



RANDY BROWNING

**TYPES OF LANDS THAT QUALIFY**  
Forestland, former forestland

**TYPE OF PROGRAM**  
Incentive

**MONETARY BENEFIT**  
State tax credit

## Mississippi Reforestation Tax Credit

*Mississippi legislation grants non-industrial private forest landowners a significant ability to recover forest investment using the Mississippi Reforestation Tax Credit (RTC) of \$75,000.*

*The RTC is a 50% tax credit, which means the tax credit amount is 50% of the approved costs of practices implemented. Landowners should use the following federal and state tax provisions to recover their reforestation expenses to maximize their forest investment returns.*

### ■ HOW IT WORKS

Non-depreciable capital investments, such as land and timber, must be capitalized and recovered when the investment is sold or claimed as a loss. This is true for both federal and state income tax.

When costs are capitalized, they are recorded into a basis account. The basis is used to offset gains or losses from the sale of an asset or to claim a casualty or non-casualty business losses. This means the landowner will not be able to recover investment costs until they sell timber or claim a loss.

### ■ QUALIFYING COSTS

Fortunately, the IRS code allows taxpayers, except trusts, to recover reforestation costs at an earlier point in time. (Trusts follow special rules not discussed here.) Under these rules, up to \$10,000 in reforestation expenses for a qualified timber property per year may be deducted. For expenses over \$10,000, the overage may be amortized or deducted over 84 months.



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Some landowners may receive cost-share funding from government agencies, such as the Farm Service Agency, the Natural Resources Conservation Service, the U.S. Fish and Wildlife Service, or the Mississippi Forestry Commission. These agencies have special programs that pay for part of the costs of some practices. Remember that cost-share payments are treated as income; your costs associated with these cost-share payments are treated as expenses.

There are restrictions on using the RTC for landowners who receive cost-share. Generally, landowners who receive cost-share cannot claim the Mississippi tax credit on their unreimbursed costs of the expense unless their adjusted gross income is below the federal earned income credit levels.

## ■ TAX CREDIT VS. DEDUCTION

A tax credit has much more impact on taxes owed than a deduction since it reduces the taxes owed by the credit amount. In contrast, a deduction reduces tax by the amount of the deduction times the marginal tax rate. It is a reduction in your overall taxable income.

For example, with a tax credit, if your income is \$100,000, you are paying 40% of your income in taxes, and have a \$10,000 tax credit, then your benefit is as follows:  $\$100,000 \times .40 = \$40,000 - \$10,000$  means you are paying \$30,000 in taxes. You saved \$10,000.

With a tax deduction, if your income is \$100,000, you are paying 40% of your income in taxes, and have a \$10,000 tax deduction, then your benefit is as follows:  $\$100,000 - \$10,000 = \$90,000$  (your new taxable income).  $\$90,000 \times .40 = \$36,000$  means you are paying \$36,000 in taxes. You saved \$4,000.

## ■ RTC EXAMPLE

A landowner has 100 acres of eligible land they want to reforesting in loblolly pine in northeast Mississippi. The RTC can be applied for 50% of the reforestation cost, not to exceed \$10,000 in any year.

### Eligible Expenses

- Site preparation (herbicide and burning): \$140/acre
- Seedlings & tree planting: \$175/acre

### Sample Calculation

Site Preparation (Herbicide and Burning):  
 $\$140/\text{acre} \times 100 \text{ acres} = \$14,000$

Tree Seedlings and Tree Planting:  
 $\$175/\text{acre} \times 100 \text{ acres} = \$17,500$

Total Reforestation Costs = \$31,500

Tax Credit 50% (Maximum is \$10,000) = \$10,000  
 Landowner Costs = \$21,500



The Mississippi Land Trust works with willing private landowners and government agencies to protect fish and wildlife habitat in Mississippi.

P.O. Box 23 | Stoneville, MS 38776  
 662.820.9774 | [www.misslandtrust.org](http://www.misslandtrust.org)



The Mississippi River Trust works with willing private landowners and government agencies to protect fish and wildlife habitat in the Lower Mississippi River region.

P.O. Box 15 | Stoneville, MS 38776  
 662.820.9774 | [www.mississippirivertrust.org](http://www.mississippirivertrust.org)



Wildlife Mississippi works with willing private landowners and government agencies to conserve fish and wildlife habitat in Mississippi.

P.O. Box 10 | Stoneville, MS 38776  
 662.686.3375 | [www.wildlifemiss.org](http://www.wildlifemiss.org)