COST-SHARING PROGRAMS AND TAXES FOR FOREST LANDOWNERS

DR. TAMARA L. CUSHING
UNIVERSITY OF FLORIDA
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?
COMPLETE THE APPLICATION!
COMPLETE THE APPLICATION!

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
   - [ ] Environmental Quality Incentives Program (EQIP)
   - [ ] Wetland Reserve Easement
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):

   [ ] 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
“…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

<table>
<thead>
<tr>
<th>STEP 1</th>
<th>STEP 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% × Average annual income from the affected acreage in the past 3 years</td>
<td>$2.50/ac × affected acreage</td>
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<table>
<thead>
<tr>
<th>STEP 3</th>
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<tbody>
<tr>
<td>The <strong>larger</strong> number from Step 1 and 2 Farm Credit Bank interest rate</td>
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<tr>
<th>STEP 4</th>
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<tr>
<td>Compare number from Step 3 and cost-share payment received. <strong>Smaller</strong> amount is excludable</td>
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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%.

<table>
<thead>
<tr>
<th>STEP 1</th>
<th>10% × $0.00</th>
<th>10% x Avg Ann. income from affected acres in past 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEP 2</td>
<td>$2.50 × 100 = $250.00</td>
<td>$2.50/ac x affected acreage</td>
</tr>
<tr>
<td>STEP 3</td>
<td>$250.00 ÷ 5.09% = $4,912</td>
<td>The larger number from step 1 &amp; 2 ÷ Farm credit bank interest rate</td>
</tr>
<tr>
<td>STEP 4</td>
<td>$4,912 vs. $6,000</td>
<td>The smaller of the numbers from Step 3 &amp; cost-share payment received</td>
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What if he had $9,600 of income from the 100 acres in the last three years?

<table>
<thead>
<tr>
<th>STEP 1</th>
<th>$10% \times \left(\frac{$9,600}{3}\right) = $320</th>
<th>10% \times \text{Avg Ann. income from affected acres in past 3 years}</th>
</tr>
</thead>
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<tr>
<td>STEP 2</td>
<td>$2.50 \times 100 = $250.00</td>
<td>$2.50/\text{ac} \times \text{affected acreage}</td>
</tr>
<tr>
<td>STEP 3</td>
<td>$$320.00 \div 5.09% = $6,287</td>
<td>The larger number from step 1 &amp; 2 $\div$ Farm credit bank interest rate</td>
</tr>
<tr>
<td>STEP 4</td>
<td>$6,287 \text{ vs. } $6,000</td>
<td>The smaller of the numbers from Step 3 &amp; cost-share payment received</td>
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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?

tcushing@ufl.edu