Proposed Federal Income Tax Credits for Small-Diameter State-of-the-Art Logging, Yarding, Hauling, and Milling Equipment to Aid Ecological Restoration of Pacific Northwest Federal Public Forestlands[1]

Need

Millions of acres of federal forests in the West are overgrown and in need of ecological restoration. Most plantations (generally of one species, even age and even spacing) can benefit from variable density thinning to accelerate the onset of late successional characteristics. Due to fire suppression and high-grade logging, many dry ponderosa pine and dry mixed-conifer forest stands are being encroached by young trees that both can (1) carry otherwise beneficial surface fires into the residual old-growth forest overstory and (2) out-compete old trees for scare site moisture resulting in the early death of the old trees. Appropriate thinning can, in part, restore the health of such forests and reduce the risk of uncharacteristic fire. Making restoration-based thinning of degraded forests more economically viable could also help free up funds for other restoration that has been long neglected and under-funded such as road removal, culvert replacements to enhance fish passage, etc.

Caveat

The provision of federal tax credits for new equipment is a necessary—but not the only critical—element for the timber industry to invest in the equipment to do the forest restoration that is both ecologically imperative and socially acceptable. Unless industry can foresee an adequate and reliable supply of small logs coming off federal lands for the length of time necessary to amortize their investments, such tax credits will go unclaimed.

The only way to assure such a supply of logs is for Congress to enact legislative protection that (1) save old trees and stands; and (2) direct restoration thinning of (a) plantations (to accelerate the onset of late-successional characteristics), and (b) fire-suppressed dry ponderosa pine and dry mixed-conifer forests (to restore the natural and fire-resistant character of the old trees and stands). While restoration thinning—as part of a comprehensive restoration strategy for federal forestlands—can be accomplished within the existing framework of federal environmental laws, addition direction, contract authority and funding from Congress to the federal forest management agencies is also required.

When the federal forest agencies are prohibited from cutting trees the public doesn't want logged and directed to cut trees the public does want logged, public controversy over federal forest management will diminish and public consensus will increase.

Overview

[1] This paper only addresses Pacific Northwest federal public forestlands. Situations are similar on may other federal public forestlands in the West and such a tax credit may be also be appropriate. However, there is a uniqueness to Pacific Northwest federal forestlands that makes it easier for conservation organizations to support such generous tax credits to the timber industry: landscape level conservation plans. The Northwest Forest Plan (westside forests) or the Eastside Screens/InFish/PacFish policies in place for eastside forests (those federal forestlands in Oregon and Washington not within the range of the northern spotted owl) significantly limit the cutting of old trees, provide stream protections, etc. A similar level of protection is provided by the Sierra Nevada Forest Framework. As the rate of forest destruction has markedly declined, such makes it possible for the conservation community to be able to emphasize forest restoration.

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Proposal: A five-year federal income tax credit for milling, logging, yarding and hauling equipment to facilitate ecological restoration on federal public forestlands in the Pacific Northwest.

Amount: 50% of capital cost taken at 10% per year for five years.

Transferability: For those entities not having an adequate tax liability to utilize such tax credits, it is recommended that such credits can be "passed through" at a fairly discounted price to entities that do. The price would be set by regulation and based on fair rate of return for the pass-through option buyer. Such is done for State of Oregon Department of Energy (ODOE) Business Energy Tax Credits (BETCs). Using the current ODOE formula, the pass-through option rate for a 50% credit would be 36.4%. For example, an independent logging company qualifies for a $250,000 federal income tax credit for purchasing qualifying equipment worth $500,000. However, the company doesn't project $50,000 per year federal income tax liability for the next five years to utilize the tax credit. It could "sell" the tax credit to a firm that does have such a liability, such as the lumber mill from whom the independent operator has a business relationship. The seller of the pass-through option would immediately receive $182,000 from the pass-through buyer, who would recoup the investment and receive a reasonable rate of return on the investment in the form of reduced income taxes over a 5-year period.

Other Tax Credits: Any other available federal tax credits, if taken, or any state tax credits, would be deducted from the available federal tax credit. For example, a new log milling facility in Oregon received a 35% BETC (the Oregon Legislature recently upped it to 50%) as it was associated with a biomass energy facility. If this proposed federal tax credit was available today and the state credit were applied for today, the new facility would cost $0 to the company. The purpose of the proposed tax credit is to leverage private investment, not replace it.

Geographic Area of Pilot Program: Eligibility would be limited to companies with facilities primarily operating on federal forestlands within Washington, Oregon and that portion of California within the range of the northern spotted owl (Northwest Forest Plan) and that portion of the Modoc National Forest in California not included within the Sierra Nevada Framework.

Specifications for Qualifying Equipment

The Secretary of Agriculture (Forest Service) would be required to certify a list of eligible equipment.

Milling Equipment: Such equipment must:

1. be able to process a log at least 8.5 feet in length and 4 inches in diameter at the top end; and
2. not be able to process a log over 15 inches in diameter.

Logging Equipment: Such equipment must:

1. have a ground-pressure in the lowest 20% for each class of equipment; and

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2. contribute materially to enable the operator to perform a logging operation on federal forestlands that leaves a minimum of 90% of an activity area left in condition of acceptable productivity potential vegetation by minimizing or avoiding surface erosion and soil mass wasting;[2] and
3. at least 65% of the material processed by the eligible equipment must come from federal forestlands (Forest Service and Bureau of Land Management), or forestlands (1) held in trust for Indian Tribes; (2) owned by state, local or tribal government; or (3) owned by a non-profit organization within the geographic area of the pilot program.

Examples of such equipment might include:

Cut-To-Length Harvesters	Hightrack Tractor With Center Drive	Forwarders
Chippers	Brush Transport Systems	Slash Bundlers
Biomass Harvesters	Small-Diameter Milling Equipment	Tub Grinders
Feller Bunchers	Chip Haulers	Self-Loaders
New "Spider" Equipment		

Expected Demand for Tax Credits

The total estimated cost of the proposed federal income tax credit is $120 million, broken out as:

$70 million	Large Firm Milling Equipment
$12.5 million	Small Firm Milling Equipment
$37.5 million	Logging Equipment

Geographic Subregion	Timbershed	Counties
Eastern Oregon	Blue Mountains	Baker, Grant, Harney, Malheur, Morrow, Umatilla, Union, and Wallowa
	North Central	Crook, Deschutes, Gilliam, Hood River, Jefferson, Sherman, Wasco and Wheeler.
	South Central	Klamath and Lake
Western Oregon	Willamette	Clackamas, Linn, Marion and Multnomah
	Eugene	Lane
	Roseburg	Douglas
	Medford	Jackson and Josephine

[2] "Productivity potential" is measured considering detrimental compaction, puddling, and displacement.

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	South Coast	Coos and Curry
	North Coast	Benton, Clatsop, Columbia, Lincoln, Polk, Tillamook, Washington, Yamhill
Western Washington	North Coast	Clallam, Jefferson
	South Coast	Grays Harbor, Pacific
	Southwest	Lewis, Wahkiakum, Cowlitz, Skamania and Clark
	South Puget Sound	Mason, Kitsap, Thurston and Pierce
	North Puget Sound	Whatcom, San Juan, Skagit, Island, Snohomish and King
Eastern Washington	East Cascade	Okanogan, Chelan, Douglas, Kittitas, Yakima, Klickitat
	Inland Empire	Ferry, Stevens, Pend Oreille, Lincoln, Spokane, Grant, Adams, Whitman, Benton, Franklin, Walla Walla, Columbia, Garfield and Asotin
Northern California	Northwest Coast	Del Norte, Humboldt
	Mendocino	Mendocino, Lake, Colusa, Glen and Tehama
	Klamath Basin	Siskiyou and Modoc
	Shasta-Trinity	Shasta and Trinity

Milling Equipment

Large Facilities: It is projected that one firm in each of 20 "timbersheds" (see table below) will take advantage of the tax credit and that the average cost of the new facility is $7 million (1 * 20 * $7,000,000 * 50% = $70,000,000)

Small Facilities: It is projected that 50 small firms across the geographic region will take advantage of the federal income tax credit by purchasing portable milling equipment valued at $500,000 (50 * $500,000 * 50% = $12,500,000).

Logging & Hauling Equipment

It is estimated that five firms operating primarily in each of 20 timbersheds (see table above) will take advantage of the tax credit and that the average cost of the qualifying equipment is $750,000 (5 * 20 * $750,000 * 50% = $37,500,000)

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