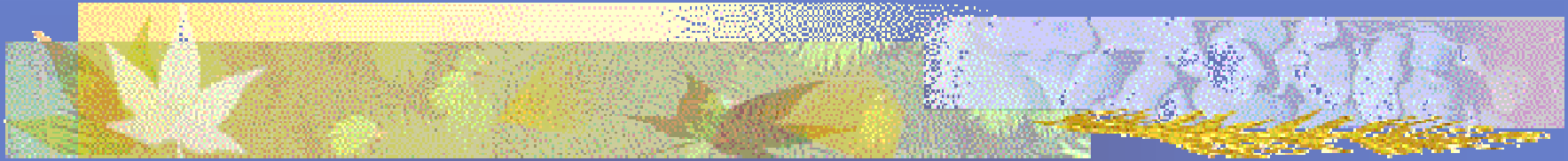


Economic and Tax Issues at the Southern Wildland-Urban Interface



Steverson O. Moffat and John L. Greene



Topics

- Economic Issues and the Interface
 - Historical trends in the South
 - Macroeconomic trends
 - Microeconomic trends
- Tax Issues and the Interface
 - Federal taxes
 - State taxes
- Existing Economic and Tax Tools



Background: Historical Trends

- From settlement through mid 20th century
 - Agrarian, rural society
 - Dispersed population
 - Few metropolitan areas
- Modernizing the southern economy
 - Tax incentives
 - Northern capital
 - Transient industries
 - Consequences, then and now



Background: Historical Trends

- Since 1978:
 - South gained 4 out of every 10 jobs in U.S.
 - Jobs increased 54% in south vs. 38% in U.S.
- Economic Engines:
 - A generation ago - - tobacco, textiles, low-skilled manufacturing, and Northern capital
 - Now - - automotive, banking, chemical, computer, services, and global capital



Macroeconomic Trends

- Related to efforts to improve the economy
 - Incentives for/by govt's to facilitate development
 - Research triangle model
 - More companies, residents
 - Raises cost of living in urban zones
 - Encourages new, less expensive development
 - Zoning, or lack thereof



Microeconomic Trends

- Costs, prices borne by individuals and others
- Monetary - - costs calculated in dollars
- Non-monetary - - costs difficult to monetize



Microeconomic Trends

- Cost of community services studies
 - For each \$1.00 of revenue generated:
 - Rural/forested land incurs .15¢ - .80¢ in services
 - Commercial development incurs .15¢ - .47¢
 - New residential development incurs \$1.04 - \$1.55
 - Does not include non-monetary forest values
 - Associated problems



Microeconomic Trends

- Associated problems
 - Lag-time between development and services
 - Emergency units' response times suffer
 - Overcrowding in schools
 - Traffic delays
 - Household transportation costs
 - Loss of center city services



Microeconomic Trends

- Affects on rural landowners
 - Rising land prices
 - Reduced rates of return to agriculture
 - Increased opportunity costs
 - Reduced opportunities for forest management



Tax Issues

- Affect every aspect of land ownership
 - Land is taxed
 - Income derived from the land is taxed
 - Land transfers between generations are taxed
 - Transfers of assets between generations are taxed
 - Removals of timber and minerals are taxed
- Structure can accelerate or shape change
- Federal and state taxes examined



Federal Taxes

■ Income Taxes

- Greatest economic effect of any tax on land
 - Applies uniformly across south
 - Rates are high compared to most other taxes
 - Increases variable costs of owning and managing land
 - As opportunity costs rise, income tax a bigger factor
- Some provisions designed to assist rural owners
 - Income averaging for farmers
 - Exclude qualifying cost-share payments
 - Amortize reforestation expenses over 8 tax years



Federal Taxes

■ Estate taxes

- Exemption \$1MM in 2002... \$3.5MM in 2009
- Rising land and timber prices push some rural landowners over this amount

■ Gift taxes

- Up to \$11,000 per recipient per year exempted;
- Plus, from 2002, \$1MM in lifetime gifts

■ Estate planning, while expensive:

- Can prevent the need to sell land to pay tax
- Underutilized; Not planning is expensive, too



State Taxes

■ Income taxes

- Vary among the southern states
- Lower rates than the federal income tax
- Similar impact as the federal tax

■ Estate, inheritance, and gift taxes

- Vary among the southern states
 - Estate, inheritance, and “piggy-back” taxes
 - Gift taxes
- Can be minimized by estate planning



State Taxes

- Property and yield taxes
 - Modified vs. *Ad valorem* assessments
 - “Highest and best” use
 - Rural land appraised at lower rates
 - Yield taxes
 - Apply only to forest land
 - Timber taxed at harvest
 - Exemptions
 - Remove forest land, timber, or both from tax rolls



Economic and Tax Tools

- Ecological economics approach
 - Carbon sequestration & mitigation banks
 - Forest banking
- Tax incentives
 - Adjusted property taxes
 - Income tax incentives
 - Estate tax changes
 - Conservation easements



Needs

■ Research

- Determine which factors fuel sprawl
- Identify factors that encourage brownfield use
- Examine microeconomics of interface forestry
- Determine impacts of various taxes
- Linkages between public policy and tax reform

■ Education

- Programs for potential new interface residents
- Programs targeting policy makers



Conclusion

- Problems are numerous and complex
- Some are tangible and quantifiable
- Others, like quality of life, are not
- Relationships are poorly understood
- Existing tools are underutilized