

A Tax Incentive for Forest Landowners

by Mimi Barzen

Everybody has an interest in money, so what goes hand in hand better than a tax incentive and landowners?

Beginning this year, a new tax program called the Sustainable Forestry Incentives Act (SFIA) makes its debut. It is designed to encourage landowners to manage their property sustainably, and if done with the assistance of a professional forester, an annual incentives payment will be made based on the number of forested acres the landowner owns.

Too good to be true?

It's not the case this time. Of course, there are other stipulations to be followed, but the basis of the law is to help landowners practice sound forest management and to be good stewards of the forest land under their care. The proverbial "icing on the cake" is a decrease in property taxes, creating a win-win situation benefiting not only the landowners, but the forest itself.

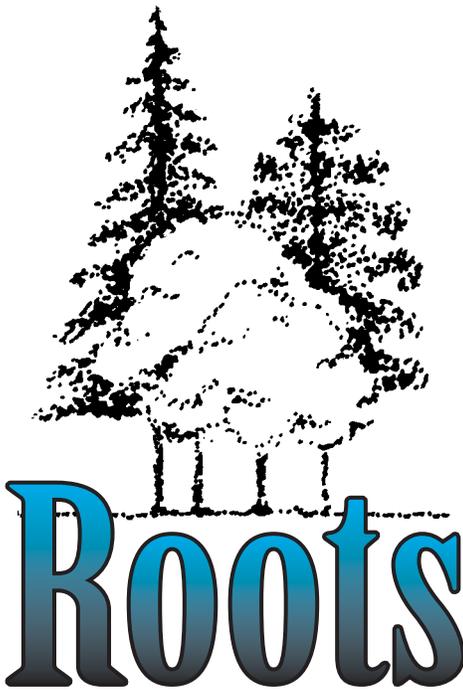
A law is a regulation and all regulations have rules. The SFIA is no exception. Although there is no maximum number of acres that can be enrolled in the program, a landowner must have at least 20 contiguous acres of which 10 must be forested. The land can be in any tax classification, but it cannot be used for agricultural or residential purposes and it must not be enrolled in a farm program such as Reinvest in Minnesota or the Conservation Reserve Enhancement Program.

To guide landowners to manage sustainably, a forest management plan written by a professional forester and updated every 10 years is required. The recommendations included in the plan, which are written with the landowner's goals in mind, must be followed. In addition to the recommendations, the plan will also include an inventory of all the forest cover types, the age of the trees, a description of all soil types found on the property, a map of the ownership, and a recommended timetable for implementing management activities.

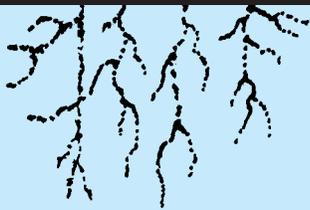
Eligibility

What sets this law apart from previous tax laws is that it is offered statewide and eligibility is based not on the "forty" or parcel size. It is based on the number of forested acres enrolled and if total acreage placed in the program is less than 1,920 acres, public access is not required. The formula used for calculating payments will be standard statewide, but the payment per acre can change year to year. As with other tax programs, there is a minimum enrollment period of eight years, after which a landowner can back out of the program without penalty. Re-enrollment is possible once the land has been out of the program for three years.

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A newsletter that gets to
the bottom of things



Minnesota Department
of Natural Resources

Division of Forestry

February 2002

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A host of players, including the departments of Revenue and Natural Resources, Minnesota Forest Resources Council, UPM–Blandin, Minnesota Forestry Association, Potlatch, Minnesota Forest Industries, University of Minnesota–Department of Forest Resources, and numerous others, spent several years refining and fine-tuning the proposal before presenting it to Minnesota legislators. The bill was passed in the 2001 session. To make the bill “user-friendly,” language was created to include as many landowners as possible.

How is this law different?

There are two big differences between this law and previous ones. The first is the ability of a landowner to exclude acreage from the SFIA that is ineligible without having to remove an entire “forty” or parcel. The minimum exclusion is three acres. The other difference is the inclusion of lakeshore as eligible acres. This opens the door to thousands of landowners with lakeshore property and/or a cabin or other structure on the property. Landowners in the farm belt can include their forested acres as long as 20 acres of wooded land are contiguous or adjacent on one site. If a road, power line, or other obstruction is the only item dividing the land, it is still considered contiguous. After meeting the first 20 contiguous acres, other parcels can be smaller and/or noncontiguous.

How does it all work?

A landowner who wishes to enroll and has a qualifying plan for a parcel with no delinquent taxes, must file a covenant in the county recorder’s office where the land is located. This covenant states the land will be managed in a manner consistent with the SFIA and the application is in effect for at least eight years. The covenant runs with the land, not the landowner, so if the property is sold prior to the end of the eight-year agreement, the new landowner has to abide by the covenant.

Once the covenant has been filed, the landowner can apply to the Department of Revenue for

submission into the SFIA. Applications will be available sometime in late July at county offices and may even be available online. After the initial application is approved, landowners will receive a certification card by July 1 of each year that must be completed and returned to the Department of Revenue by August 15. Landowners signing the certificate verify they are still in the program, owe no delinquent taxes, and are following the recommendations of the forest management plan. An incentives check will be mailed to the applicant by October 1 of each year. Minimum payment is \$1.50 per acre enrolled. The Department of Revenue has estimated that the payment for the first year will be \$2.60 per acre. Since these payments are an incentive, they are considered taxable income and are subject to revenue recapture if other payments are owed to the government.

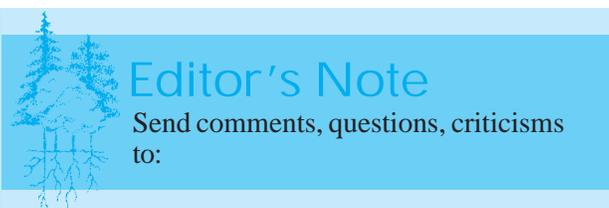
Program termination

If, after eight years landowners want to leave the program, they can request termination. Landowners must wait three years before submitting another application for the SFIA program for the same acres. Landowners may also be removed involuntarily if it is found there are delinquent taxes, development inconsistent with the plan is occurring, or forest management guidelines are not being followed. All acres in the program will be removed regardless of how many acres are found to be in violation. The penalty for removal is repayment of all incentives for the past four years, plus interest.

In summary

As with all new programs, there will be some bumps along the way as everyone absorbs the details. But for landowners already managing their land with stewardship in mind and those interested in joining this growing contingent, the law is a win-win situation. With free professional assistance available, healthier forests will benefit not only the landowner, but all Minnesotans.

See “question and answer” section on page 5.



Editor’s Note
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Frequently Asked Questions About the Sustainable Forest Incentives Act (SFIA) Program

by Mimi Barzen

- 1. Who can apply?** Anyone who owns 20 or more contiguous acres, 50 percent of which is forested, may apply. Roadways, water, power lines, etc., may bisect contiguous parcels as long as they are otherwise adjoining. However, there can only be one claimant per parcel of land. If more than one individual or group owns the land, the group needs to decide who will receive the payment.
- 2. If I have more than one parcel of land, do I need more than one application?** No. Each claimant needs to file a “covenant” with the county recorder. The covenant includes all parcels that will be enrolled in the SFIA and states the landowner will comply with the rules consistent with sustainable forest management. A covenant may include more than one parcel whether or not the parcels are contiguous. However, the covenant only covers land in the county in which the covenant was filed. A covenant must be filed in every county where the claimant owns property to be included in the SFIA.
- 3. Are there any other requirements to join the SFIA?** Yes. There cannot be any delinquent property taxes prior to enrolling in the program, and property taxes must remain current while enrolled in the SFIA. The landowner must also agree to use the forest management guidelines created by the Minnesota Forest Resources Council. The land must be enrolled in the SFIA for a minimum of eight years and have an active forest management plan less than 10 years old prepared by an approved plan writer.
- 4. How do I know if my plan will be approved?** The departments of Revenue and Natural Resources have up-to-date lists of approved plan providers. Plan providers may include natural resource professionals who are self-employed or work for private companies, nonprofit groups, local units of government, or public agencies.
- 5. What items must be included in a plan?** The plan must consist of the landowner’s goals for the property, a legal description, an inventory of the forest cover types, a map of the vegetation and boundaries, the proposed future conditions, an activity timetable, and other information pertinent to the management of the forest. For ownerships larger than 1,920 acres, more than one document may be used in place of a single plan. The Department of Natural Resources will work with the claimant to determine what is acceptable.
- 6. Do I have to follow the plan to be eligible for a payment?** Yes. Each plan will include a calendar of management activities. To remain eligible for reimbursement, the timetable must be followed to a reasonable degree.
- 7. Can my home be included in the plan?** No. Land that is not eligible in the SFIA includes residential lands, agricultural lands, or lands enrolled in Reinvest in Minnesota or a federal conservation easement program (including the Conservation Reserve Program). In addition, land improvements such as pavement, sewer, campsites, roads, or any others not required for forest management activities cannot be included.
- 8. If I have any of the items listed above, can they be excluded from the SFIA?** Yes. Any portion of a parcel of land that has improvements not necessary for sustainable forest management must be deducted from the total acreage of the plan. The minimum deduction is three acres for each area excluded.
- 9. What if I have nonforested land that is not used for agriculture?** Open water, less than three acres in size, can be included as part of the forested land. Larger areas must be excluded. Marshes and other wetlands not capable of growing trees but having a significant impact on forested land because of their existence, are eligible for SFIA. This also includes land that may have been an agricultural field in the past but has recently been planted for reforestation or Christmas trees.
- 10. Will anyone come out on my land to verify I am complying with the SFIA?** This program does use the honor system and self-certification. By July 1 of each year, all SFIA participants will receive a certification form with which to verify their compliance. If, however, someone is not complying with the requirements and it is brought to the attention of the Department of Revenue, the agency will take appropriate action.