State Income Taxes

Chapter 15
Overview

- State tax departments have an incentive to cooperate with the IRS – they share information and piggy back on federal returns.
- State tax departments who track Federal rules may find up to 90% of amounts on federal returns that are omitted on state returns.
- Most States have limited resources for audit and tax compliance, and most have constitutional provisions for a balanced budget.
- See p 15.1
Deductions for federal income taxes, tax rate-schedule interaction, standard deductions and exemptions were most important for determining state income tax.

At 8 percent, LEVs ranged 19% to 79% below potential with good tax management as capital gains, expenses, depletion, ITC and reforestation, are omitted.

See also FLA update of southern provisions.

See p 15.1
State Income Taxes in the United States

- State income taxes increase the total tax levy on timber sale incomes
- Major changes in State taxes occurred following the 1986 Tax Reform Act
- Nathan Smith updated State tax provisions and impact on forestry for the Northeast and Midwest, West, and South for the SAF regional journals
- See p 15.1
Investment Analysis

- Maximum effective long-term capital gains rates ranged from 3.92% to 8.25%
- As these rates are adjusted they are added to the Federal rate to get a Federal-state effective rate for after-tax returns
- Rates after adjustment are sufficient to affect competitive investment returns.
- See p 15.2
Wrap-up and Summary

- Timberland can be an excellent investment no matter what the purpose of ownership
- A sound understanding of business and tax principles is essential for best results
- Accounting records are necessary to supplement our memory (recall becomes slower with time) and supply pertinent details
Wrap-up (Continued)

- There is no substitute of good advisors – forester, accountant and attorney
- Market information is a critical element
  - Specifications are always in flux
  - Price trends e.g., Timber Mart-South
- Science is changing
  - Genetics and tree improvement
  - Chemicals for vegetative control and nutrition
Wrap-up (continued)

• Appreciation of the forest dynamics
  – Beauty and growth
  – Wildlife
  – Vegetative cover
  – Always something new to behold
  – A source of joy with wonders of nature