

# Dealing With Loss On Your Family Tree Farm

By Arlyn W. Perkey

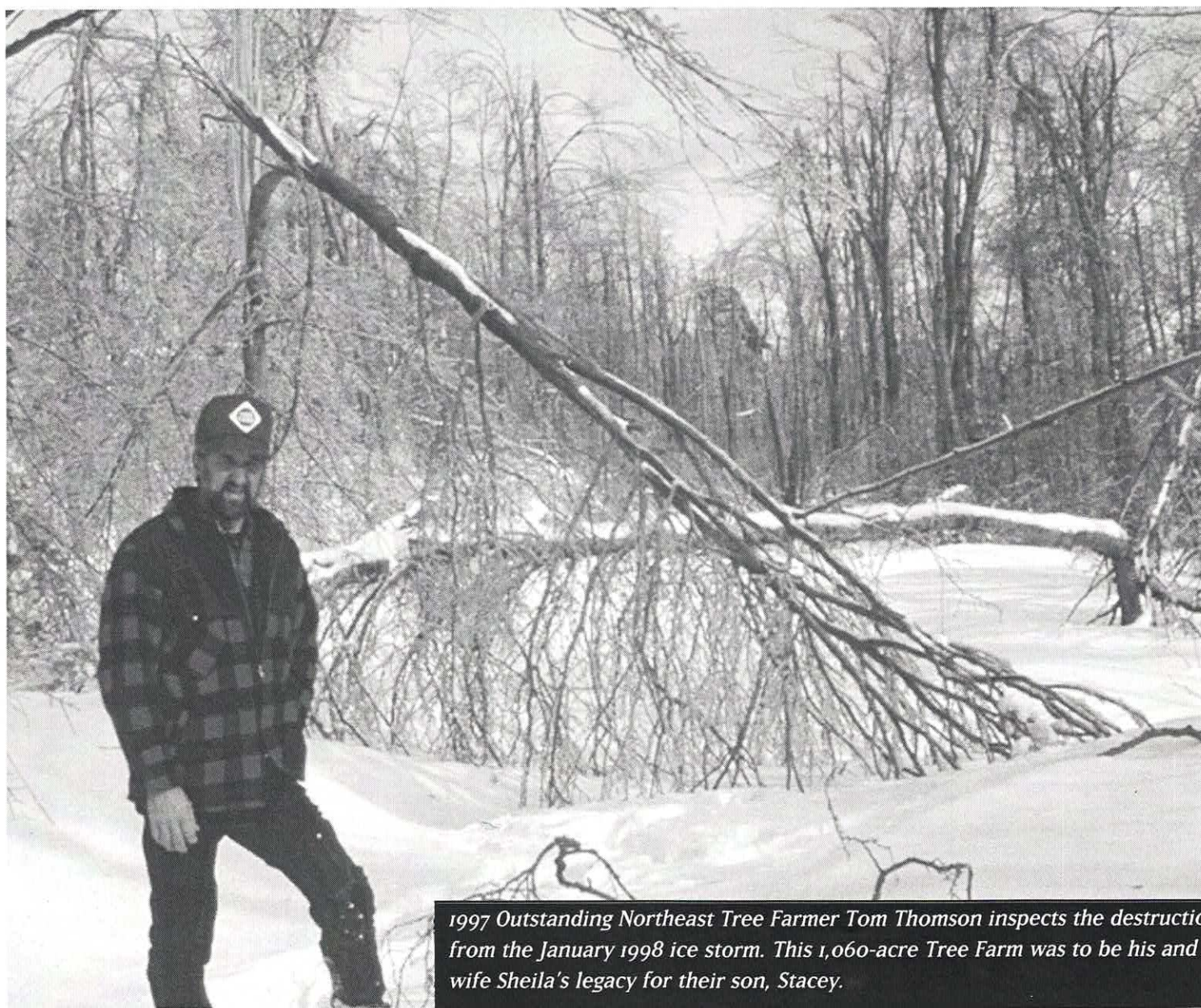


Photo: Tom Thomson

*1997 Outstanding Northeast Tree Farmer Tom Thomson inspects the destruction from the January 1998 ice storm. This 1,060-acre Tree Farm was to be his and his wife Sheila's legacy for their son, Stacey.*

**S**pring of 1996 was my first real experience with losing crop trees on my Pennsylvania Tree Farm to a damaging agent. In my case, it was the gypsy moth. Although losses were slight by most people's standards, it gave me some exposure to what it feels like to have invested and lost. When you save money, and put it with your own time and labor in a project you believe in, there is a part of you that goes into the making of a dream. You develop expectations of what the future will bring as the result of your dollars and sweat equity begin to become evident. I learned that watching those dreams be dashed away by an uncontrollable event is an emotional experience.

During the two years since then, I have encountered other Tree Farmers whose losses far exceeded mine. This article describes one of those losses. It shows the risk Tree Farmers assume with their long-term forest investments. And it is a painful example of how Tree Farmers fall through the cracks when it comes to being compensated for their losses. By raising awareness, hopefully this article will result in more equitable treatment of Tree Farmers relative to traditionally recognized agricultural producers.

Tom and Sheila Thomson of New Hampshire are the epitome of American Tree Farmers. Recognized in 1997 as the Northeast Regional Tree Farmers of the Year, they not only grow trees for profit, they steward their land in a way that provides multiple benefits for family, neighbors, and society. They share their good stewardship and love of the natural world with many others through educational tours. The Thomsons' work with school children is especially gratifying to them as they truly believe in the importance of educating future generations.

The Thomson Family Tree Farm is a family farm. It produces wood, water, wildlife, and recreation instead of corn, cotton, milk, or tobacco. The watershed management, wildlife, and recreation are benefits provided free of charge to society.

Tom and Sheila have also passed their stewardship ethic on to their son, Stacey. This young entrepreneur developed his own firewood business when he was 12 years old. At age 20 he has become a certified logger, purchased a skidder, and established his own business, Thomson Timber Harvesting.



Photo: Tom Thomson

*After three days of 32° weather with light rain and mist, 2 1/2 inches of ice had built up on branches smaller than the size of a pencil. Crowns of trees were broken, snapped, stripped or bent by the accumulation of tons of ice.*

### **A Resolution In Support of Sustainable Forests from the Tree Farm National Operating Committee**

**Whereas** the nearly 70,000 members of the American Tree Farm System, known as Tree Farmers, own and sustainably manage nearly 85 million acres of America's productive forestland, and

**Whereas** Tree Farmers have dedicated their forest lands to growing forest products, conserving and enhancing wildlife habitat, maintaining and ameliorating water quality, and providing recreational opportunities, and

**Whereas** natural disasters have had devastating effects upon Tree Farms, causing substantial financial loss and thereby increasing pressure to convert devastated forest land to non-forest uses, and

**Whereas** such non-forest uses are the single largest contributor to deforestation and fragmentation of America's forest resources, and

**Whereas** the U.S. Department of Agriculture and the Federal Tax Code fail to fully recognize the losses that Tree Farmers suffer as a result of natural disasters,

**Therefore be it resolved** by the Tree Farm National Operating Committee that the U.S. Congress reform the tax code to allow Tree Farmers to take losses over and above their basis in response to presidentially declared natural disasters, thereby encouraging the continued ownership of such disaster-affected lands, relieving pressure to convert said lands to non-forest uses, and enabling the continued sustainable management of forests for the benefit of all Americans.

When the January 1998 ice storm struck northern New England, it damaged nearly 18 million acres of forestland throughout the northeast. In New Hampshire, about 1 million acres were affected and the Thomsons' 1,060-acre farm was in its path of destruction. The roads and trails children had walked to learn about the natural world were blocked with bent and broken trees. Healthy tree crowns that once produced the food for growth were stripped of their branches. Without branches, a tree has no leaves to photosynthesize the food necessary for its growth and survival.

In a few days, 90 percent of the Thomsons' trees on 900 acres were transformed from a productive, income-producing crop to a shamble of broken limbs, topless trunks, and bent poles and saplings. It is still a wildlife habitat (greatly modified), but the value of the timber the land can produce in the next few decades is but a fraction of what it was.

*Since the Thomsons' income is periodic rather than annual, they apparently don't fit into the traditional mold of agricultural producers that are served by farm programs designed to support the family farm.*

One of the greatest losses is an area that Tom intended to have Stacey harvest with a traditional chainsaw felling operation. It is now "off limits" because of very dangerous conditions. Cleaning up this ice storm damage is a job for a mechanical harvester (feller-buncher). This equipment, which will have to be rented or bought, can cut the trees, control their fall, and place them in bunches, while providing more protection for the operator.

All of this has happened to a family that works to provide for their own future, is a source of economic activity in their community, and supports the education of people in the management of natural resources for the long term.

Some will argue that what happened to the Thomsons is a good example of what risk is all about. They made an investment, and they suffered a loss. That is part of the cost of doing business. This is true,



Photo: Tom Thomson

*As a result of the devastating ice damage, 90% of the hardwood trees on the Thomson Tree Farm lost 75% or more of their crowns; 30% of the spruce and fir were snapped off two days after the storm due to high winds.*

but isn't it also true that considering the benefits they are providing free to society (wildlife, water, and recreation), the least they deserve is to be treated equitably by the federal government? Shouldn't they receive the same consideration as other family farmers?

However, they don't. After the ice storm, Tom and Sheila pursued all the avenues of support normally available after natural disasters. To their dismay, they learned that timber is not considered an eligible agricultural crop by the United States Department of Agriculture — Farm Service Agency. From the agency perspective, timberland is not cropland, even if it is managed under a stewardship plan developed through the federally funded Stewardship Program.

The Thomsons' inquiries about assistance did result in letters stating why these agencies couldn't help. If the

Thomsons were seeking disaster assistance for damage done to a sugar bush that produces annual income from maple syrup, they would be eligible for clean-up assistance through the Emergency Conservation Program. However, since their income is periodic rather than annual, they apparently don't fit into the traditional mold of agricultural producers that are served by farm programs designed to support the family farm.

Similarly, they are not eligible for EM loans (Emergency Management loans). A letter from the Farm Service Agency states, "A timber owner who only had woodland, and did not qualify as a farm by producing any other crop, would not be considered eligible for EM loans."

The message in that statement is not very subtle: Tree Farmers aren't real farmers unless they grow a crop other than timber. That should change.

What about the Small Business Administration? Tom was not eligible for a disaster loan from it either. A quote from the agency's response: "The Consolidation Budget Reconciliation Act of 1985 (PL99-272) prohibits the Small Business Administration (SBA) from providing disaster loans to agricultural enterprises. The SBA defines agricultural enterprises as those businesses engaged in the production of food and fiber, ranching and raising of livestock. Information provided with your application indicates that your primary business activity is the operation of a Tree Farm. Based on SBA guidelines, your business is not eligible for disaster loan assistance."

That is difficult to argue with. Timber is clearly a fiber crop.

It is hard for a Tree Farmer not to feel like the step-child nobody wanted. On the one hand, timber growers are not eligible for assistance provided other agricultural

producers through the Farm Services Agency. On the other hand, they aren't eligible for assistance from the Small Business Administration because they are an agricultural enterprise. The federal government's inconsistent view of family Tree Farmers should be resolved.

Discovering this bad news was discouraging to Tom, but being of hardy Yankee stock, he commented to Sheila that they would deduct the loss from their income taxes. Wrong again, or at least the allowable deductible loss is much less than the true loss they incurred. While their loss certainly would appear to qualify as a casualty loss, their deduction is limited to the allowable basis of the timber less any compensation (like revenue from a salvage sale). That means their deduction can't be any more than the undepleted portion of the cost basis of the timber. Whatever increase in value they had realized because of tree growth and

increase in timber prices is lost and it is not deductible.

Apparently the Internal Revenue Service has a perspective similar to the Department of Agriculture. Timber is not really viewed as an agricultural crop. Trees aren't seen as a commodity that grows every year and hopefully increases in value annually. Most family Tree Farmers don't sell their growth every year. To have a marketable quantity of timber they must accumulate multiple years of growth into a viable sale. If they suffer a casualty loss while growing that marketable quantity, it is not recognized. The loss of their increase in value from time of purchase is not acknowledged as a crop loss. That should change.

This is a sad story. What can Tree Farmers do to make it a happier one?

- Timber should be viewed as a legitimate agricultural crop. It is a fiber crop, just as cotton and wool are fiber crops. For most family Tree Farms, actual received income is not annual, it's periodic. That doesn't make Tree Farmers less creditable as farmers. In our verbal communications about Tree Farming, we need to refer to trees as an agricultural crop, a fiber crop. If we expect others to consider timber a legitimate crop, we have to describe it that way ourselves.

- The Small Business Administration cites a law as their source for determining they don't provide disaster assistance to Tree Farmers. The Farm Service Agency bases their decision on interpretation by the national office. It appears logical that Congress prohibited the Small Business Administration from getting into the agricultural arena because the Department of Agriculture is intended to provide assistance to that community. The only way Tree Farmers will be recognized as customers to be treated equitably as farmers is if they consistently insist on and expect equitable treatment through appropriate channels. My intent is not to berate any government agency, my purpose is to call attention to a gap in service between two government agencies that should be filled. It seems most logical to me that the Farm



Photo: Tom Thomson

*About 8 miles of access roads and trails on the Thomson Tree Farm are blocked and littered with bent and broken trees. After the storm, Tom worked tirelessly with Congress and the American Tree Farm System's national office for a successful emergency legislation appropriation that will help landowners clean up and restore their forest.*

Services Agency should fill the gap.

- Tree Farmers can learn about and support the Tree Farm National Operating Committee's Resolution (see page 17) to the U.S. Congress to reform the tax code to allow Tree Farmers to take losses over and above their basis in response to presidentially declared natural disasters, thereby encouraging the continued ownership of such disaster-affected lands.

- We need to recognize that, as growers, the longer our crop is exposed to the elements, the greater the risk of loss from a damaging agent (wind, ice, insects, disease, fire, etc.). This fact favors the application of more intensive management practices to grow the desired product in a shorter period of time. This strategy doesn't eliminate the risk, but it does lessen it.

- Landowners should purchase casualty loss insurance for their standing timber to protect themselves financially against harm from wind, flood, ice, and fire.

We should also take every opportunity to speak up for ourselves. For example, extensive press coverage of the severe losses suffered by the Thomsons, initiated by Tom and the American Tree Farm System's national office, helped spur emergency legislation for \$48 million-plus appropriation to the New England states and New York.

Of these special funds, \$1.5 million has been awarded to New Hampshire landowners through the Stewardship Incentive Program (SIP). SIP will pay up to 75 percent of the cost for certain practices, such as clearing debris from forest access roads and trails, marking storm damaged trees for removal, planting, fire hazard reduction, etc. To be eligible, properties must have a qualifying stewardship plan. Since Tom now has a completely different forest from the one for which he had a management plan, SIP is helping him with some of the cost to develop a new plan to assess the damage caused by the ice storm. Any relief money the Thomsons receive will barely be enough to compensate them for their losses, but for now it's the only option open to them.

As I write this article I am thinking about the forest fires in Florida, drought in the Southeast, and other natural disasters. I empathize with the many Tree Farmers who are about to experience the same frustrations Tom Thomson encountered.

Whether it is fires in Florida, floods along the Mississippi River, gypsy moth defoliation in Pennsylvania, or ice damage in New England, natural disasters happen to Tree Farmers too. It is not expecting too much to be treated equitably by agencies charged with administering disaster relief and acknowledging deductible losses. The benefits Tree Farms provide to society (wood, water, wildlife, and recreation) certainly warrant the same support that society provides to other agricultural producers. Equitable treatment won't eliminate all of the emotional impact of the loss when the natural disaster strikes, but it will encourage continued private investment in a long-term, risky business. If the concept of the family farm is worth supporting, so is the family Tree Farm.

*Arlyn W. Perkey is a silviculturist with Forest Resources Management in the Northeastern Area, State and Private Forestry, of the U.S.D.A. Forest Service in Morgantown, West Virginia.*