

Best Practices for Timber Production and Value

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Why A Focus on Timber ???

- Timber provides an option for owners to recover the costs of management.
 - Established markets
 - Trained professionals
- Timber can enhance other ownership objectives.
 - Wildlife habitat
 - Agroforestry (mushrooms, silvopasture)
 - Firewood
 - Custom sawmilling



2

Best Practices for Timber Value

handout at <http://CornellForestConnect.ning.com>

1. If you fail to plan, you should plan to fail
2. Encourage faster tree growth
3. Foresters are not loggers
4. Don't high-grade or diameter limit cut
5. Maintain good roads and trails
6. Protect yourself from timber theft
7. Avoid damage to the residual stand
8. Consider legal options to control costs
9. Have a good timber sale contract
10. Continue your education in woodlot management



3

1. Benefits of a Plan

"A path to the target"

Get a Plan!

- Establish and clarify goals
- Document woodlot health, timber resources, access, equipment, etc.
- Document your active role (for IRS)
- Strategize future possibilities
- Schedule activities
- Required for those in 480-a (for NYS)

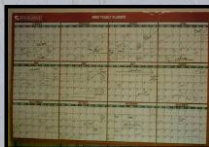
Don't worry...it isn't all that difficult



Get a Plan!

The Planning Process

- Identify family objectives
- Talk with a forester
- Take forest measurements
- Assess T.I.M.E.
- Develop work calendar



6

Get a Plan!

If you fail to plan...

- What could you do?
 - Talk with family about objectives
 - Be realistic when listing everyone's
 - Time
 - Interest
 - Money
 - Energy
 - Contact state forestry agency for free assistance with planning



7

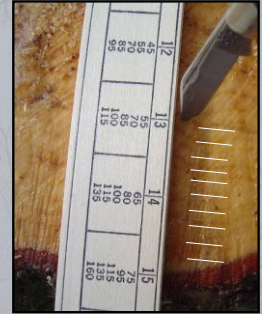
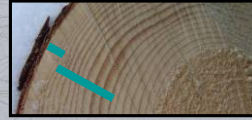
2.

Encourage Faster Tree Growth

- Healthy and productive trees require good growth.
- Faster growth produces more sooner.
- Faster growing trees often more resilient to damages.



Encourage Faster Tree Growth



Encourage Faster Tree Growth

- Trees almost always grow bigger
- Value increases as diameter increases, usually
- Poor quality trees don't get better with time

Grade	Grade Specs	Maple \$/MBF
Veneer		2000 to 4500
Prime	16" + 4 clear faces	1350
Select	15" + 3 clear faces	1175
F & S	12 to 14", 2 to 3 clear	300 to 900

Encourage Faster Tree Growth

- **Assume** 60 crop trees per acre (15 each species) with an average starting diameter of 13" and one log. Starting value \$1590/acre. [other assumptions...]
- Owner 1 - No cutting, all one log (dbh = 14.2)
 - \$ 1768 / acre (10 yr. value increment 1.1%)
- Owner 2 - Crown release, (dbh = 15.5) half trees at 1.5 logs, increased grade
 - = \$3295 / acre (10 yr. value increment 7.6%)

Encourage Faster Tree Growth

- What could you do?
 - Be patient !!
 - Forest improvement...cut the junk
 - Use good trees as seed source
 - Grow to minimum 18" average dbh (diameter breast height, 4.5')
 - Bid the sale
 - <http://pubs.cas.psu.edu/freepubs/pdfs/uh188.pdf> (Deciding when to cut)

3.

Foresters Are Not Loggers

Foresters:

- College training + continuing education
- Articulate trade-offs to achieve various objectives
- Understand tree biology, wildlife ecology, hydrology, mapping, harvesting systems, etc.
- Public sector
- Consulting
- Industrial



Foresters Are Not Loggers

Loggers:

- Forestry doesn't happen without loggers
- Safe operation of equipment
- Various backgrounds, equipment and markets
- Training available
 - NY Logger Training
 - Master Logger Training



Foresters Are Not Loggers

- What could you do?
 - Visit publications button at www.ForestConnect.info for articles.
 - Be able to describe what you want to happen on your property.
 - Interview foresters and visit previous logging jobs.
 - Use a contract with your forester and your logger
 - Maintain good channels of communication.

4.

Don't High-Grade

Look for undesirable changes in

1. Appropriate residual stocking
 2. Patchiness of residual stocking
 3. Retention of desired species
 4. Average diameter
 5. Sawtimber potential
 6. Area in skid trails
 7. Skid trail design & condition
- (from Nyland, 2001, THAP)



Don't High-Grade

What Triggers a High-Grade?

- Poor markets for low grade
- Land owner unawareness of consequences
- Immediate needs for \$
- Lack of disclosure of consequences by foresters and loggers
- Confusion of terms
- Greed (by all)
- Land owner tenure and expectations
- Landowner infrequency of cutting
- Societal demand for high quality wood products



5.

Maintain Good Roads and Trails

- Foot prints are the best fertilizer
- Plan trails for the most demanding use



Maintain Good Roads and Trails

- Re-invest in good roads
- Tools to help
 - Soil and Water Conservation District
 - Topographic maps
 - Soils maps
- Be clear about future use with forester and logger



Maintain Good Roads and Trails

- What could you do?
 - Attend NYFOA woodwalks to see what other forest owners do.
 - Contact your SWCD for a visit and maps.
 - Take flagging and mark some possible trails. Avoid wet areas. Know how you will travel.
- **Overview and webinar**
<http://www.myminnesotawoods.umn.edu/2007/04/know-your-options-recreational-trails/>
- **Bulletin**
<http://www.extension.umn.edu/distribution/naturalresources/DD8425.html>



23

6.

Timber Theft

- Occurs mainly on private land
- 40% noticed immediately
- Most on lands of absentee or invalid owners
- 1,000 to 50,000 board feet (16.8 MBF)
- \$1,000 to \$70,000 (\$10,650)



Canham and Pedersen 2007



Impacts of Theft

- Cut the best trees
- Damage residual stems
- Cut boundary trees
- Disregard water quality
- Skid trail damage
- Emotional scarring



Canham and Pedersen 2007



Protection from the Law

- Three sections of law
- Criminal and civil judgments
- \$250 per tree plus treble stumpage...
- 1/3 of victims knew thief's identity and 10% reached a desired resolution
- 22% of cases went to criminal courts



http://maine.gov/tools/whatsnew/index.php?topic=DOC_Periodicals&id=16827&v=InTheField



Prevention

- Obtain legal survey
- Mark corners and lines
- Inspect boundaries



Prevention

- Communicate
 - Neighbors
 - Forester



Prevention

- Management plan
 - Recognize timber value
 - Schedule harvests
 - Document boundary marking
 - Schedule boundary inspection
- Timber sale contract



Reaction

- Stay calm
- Call ECO, state police
- Collect information
 - Neighbor information
 - Vehicles (don't trespass)
 - Pictures (don't trespass)
- Do not accept money
- Wait for law enforcement



7.

Avoid Damage During Harvests

- Residual trees are your future
- Size and location matters
- Equipment vs. operator



Avoid Damage During Harvests

- Operator awareness and concern matters



Avoid Damage During Harvests

- Root damage is worse than stem damage



Avoid Damage During Harvests

- Strategically retain "bumper" trees



Avoid Damage During Harvests

- Spring harvest with a poor operator



8. Legal Options to Control Costs

- NYS Forest Tax Law (480-a)
- IRS “active in trade or business”

480-a Owner Requirements

- 50 contiguous forested acres
- Commitment to forest crop production
- Management plan provided by a private sector forester
- 10 year rolling (forward) commitment
- Develop a 15 year work schedule
- 6% yield tax (forest crops) to county treasurer

480-a Benefits to Forest Owner

- Up to 80% reduction in the assessed value of the eligible tract
- Participation with 480-a can position you as “active in the trade or business”
- Management costs can be deducted as expenses in the year incurred
- Encourages deliberate management

480-a Potential Pitfalls

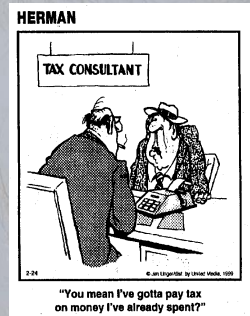
- Work schedule is mandatory (this will likely improve your forest)
- Property class shift might change tax rate
- Yield tax in high value timber might exceed savings
- Safe withdrawal takes 10 years
- Early withdrawal is expensive...(2.5x normal tax for previous 10 years)

Legal Options with Federal Tax Code

Use the Federal Tax Code

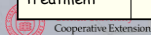
(excerpted from Lloyd Casey)

www.timbertax.org



#1. Why be an “active” owner?

EXPENSES	Investor	Passive	Active
Management expenses	Deductible beyond 2% floor	Deductible against passive income only	Deductible against any income source.
Taxes and other	Deductible against other income	Same as above	Same as above
Interest expenses	Deductible to extent of investment income	Same as above	Same as above
Capital expenses deductible	No	No	Yes, under Section 179 up to \$100,000
Capital Gains Treatment	Yes	Maybe, trickier	Yes



Advantages of Capital Gains Treatment

- Top Bracket is 15% vs 35% for ordinary income. Under \$10,500 in 2007- no tax
 - \$50,000 timber sale: tax @ \$17,500 vs. \$7,500
- Social Security Taxes are not paid on Capital Gains
- Capital Gains income does not affect Social Security Income
- CG income can be utilized to offset capital losses whereas only \$3,000 of ordinary income can be used for that purpose



#2. Determine basis on recent forest land purchases

- Basis – the value of the saleable portion of your investment
 - “a capital investment in income producing property”
- Basis is deducted from sale price BEFORE taxes are calculated.



#3. Keep records

- Keep it simple
- Keep records by forest stands
- For each record:
 - Basis (per unit- MBF, cords, or tons)
 - Capital Expenses, ordinary expenses by date
 - Income by date
 - Management Hours (diary)
 - Taxes paid



9. Have a Good Timber Sale Contract?

Who is selling what to who, for how much, when, where, and with what restrictions



Parts of a Timber Sale Contract

- (1) Opening section
- (2) Description of property and timber
- (3) Terms of sale
- (4) Language or glossary



www.ForestConnect.info

10

Continue Your Education

1. Cornell Cooperative Extension
 - Catalogs of publications (CCE, NRAES)
 - www.CornellMFO.info
 - www.ForestConnect.info
 - Publications
 - Webinars
 - Forum
 - FaceBook & Twitter

Continue Your Education

2. New York Forest Owners Association
 - www.NYFOA.org
 - Woods walks
 - Chapter newsletter
 - Bimonthly magazine