Applying Clean Tax Cuts to Agriculture & Forestry

Note: *This document compiles policy proposals from many sources for purposes of discussion. Inclusion here does not imply that any of the sponsoring organizations would ultimately endorse any specific proposition as public policy.*

The Grace Richardson Fund, The Nature Conservancy, Climate Advisers, and the Rodale Institute co-hosted a full-day charrette (workshop) at The Nature Conservancy's Worldwide Office in Arlington, Virginia on April 3, 2017 to explore the potential for applying Clean Tax Cuts to the U.S. agriculture and forestry sectors.

The land-based sectors present unique challenges for developing CTC ideas that are straightforward to measure and apply consistently. We assembled a group of experts from the U.S. agriculture and forestry sectors, including businesses and non-profits, who are working on improving environmental and sustainability practices in these areas. Their task was to identify what is "clean" for the purposes of CTC, what taxes are typically paid and could be reduced as a policy incentive, and what specific mechanisms might be devised to deliver a tax cut.

Proposals discussed at the charrette which the participants felt merited further exploration and support included:

1. To provide farm and forest landowners who are often 'cash poor land rich' landowners with more capital on an after-tax basis and to address the CTC problem of preventing further habitat fragmentation, the Federal tax code could be amended to provide that landowners who sell land and/or easements for conservation purposes, should be entitled to exclude the entire capital gain from the sale from being subject to tax. The current Federal tax code provides for deductions for gifts of easements but in many cases, farm and forest landowners need cash payments to secure the capital value of their land asset. This proposal would enable landowners to realize the full capital value from their land at the same time that CTC goals are achieved.

2. Another proposal deserving of support involves the GOP Better Way Tax Plan which includes a proposal to repeal the current income tax deduction for state and local tax payments that is available to individual taxpayers. The tax deduction for property taxes on forested lands should be retained as an incentive to keep forests in forests consistent with CTC goals. Property taxes are the largest cost that forest landowners face on an annual basis so this proposal could be a meaningful incentive to prevent habitat fragmentation and to achieve CTC goals.

3. Tax cuts could be provided for developers who use certified wood products thereby creating demand for forest-certified products over other sources of wood products and thus providing support for the conservation of forests. A variation of this proposal would be to provide homeowners with tax reduction for a lower mortgage rate where the homeowner uses certified wood products for home remodeling or reconstruction projects.

4. A current carbon tax credit for geological sequestration at $23/metric ton [8933 (hybrid credits /cuts)] could be expanded to cover biological sequestration. It could also be made tradable and transferable to any taxpayer so they could cut their taxes. This would allow for greater market participation.

5. CTC could propose to allow for a 50% tax rate cut (following the GOP Better Way tax plan) on otherwise taxable income derived from loans, insurance and property, plant and equipment (PPE) revenues for companies servicing farming and forestry lands that are used sustainably and/or provide for a 50% tax rate cut on sales by consumer goods companies of "certified" sustainable products. Banks and other service companies could pass on discounted rates to farmers meeting sustainability criteria.

6. To secure investments in qualifying green or sustainable infrastructure, the tax code could authorize green bonds which would provide tax credits to bond investors where the proceeds from bond investments were made in sustainable lands, farms and forestry. The definition of 'green infrastructure' could be developed to reflect 'clean tax cut' principles and could be included in a proposed infrastructure program being considered by the current Administration. This proposal could be modeled on the current New Markets Tax Credit program (which will need to be re-authorized) and which provides an income tax credit to investors in job-producing projects that are in specified poverty areas around the country.

7. Enhanced tax advantages could be provided for 'on-farm' renewable energy production (solar, wind, bioenergy) to support farm incomes and farm conservation. This could be stacked on top of organic or other certifications (but without double-counting). Tax reductions on renewables could also benefit from green bond proposals and reduced rates on loan interest.

8. CTC could propose tax cuts as an incentive for an organic transition. Crop insurance companies could get a tax cut for providing crop insurance to transitional farms at heavily discounted rate. (Note there is an existing conservation compliance rule associated with crop insurance in the Farm Bill that needs to be protected. It establishes conservation performance requirements to get insurance subsidy and provides Environmental Quality Incentive Program (EQIP) funds linked to help farmers comply.)

9. The CTC agenda could incentivize forest replanting and restoration by creating forestry income tax reduction (or possibly a tax exclusion) on harvested timber (which currently is subject to regular capital gains tax treatment).