stewardship activities extend beyond their tenure.

Not all land trusts are able or willing to accept working-forest conservation easements. Before forest landowners give up the right to harvest forest products as part of a conservation easement, they should carefully consider the future implications of their decision. The inability to harvest timber forever limits an owner’s capacity to keep the land economically self-supporting and to deal with future inevitable forest health problems, storm damage, and other changes. While the present generation may be able to afford these kinds of expenses, future ones may not.

Also, many landowners may think that by restricting harvesting they will be able to maintain the forest in its present state forever. However, the forest will change, and forest harvesting is a tool that can help future owners to effectively address the objectives of the easement.

For information about working forests, contact the Land Trust Alliance. To find a land trust that can accept a working-forest conservation easement, contact the Maryland Environmental Trust, the National Farmland Trust, the Nature Conservancy, or one of the local land trusts in your area; to sell a conservation easement, contact the Maryland Agricultural Land Preservation Foundation.

The fact sheet, “Working Forest Conservation Easements: A Primer for Forest Landowners,” is available from Maryland Cooperation Extension at www.naturalresources.umd.edu.

Reducing Federal and State Income Taxes

The sale of forest products by forest landowners can provide a substantial, but usually periodic, source of income. Many landowners and even some accountants are unfamiliar with tax codes that apply to forestland, which may result in your paying more tax than is required. To help you better understand income tax requirements and various options available for reducing your tax liability, the following topics are covered or touched on briefly:

- capital gains
- deducting expenses
- establishing a cost basis
- the reforestation tax credit and amortization
- federal income tax Schedule T
- cost-sharing
- charitable donations

Schedule T

Most income related to forest activities is handled on IRS form Schedule T (for timber). If your local IRS office does not stock Schedule T, special order it from the IRS or download it from the IRS web site (www.irs.gov/forms_pubs/index.html) or the National Timber Tax web site (www.timbertax.org). Many publications and web sites listed under “Sources of Information” also supply the form.

Capital Gains Taxes

A capital gain is income from long-term investments such as a home, certain stocks and bonds, and timber harvesting. Typically, these assets must have been held longer than one year to qualify as long-term capital gains.

Changes in Federal Law

Recent changes in the federal tax code, particularly related to capital gains, apply to the private forest owner.

Currently, long-term capital gains are taxed at rates lower than ordinary income—10 percent for those in the 15-percent tax bracket and at a maximum of 20 percent for those in the 28-percent or higher tax bracket. It is therefore beneficial to claim income from timber sales as long-term capital gains rather than as ordinary income. Furthermore, treating timber sale income as ordinary income subjects you to paying the 15.3-percent self-employment tax, whereas capital gains are not subject to self-employment taxes. Tax laws change periodically, so check with your local tax preparer, the National Timber Tax web site, or other official sources for the rates that apply.

Reduction in Capital Gains Tax Encourages Forest Management

The recent reduction in capital gains tax rates should encourage more forest owners to manage timber and other forest resources because:

- reduced capital gains taxes can result in an increase in net income;
- increased net income reduces the chances that owners will have to sell portions of their land to pay tax bills and other upkeep costs; and
- reduced taxes offset the value of capital gains or property lost as a result of inflation.

Claiming Income Over More than One Year

When planning a timber harvest, the forest landowner must consider how the income from the harvest will affect capital gains and federal and state income taxes. Is it of benefit to claim all the income in one year or is it better to spread the income over 2 or more years to qualify for a lower tax bracket? When developing your timber sale contract, you can elect to receive the income over a period of years. A professional forester can help you with this task. Consult a tax preparer for a complete understanding of capital gains and other provisions of the tax laws.

Deduction of Expenses

Timber Sale Expenses

Before calculating capital gains, deduct expenses related to the timber sale from timber sale income. Examples of these expenses are: fees paid to a consultant forester whose services were

used for the sale of the timber and costs for travel to and from the property, surveys, road building, taxes, and forest management planning. The expenses of both spouses are deductible.

Annual Deduction of Operating Expenses

Besides understanding Schedule T requirements, forest landowners should know how tax law affects their treatment of the ordinary and necessary costs of woodlot management. These costs can be expensed. *Expensing* is the recovery of costs by deducting them in full in the year paid or incurred. The expenses of forest management, property taxes, and interest paid can be deducted from the landowner's ordinary income, according to what are known as passive loss rules. These rules are intended to limit, in certain cases, the taxpayer's ability to offset other income with losses from trade or business activities (i.e., tax shelters) undertaken primarily to generate losses.

Categories of Income-Generating Activities

For purposes of deducting expenses such as timber management costs, property taxes, and some sources of interest, there are three categories of income-generating activities for forest owners subject to passive loss rules—investor, owner of a passive business, and owner of an active business. How you are classified depends on your material participation in the property.

Investment income is derived from savings accounts, bonds, stocks, and similar investments, including timber—that is not part of a trade or business—held for the production of income. Examples are limited partnerships, some rental properties, and timber held as part of a trade or business in which the taxpayer does not materially participate.

Passive business income is derived from activities in which the taxpayer does not materially participate in earning the income or in managing resources used to produce income.

Active business income is derived from wages, salaries, and other activities as part of a trade or business in which the taxpayer materially participates.

The IRS has tests for determining material participation and whether or not an individual qualifies as an owner of an active or passive business or as an investor. Most landowners qualify as investors. To learn more about material participation and the advantages, disadvantages,

Table 2. Limitations on Deductibility of Management Expenses, Taxes, and Interest

Type of Expense	Method of Holding Property		
	Investor (portfolio)	Business (passive)	Business (active)
Management expenses	Deductible if expenses exceed 2% of adjusted gross income	Deductible only against passive income	Deductible from all sources of income
Property tax	Deductible against other income	Same as for management expenses	Same as for management expenses
Interest	Deductible to extent of investment income + \$10,000	Cannot offset interest income in other categories	Same as for management expenses

and requirements of the tax status of your property, see “Forest Landowner’s Guide to the Federal Income Tax,” “Forest Management Account Book,” or the Timber Tax web site, listed under “Sources of Information.” In any case, it is wise to keep a record or diary of the time spent on management activities and have a written management plan to support a claim of being considered an owner of a business. (See Table 2, “Limitations on Deductibility of Management Expenses, Taxes, and Interest.”)

Cost Basis

When any timber or forest product is sold, the forest landowner must know the cost basis of that asset to calculate gain or loss from the sale. The cost basis, or book value, is the cost of the asset at acquisition plus allowable expenses since acquisition, less any amounts that may have been recovered through depreciation or depletion.

For example, a landowner sells timber and receives \$15,000 after deducting the commission for the consulting forester and the landowner’s own expenses associated with the sale. The landowner asked the consulting forester to calculate the cost basis of the timber harvested, which turned out to be \$3,000. Therefore, the landowner will only have to pay capital gains on \$12,000, a considerable savings.

Anyone who has purchased or inherited forestland in the past 10 years or so should investigate the cost basis of the property. If the forestland has been owned for longer than 20 years, the original cost basis may be so small

compared to the current value of the timber that it is not economically feasible to calculate the cost basis. For detailed information about establishing cost basis, see “Forest Management Account Book,” “Forest Owner’s Guide to the Federal Income Tax,” and others listed under “Sources of Information.” Consulting foresters and tax preparers familiar with the timber industry can assist you in calculating the cost basis.

Cost-Share Payments

Cost-share payments must be reported on federal income tax forms. However, many cost-share payments are not subject to income tax and can be excluded totally or partially elsewhere on the form. If you have not had any forestry-related income over the past 3 years, the amount of federal cost share that can be excluded from income is very small. Contact your local DNR forester for information about cost-sharing programs.

Charitable Donation

The donation of development rights (conservation easement) to an environmental trust qualifies as a contribution to a charitable organization; the value of the donation can be deducted from taxable income, subject to other tax regulations. Depending on the taxpayer’s income, the value of the contribution may be spread over 5 future tax years. Selling an easement, and thereby increasing income, will cause an increase in the landowner’s taxable

income. The landowner, however, can opt to receive the income from the sale of an easement over several years. At the same time, if the sale price of the easement is less than the difference between the full market value and the agricultural value of the property, the seller may be entitled to a charitable donation deduction or a direct Maryland tax credit.

Reforestation Tax Credit and Amortization

Federal Law

Public Law 96-451 (1980) provides that reforestation expenses are eligible for a 10-percent investment tax credit and for amortization (paying off) over a 7-year period. Up to \$10,000 in reforestation expenditures are eligible in any year. The owner or lessee must devote at least one acre to growing timber for commercial products. Growing Christmas trees does not qualify. Costs for seeds, seedlings, site preparation, labor, small tools, and depreciation on reforestation equipment qualify. Although expenses for timber stand improvement do not qualify, they can be claimed as an expense in the year incurred. A recapture clause and a reduction in basis for depreciation apply. One does not have to plant trees to be eligible for this benefit. Site preparation costs for natural regeneration as well as the costs of installing deer fencing to encourage regeneration are eligible. Contact a tax preparer with knowledge of forestry operations to understand all the features of this tax credit.

State Law

Owners or lessees of forestland in Maryland may be eligible to deduct double the cost of reforestation and timber stand improvement from their federal adjusted gross income for Maryland income tax purposes. By meeting certain criteria, an *active participation* forest landowner or lessee of 10 to 500 acres, capable of growing 20 cubic feet of wood per acre per year, can claim an investment tax credit in Maryland for reforestation and deduct reforestation costs, minus half the tax credit. Christmas tree and ornamental tree operations are not eligible. Some expenses can be capitalized. The work must be performed according to Maryland DNR standards. Contact a DNR forester or access the DNR's Forest Service web site for more information.

Keep Good Records

The importance of keeping good records on your property cannot be overemphasized. Accurate records are critical to responsible stewardship and to the proper reporting and documentation of income and expenses for tax purposes. The "Forest Management Account Book" (Bulletin 360), an excellent publication on recordkeeping, can be purchased for \$4.50 from your local Cooperative Extension office.

Reducing Federal Estate Taxes

Forest landowners can reduce federal estate taxes through wise estate planning. This section covers the following:

- steps to take in planning your estate;
- some provisions of the federal tax code; and
- other estate planning tools.

Wise Estate Planning

Federal estate taxes are paid by the heirs when the owner of an estate dies. It is important that forest landowners, who have invested much time and effort into the management of their forest, plan for this.

Forestland has appreciated at a rate that has exceeded inflation in Maryland as in many other parts of the country. As a result, members of a landowning family who have thought of themselves as having modest resources may discover they actually have considerable equity in forestland. A landowner who lacks an adequate estate plan may end up leaving heirs with a large estate tax obligation that they are not prepared to pay. Heirs may be forced to hold a quick sale of property or timber in order to pay the tax and to satisfy the urgency of the IRS. As a result, many years of careful forest stewardship by the original owners can be lost.

It is imperative that owners keep abreast of the value of the property. A forest management plan that contains a record of volumes and growth of timber resources can be structured to be updated as timber prices change.

A common problem in the rapidly developing landscape of Maryland occurs when a surviving spouse dies without having an estate plan in place for his or her property. The value of the estate is then based on its full value, which includes its current value for development. Thus the estate tax of property that may have been purchased many years ago for a low price is now based on a value that may be many times the original cost.

Forest landowners also may make the mistake of assuming that the assessed value of their property for paying property taxes, which is based on *current use value* for forestry or agriculture, is the same as its assessed value for estate taxes. For example, property enrolled in an FCMA is assessed at \$125 per acre, but its fair market value for estate taxes could be several thousands of dollars per acre. Don't confuse your assessment for property taxes with fair market value.

By practicing wise estate planning, property owners can minimize or eliminate estate tax obligations for heirs. Planning one's estate requires facing your own mortality, deciding about the future of the property beyond your death, and then communicating your wishes to your heirs.

Steps in Estate Planning

Step 1 in estate planning is learning more about the subject. Estate planning usually takes place in anticipation of dispensing property to others, with these objectives in mind: to continue a forest-management legacy and to keep the land intact and in the family; to minimize the cost of transferring ownership when the estate is dispersed; and to provide for dependants and heirs. Use the references under "Sources of Information" to educate yourself about estate planning.

Step 2 is making decisions such as who will be the executor of the estate and talking with heirs about their future plans. Are the heirs really interested in holding onto the property and continuing the activities of their parents or other relatives? Good communication between property owners and their heirs is essential. This may be the most difficult part of estate planning.

Step 3 is assembling an estate-planning team. Your estate-planning team should include your consulting forester, an attorney, an insurance underwriter, your personal representative or executor, an accountant, and, possibly, one of your children.

Having an attorney who is qualified in estate planning is critical. An attorney who you may have worked with for years on other matters may not be qualified to handle your estate planning. A good source for locating a qualified estate planner is the American College of Trust and Estate Counsel. (See "Sources of Information.") The college requires members to have a minimum of 10 years of experience in estate planning and sound local and national references.

Changes in Federal Estate Taxes

Recent changes in federal estate tax rules have resulted in some very positive changes in estate tax law for landowners. Benefits to forest landowners include increases in the unified tax credit, inflation indexing of annual gifts, use of installment payments of estate taxes, and the potential to donate a conservation easement, under certain conditions, after the owner has died. There are other changes as well that you should investigate.

Increase in the Unified Tax Credit Eases Tax Burden

The unified tax credit allows you to exclude part of the value of an estate from your estate taxes. Before 1998, only \$600,000 of an estate could be excluded from estate taxes. Under the Economic Growth and Tax Relief Reconciliation Act of 2001 the unified tax credit will increase yearly until it reaches \$3.5 million by 2009. (See Table 3.) After 2009, the exclusion will be repealed unless Congress makes it permanent or extends it. After the value of the estate exceeds the unified tax credit allowance, the tax rate can be 45 to 50 percent. Beginning in 2002 each spouse can take the unified credit; with good estate planning, two spouses can exclude a total of \$2 million from the estate. This increases each year until 2010. If the first spouse dies and does not use the unified credit, the remaining spouse inherits all of the estate with no taxes. However, when the remaining spouse dies, only \$1 million can be excluded from the estate, not \$2 million. A major opportunity is lost if both spouses do not take advantage of the unified credit. Hence, the need for good estate planning while each spouse is still alive.

Inflation Indexing of Annual \$11,000 Gifts

An individual can give \$11,000 annually to any number of individuals without tax liability for the donor or the recipient, thereby reducing the taxable estate. Likewise, spouses each can give

Table 3. Federal Estate and Gift Rates

Tax Year	Maximum Estate Tax Rate	Unified Credit Amount
2002	50%	\$1 million
2003	49%	\$1 million
2004	48%	\$1.5 million
2005	47%	\$1.5 million
2006	46%	\$2 million
2007–2008	45%	\$2 million
2009	45%	\$3.5 million
2010	0% (tax repealed)	0
2011	55%	\$1 million

\$11,000 to any number of individuals. This provision enables the value of an estate to be reduced over the years.

Installment Payments

Heirs can make installment payments of estate taxes. The payments can be spread over 20 years with an interest rate of 2 percent on the unpaid tax due.

Conservation Easement: After-Death Exclusion of Part of an Estate

Conservation easements enable landowners to give up the right forever to develop property. Selling or donating an owner's development rights reduces the fair market value of the land, which reduces the associated taxable estate.

The 1997 Taxpayer Relief Act allows an executor of an estate, in which owner and spouse are deceased, to exclude up to 40 percent of the value of the land in a qualified conservation easement. For the land to qualify, it must be located within a 25-mile radius of a metropolitan area, national park, or wilderness area or within 10 miles of an urban national forest. This major change, subject to some restrictions, allows heirs with a large estate tax to put the land into an easement, eliminate future land development, and significantly reduce the land value and taxable estate.

Much of the state of Maryland qualifies for this special exclusion. Maryland's eligibility is largely the result of three factors: the Baltimore-Washington metropolitan area, the C & O Canal National Park that runs the length of the

Potomac River, and Catocin National Park north of Frederick. The exclusion offers an excellent opportunity to Maryland forest owners, whose properties may have rapidly increased in value under the pressure of land development, to reduce estate tax liability. To donate a conservation easement, contact the Maryland Environmental Trust, the National Farmland Trust, the Nature Conservancy, or one of the local land trusts in your area; to sell a conservation easement, contact the Maryland Agricultural Land Preservation Foundation. For information about working forests, contact the Land Trust Alliance.

Sources Of Information

Tax and estate planning by forest landowners involves many considerations. The information in this fact sheet is a guideline only. Because of the details and complexities of taxes and estate planning, additional information and professional assistance are recommended. Following is a list of resources:

Publications and Web Sites

Timber Taxes

“Federal Income Tax on Timber: A key to your most frequently asked questions.” April 2001. Harry L. Haney Jr., William C. Siegel, and Larry M. Bishop. U.S. Department of Agriculture Forest Service, Southern Region. R8-TP 34. Available online at: <http://www.r8web.com/spf/coop/taxation/>.

“Forest Landowners’ Guide to Federal Income Tax.” Agricultural Handbook 718. 2000. U.S. Government Printing Office, Washington D.C. Download (at no charge) from web sites: www.timbertax.org. and www.fs.fed.us/spf/coop/. To order a copy of the handbook for \$14, phone 301-953-7974 or access the GPO web site at www.bookstore.gpo.gov.

“Forest Landowners’ Guide to Federal Laws and Regulations Affecting their Forests.” 1996. American Forest Foundation. Phone: 202-463-2455 or 1-888-889-4466.

“Forest Management Account Book.” Education Bulletin 360. 1999. Maryland Cooperative Extension. Available from county Extension offices. \$4.50. (To find the office nearest you, check the government pages in the telephone directory or access the web site, www.agnr.umd.edu/MCE/offices.cfm)

National Timber Tax Web Site.

(www.timbertax.org) The most comprehensive resource available on the web about tax treatment of timber. Developed by Purdue University in cooperation with the U.S. Department of Agriculture Forest Service, it is intended for use by forest landowners, as well as a reference source for accountants, attorneys, consulting foresters, and other professionals. From this site you can download Form T, other tax forms, and “Forest Owner’s Guide to the Federal Income Tax” (718). Contains information about specific transactions, forms, tax strategies, financial and estate planning, and more.

Timber Tax Accountants. Lists accountants and tax preparers who have attended training offered by Maryland Cooperative Extension and other partners. www.naturalresources.umd.edu/Pages/Accountants.html.

“Timber Tax Management for Tree Farmers,” updated annually. American Forest Foundation. \$24.95. Phone: 202-463-2455 or 1-888-889-4466. Web site for order form: www.fnr.purdue.edu/extension/SpecTop/OrderForm.html. Foundation web site: www.treefarmssystem.org.

Estate Planning

“Estate Planning for Farm Families.” Fact Sheet 778. 2001. Maryland Cooperative Extension. College Park, MD. Available free from county Extension offices.

“Estate Planning for Forest Landowners: What Will Become of Your Timberland?” Southern Forest Experiment Station Technical Report SO-97. 1993. Harry L. Haney, Jr., and William C. Siegel. University of Georgia. Download (at no charge) from either web site: www.fs.fed.us/spf/coop/tax.htm or www.fltc.org/estate.pdf. For a copy of the publication for \$15, phone 706-546-2477.

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“The Landowner’s Guide to Conservation Easements.” 2001. Steven Bick and Harry L. Haney. Dubuque, IA: Kendall/Hunt Publishing. Available for \$24.95 from internet bookstores.

“Working Forest Conservation Easements.” 2001. Brenda Lind. The Land Trust Alliance, Washington, D.C. Available for \$30 from www.lta.org.

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General Forest-Landowner Information

“Forest Landowner’s Guide to Internet Resources: States of the Northeast,” www.na.fs.fed.us/pubs/misc/ir/index.htm or access through www.timbertax.org.

“Legal Aspects of Owning and Managing Woodland.” 1998. Thom J. McEvoy. Washington, D.C.: Island Press. \$20. (www.islandpress.com/. Phone: 202-232-7933 or 1-800-828-1302.)

Organizations and Government Offices

American College of Trust and Estate Counsel,
3415 S. Sepulveda Boulevard, Suite 330,
Los Angeles, CA 90034. 310-398-1888.
www.actec.org/.

Land Trust Alliance, www.lta.org.

Maryland Agricultural Land Preservation Foundation, 50 Harry S. Truman Parkway, Annapolis, MD 21401. 410-841-5700; 301-261-8106; relay 800-735-2258. www.mda.state.md.us.

Maryland Department of Natural Resources, Forest Service, Tawes State Office Building, E-1, 580 Taylor Avenue, Annapolis, MD 21401. 410-260-8531. www.dnr.state.md.us/forests.

Maryland Environmental Trust, 100 Community Place, Crownsville, MD 21032-2023; 410-514-7900; www.dnr.state.md.us/met/.

Maryland Cooperative Extension Natural Resources Specialist:
Western Maryland Research and Education Center, 301-432-2767.

Maryland Cooperative Extension website on natural resources:
www.naturalresources.umd.edu.

Maryland Cooperative Extension publications on wills and estate planning; contact your county Extension office. Some MCE publications can be downloaded from www.agnr.umd.edu/MCE/Publications/index.cfm.

Maryland Consulting and Industrial Foresters, a listing. Contact any county Extension office, a Maryland Department of Natural Resources forester, or the web site, www.dnr.state.md.us/forests.

Tax and Estate Planning for Maryland Forest Landowners

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