

Owning A Piece of the Forest



A Primer for Current and Prospective New Hampshire Landowners



UNIVERSITY of NEW HAMPSHIRE
COOPERATIVE EXTENSION

Why Own Woodland

Reasons for owning forest land are many and varied, including protection, income generation, aesthetics, wildlife, timber and fuel wood production, recreation, speculation, self-sufficiency or any combination of these. Most forest land lends itself well to multiple uses.

If you currently own woodland or plan to purchase property, you should find answers to the following questions.

1. Does the property have the characteristics which meet your objectives?
2. If a major objective is to produce forest products and generate income, what is the potential?
3. Where can you get sound advice?
4. Is there an accurate boundary description and map of the land? Is there a licensed survey?
5. Is the property enrolled in current use ?
6. What are the state and federal tax considerations related to woodland ownership?
7. Has a comprehensive management plan been prepared?

Assessing your objectives will help you decide what type of woodland best suits your needs and provide you with direction.

Where is it Located?

Identifying boundary lines and having an accurate deed description are extremely important. Boundary descriptions in many old deeds are poorly written. Landmarks used to describe them may either be altered or may have disappeared. The County Registry of Deeds can help answer questions about the deed while inspection of the property can tell you about the location, and the marking of the boundaries.

A detailed survey and accurate deed description by a licensed land surveyor ideally should be provided for inspection by the seller prior to transfer of title. Absence of a survey and inadequately marked boundaries are grounds for potential land disputes and price negotiation. Your objectives and anticipated uses of the land will determine the intensity of the survey needed. If you already own the property, make sure your deed is in a safe place and officially recorded at the County Registry of Deeds. Seek legal advice with all land transactions and associated issues.

Stewardship Planning

Forest landowners are encouraged to have a forest stewardship plan prepared by a licensed forester or other qualified natural resource professional. The plan matches the land's capabilities with landowner objectives in a customized working document. A stewardship plan addresses fish and wildlife habitat, water resources, recreation, forest protection, soils, timber, wetlands, aesthetic values, cultural features and endangered species. Besides giving management direction, a plan is necessary for certain current use assessment categories and certified Tree Farm status.

If a major objective is to produce forest products, it's important to inventory the current volume of timber and assess the land's potential for future production. A timber inventory is often part of a detailed stewardship plan, although it can stand alone as an integral part of your management decisions. It will also establish a basis for federal income tax and estate planning purposes. A qualified licensed forester can determine the volume and value of the timber resource.

The ability of woodland to produce forest products and, in turn, revenue, depends on the species, quality, size of trees, number of trees per acre and growing conditions. A parcel of woodland can contain a variety of timber types and site conditions and meet more than one objective. The value of the standing timber on a woodlot can be \$5000 per acre or more, or as little as \$100 per acre or less. Would you know the difference by just looking at it? If not, the obvious answer is to seek professional assistance.

A moderately well-drained site with straight well-formed trees has an excellent potential for timber production as compared to a not-so-well drained site with poorly-formed, low-value trees. The latter might very well suit your needs if your major objectives are other than timber production. While a recently heavily-harvested area will provide no significant timber revenue for 25 years or more, it may provide other benefits in the form of wildlife habitat or recreation.

A variety of tree species, age classes and sizes, and stand densities provide the diversity that is important to a healthy forest. While there are more than 70 species of trees growing in New Hampshire in a number of combinations and concentrations, New Hampshire's forest cover types are generally classified in one of the following broad categories:

Spruce-Fir • Primarily red spruce and balsam fir with black spruce, white spruce and tamarack

Northern Hardwoods • Primarily beech, sugar maple and yellow birch, with ash, black birch, red maple, paper birch, and hemlock as common associates

Oak-Pine • Red and white oak, hickories, beech, hemlock and white pine

Aspen, Birch • Quaking aspen and paper birch, but may include bigtooth aspen and gray birch, pin cherry, yellow and black birch, and red maple

Pure single species stands can be found within any cover type and generally have a predominant single tree species present such as a beech, hemlock or white pine stand.

The following four categories of tree size are generally used in classifying a forest:



SEEDLING AND SAPLING (up to four inches dbh*) Availability of certain timber products will be 10-20 years in the future, probably in the form of fuelwood and pulpwood through a thinning operation. Whole tree harvesting can generate some income through the sale of fuelwood chips in this size class.

These areas of diverse habitat are beneficial for many species of wildlife providing browse, brushy cover and early successional fruit bearing plants and shrubs.

POLE TIMBER (Four to 10 inches dbh) Some products are available for harvest in the form of fuelwood, pulpwood and small sawlogs. Proper thinning improves the future growth potential of saw timber trees, available in 15 to 20 years. These areas provide travel corridors between habitats, cover, nest



* dbh = diameter at breast height, 4.5 feet above the ground

ing and tree cavity sites. Some trees are starting to produce mast crops (berries and nuts) as a food source.



SMALL SAWTIMBER

(10 to 16 inches dbh) Moderate product volume and value per acre may be available through a thinning operation depending on the density of the stand. Another harvest of larger sawtimber may be possible in 10 to 15 years. Cover, travel corridors and increased mast are continued wildlife

benefits. Thinning increases stand diversity and encourages some of the browse and brushy conditions present in the seedling/sapling areas.

LARGE SAWTIMBER

(16+ inches dbh) Maximum amount of forest products are available for harvest. Depending on species and site, 75 to 100+ years are required to bring trees to this stage of maturity. Periodic, light, selection harvests every 10 to 15 years throughout maturity can often be maintained while en-



couraging re-establishment of the forest and the vigorous growth of all other size classes. Other harvest methods may be necessary for successful regeneration of the forest. Continued mast production, more snags or cavity trees and cover are wildlife benefits. Reestablishing the browse and brushy benefits and diversity of an early successional forest requires creating openings during any harvest operations.

Each woodlot is unique and may contain trees in all size classes in any combination, or the area can be homogeneous and contain all the same species and size

classes. Soil type, slope and exposure are all factors which determine site productivity and the potential of a particular parcel. Improvement practices don't need to be tied to commercial harvest operations. Wildlife habitat and forest growth enhancement often involve pre-commercial, non-revenue activities. Professional help by a qualified forester is invaluable in helping determine the capabilities of your woodland.

Taxes

Consider the following important tax issues:

- Annual property taxes based on the assessment of the land (which doesn't include the value of the timber)
- New Hampshire severance tax (RSA: 79) payable at the time the timber is harvested
- Federal income taxes on the revenue from the sale of forest products

Annual Property Taxes

New Hampshire has a current use assessment law (RSA 79-A), a voluntary property tax option to help landowners keep their ownership undeveloped. The option assesses land at a rate consistent with its present use rather than its highest and most valuable use which is usually development. Current use assessment is available to all landowners with 10 or more acres of qualifying property. Some agricultural acreage and wetland of less than 10 acres can also qualify if it meets certain requirements. It reduces annual property taxes and stays with the land in perpetuity until the actual use of the land changes to a non-qualifying category.

In exchange for the reduction of taxes, land in the program is subject to a penalty tax equal to 10 percent of the fair market assessment of the portion of the property that is changed at the time the land is converted to a non-qualifying use. There are no buy-out provisions once land has been accepted for current use status. The land can be sold or subdivided without penalty as long as the use and acreage still meet current use requirements.

Basic categories of current use are forest land, farmland and unproductive land (including wetland). Each category has its own requirements, restrictions and recommended assessment rates. An additional 20% assessment reduction is available for those landowners that keep their land open to the public for certain uses such as hunting, fishing and hiking.

A title search reveals whether or not the land is enrolled in current use. Your objectives in owning woodland should be reviewed before either purchasing

land already in current use or placing your present ownership in the program. Be sure you understand the full implications of current use assessment.

Updated guidelines are available from local assessing officials, county UNH Cooperative Extension offices, the NH Dept. of Revenue Administration in Concord and others.

New Hampshire Timber Tax

Timber isn't assessed and taxed annually as part of property taxes. It is, however, subject to a 10% severance tax (RSA: 79) based on the value of the standing timber at the time it's harvested. The owner of the timber at the time of harvest is responsible for payment to the town in which the land is located. All revenue from this tax goes directly to the town.

For updated information, contact your UNH Cooperative Extension Educator, Forest Resources, local assessing officials, the NH Dept. of Revenue Administration or the NH Division of Forests and Lands.

Federal Income Taxes

Forest management is a long-term prospect, often involving decades of management and risk before any financial returns are realized. While woodland ownership doesn't provide a tax shelter, tax considerations can improve the rate of return on your investment. Short term investors and speculators may want to search elsewhere for a quick return.

Three major tax considerations are costs of management and ownership, depletion allowance and capital gains treatment of revenue. Ownership objectives, type of ownership, frequency of activity and the level of owner participation in management determines the extent to which landowners can avail themselves of certain tax considerations.

Costs

Some costs associated with ownership and management can be deducted annually as an expense while others must be accumulated (capitalized) and deducted at the time of a timber sale.

Capitalization of costs is the accumulation of costs until the woodland produces income. At that time, capitalized costs can be deducted from revenue to reduce the amount subject to taxation. Examples include legal and survey costs, purchase price of timber, equipment purchase and road construction.

Current expenses are ordinary and necessary expenses incurred for the production or collection of income or for the management, conservation or maintenance of property held for the production of income. They are deducted in the year they are incurred. Some examples include costs of small tools, maintenance of equipment and boundary maintenance.

Some costs can be either capitalized or counted as an expense. Your current financial picture will be a factor in deciding whether you want to deduct certain costs now against current income or wait and deduct them from future revenues from your woodland. Examples include: interest payments, property taxes and woodland improvement costs.

Once you report your costs to the Internal Revenue Service by a specific method, you must be consistent for future reporting purposes.

Depletion Allowance

Depletion is the reduction or exhaustion of an asset such as timber or other natural resources. For timber purposes, it's based on cost. Cost depletion allocates to each unit of production a share of capitalized (accumulated) costs. For each 1,000 board feet (Mbf) or cord of wood presently growing on the woodlot, a specific cost is associated. Each time a unit (Mbf or cord) is harvested, the resource is decreased (depleted) by that amount and the per-unit cost is subtracted from any revenue received.

The initial cost of only the timber at the time of purchase plus any capitalized costs are used to determine the amount of the depletion allowance.

$$\text{Depletion Allowance} = \frac{\text{Timber Value}}{\text{Merchantable Volume Available}}$$

It's important to know exactly what your costs are, including the portion of the purchase price you allocate to the timber. An inventory by a licensed forester will determine this for you. Any cost associated with the land is recovered for tax purposes when the land is sold.

Capital Gains Consideration

A capital gain is the difference between what was received for the sale of an asset (timber, land, equipment) and its original cost, including improvement or maintenance costs.

The rate at which the gain is taxed and the minimum period of time you must own the asset to take advantage of long-term capital gains treatment is subject to

congressional action. At present, the asset must be owned for at least 12 months before selling and is taxed at a maximum rate of 20 percent.

The amount subject to taxation figured by using capital gains would be computed according to the following method:

$$\text{Gross Income} - \text{Sale Expenses} - \text{Depletion Allowance} = \text{Net Income} = \text{Taxable Income}$$

Taxes can be a major consideration in the ownership of woodland. Tax provisions and procedures are subject to change by the Internal Revenue Service and/or Congress. It is advisable to keep informed. Computations are often difficult and confusing. Contact a qualified professional (forester, accountant, lawyer or tax consultant) for assistance.

Land Protection

Landowners interested in keeping their property intact and undeveloped have some options available. Current use assessment provides some protection.

The establishment of trusts, wills, gifting and other estate planning techniques keep property in family or designated heir ownership but doesn't necessarily provide permanent protection.

To permanently protect the property, landowners may bequeath, gift or sell their property to a qualified public entity or organization with ownership covenants and use conditions for the future use of the property.

Another option is to grant a conservation easement where just the development rights of the ownership (can be all or just some of your total property) are sold, gifted or bequeathed to qualifying public or private organization. Each easement is unique and is crafted to meet the wishes of the landowner, the natural characteristics of the land and the objectives of the public or private entity that will be the easement holder.

Regardless of the size of the property, the process for completing an easement is generally the same. While the option of selling an easement is often preferred by some people, public and/or private funds aren't always available. Gifting the value of the easement is another often used procedure that can provide significant tax advantages to the donor. Each estate planning and permanent protection technique is different, depending on the requirements and wishes of individual landowners. The services of a qualified professional is recommended to assist with these issues.

Where to Get Help

Private licensed forestry consultants can evaluate woodland both before and after purchase. For a fee, you can get an evaluation of the productivity and potential of your woodland. This is money well-spent considering the information gained. Private consultants can administer a timber sale for you and provide tax advice or refer you to someone who can.

Once the title is transferred, the UNH Cooperative Extension Educator in Forest Resources in the county the property is located is available to assist you. This may include a personal consultation and/or site visit at no charge. While the county Extension Educator isn't authorized to provide you with detailed volume and value data, or administer a timber sale for you, the information provided will give you a sound base for making informed decisions about the ownership and management of your forest resources. Specific volume data are best provided by a private licensed forester through a detailed cruise of your property.

Additional information and a number of publications are also available from the county Extension Educator in Forest Resources supported by a number of UNH Cooperative Extension natural resource forestry and wildlife specialists at UNH in Durham.

County Extension Educators in Forest Resources and county Agricultural Extension Educators (if you need agricultural information about your land) can be contacted at the following UNH Cooperative Extension offices:

Belknap County

36 County Drive
Laconia, N.H. 03246-2900
603-527-5475

Carroll County

PO Box 860
75 Main Street
Center Ossipee, N.H. 03814
603-539-3331

Cheshire County

800 Park Avenue
Keene, N.H. 03431
603-352-4550

Coös County

629A Main St.
Lancaster, N.H. 03584-9612
603-788-4961

Grafton County

785 Dartmouth College Hwy, Box 8
North Haverhill, N.H. 03774
603-787-6944

Hillsborough County

Chappell Professional Center
468 Route 13 South
Milford, N.H. 03055
603-673-2510

Merrimack County

315 Daniel Webster Highway
Boscawen, N.H. 03303
603-225-5505

Rockingham County

113 North Road
Brentwood, N.H. 03833
603-679-5616

Strafford County

259 County Farm Road Unit 5
Dover, N.H. 03820-6015
603-749-4445

Sullivan County

24 Main Street
Newport, N.H. 03773
603-863-9200

UNH Cooperative Extension maintains a website and provides links to a number of state, federal and university sites. Visit the site at <http://ceinfo.unh.edu>.

In cooperation with the NH Division of Forests and Lands, UNH Cooperative Extension Forestry and Wildlife program staffs the Forestry Information Center providing information, publications and referrals for woodland owners. Call the center at 1-800-444-8978.

The federal government often provides cost share funds as an incentive to help defray the cost of sound forestry, wildlife and conservation practices. Programs may vary if available and might be administered through a federal agency in the county such as the U.S. Dept. of Agriculture Farm Service Agency or the Natural Resource Conservation Service. Contact your county Extension Educator in Forest Resources or the USDA agencies for current information on cost-share programs. Soils, drainage and erosion control information and assistance can be obtained at the USDA Natural Resource Conservation Service office located in your county.

A number of statewide agencies and organizations are interested in the concerns of forest land ownership and stewardship and can offer a variety of assistance and direction. New Hampshire's Forest Stewardship Program, promoting a sound stewardship ethic, helping landowners learn more about their forest land, is supported by a coalition

of 40 public and private agencies and organizations.

Owning and managing a piece of the forest can be a rewarding experience. An attempt has been made to acquaint you with some factors to consider. Assessing your objectives, knowing what you have and where it is and using available resources in helping make decisions will make your woodland ownership very gratifying.

Questions To Consider

Land

- What are your reasons for owning land?
- Does the property have the characteristics necessary to meet your objectives?
- Is there a survey map of the property prepared by a licensed land surveyor?
- Is the deed written to include specific bearings and distances?
- Is it a warranty or quit claim deed?
- Are the boundary lines blazed and painted?
- What is the volume and value of timber on the property?
- What tree sizes and species are present on the parcel?
- Do you expect your forest land to produce income?

Taxes

- What is the annual property tax?
- Is the parcel currently enrolled in current use assessment program?
- In what category has it been enrolled?
- How recently has the town been re-appraised?

Assistance

- Do you know where to get help and advice?
- Have you sought the advice of a licensed professional forester?
- Are you aware of other organizations or agencies which provide help?

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