

Executive Summary

Below we summarize impacts from the recent passage of the Tax Cuts and Jobs Act on timberland investments. While details in the final Conference Agreement are still being scrutinized, it appears that all of the existing regulations governing the timberland industry were preserved, a positive for timberland owners and investors. At the same time, new regulations favorable to the timberland industry were passed including a deduction for REIT dividends, higher exemptions for estate, gift, and generation-skipping transfer taxes, and a lower corporate tax rate. Please find below a brief summary of the existing, as well as newly promulgated, regulations.

Existing Regulations Preserved

1) Capital gains treatment of timber revenue. Proceeds from timber harvests and sales of standing trees will continue to be treated as long-term capital gains;

2) Deduction of management and operating costs. Operating costs for forest management including preventative measures, thinning, post-establishment fertilization, interest, taxes, wetlands protection, and forestry activities are still allowed to be deducted in the year they are incurred rather than being capitalized;

3) Real estate investment trust (REIT) rules. Timberland is still considered real property, a necessary condition for qualifying as a REIT, a common ownership structure for timberland owners and investors;

4) Deduction and amortization of reforestation costs. The new tax law retained the deduction of up to \$10,000 in reforestation costs per stand in the year incurred, with the remainder of the expense amortized over the subsequent seven years.

New Regulations

1) REIT dividends. Individual taxpayers can deduct 20% of domestic “qualified business income” from a partnership, S corporation, or sole proprietorship (“qualified businesses”), subject to certain limitations and thresholds. At the top tax rate of 37%, this would yield an effective rate of 29.6%. REIT dividends also qualify for this 20% deduction, thereby resulting in a lower amount of tax on REIT dividends;

2) Estate, Gift, and Generation-Skipping Transfer Tax (GST). For family-owned timberland and related assets, the law doubles the exemption per individual from US\$ 5.49 million to US\$ 10.98 million, indexed annually, with portability, effective January 1, 2018;

3) Corporate tax rate. For timberland investors with corporate structures, the corporate tax rate was lowered to 21% from 35%.

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