

April 14, 2015

The Honorable Orrin Hatch
Chairman
U.S. Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
U.S. Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Hatch and Ranking Member Wyden:

The Hardwood Federationⁱ appreciates the opportunity to offer the hardwood forest products industry's perspective on comprehensive tax reform and policy components that we believe would benefit U.S. job creators. First of all, we applaud your leadership in this area. Like other industries, we believe that reforming our outdated tax code is long overdue and we appreciate your willingness to take on this challenge.

Our members support the overall goal of reducing the top corporate tax rate on U.S. companies. Currently, the U.S. corporate rate is the highest in the world which hinders our competitiveness around the globe and may be contributing to the recent increase in corporate inversions to take advantage of lower tax rates in competing countries. We also support a simplification of the Internal Revenue Code. The fact that the tax preparation industry is nearing \$8 billion in annual revenue speaks volumes about the need to stream line and simply the process for taxpayers. With these two overall principles in mind, the Hardwood Federation proposes the following for consideration:

1. **Make Sec. 179 Expensing Deduction Permanent:** The businesses in our sector rely heavily on the Sec. 179 expensing deduction. Allowing companies to deduct the full purchase price of business equipment in the year that it is purchased has proven to be a powerful incentive for business, particularly small businesses, to make capital investments. Sec. 179 not only encourages companies to reinvest in themselves, but is an economic driver for entities that are providing the equipment, software and other services that are eligible under this provision. We believe that making 179 a permanent fixture in the code would provide needed certainty for taxpayers. It would also be a double win for overall economic growth as well as job creation and retention. In the case of the hardwood industry, the vast majority of these jobs are in rural communities.

2. **Repeal the Estate Tax:** The Hardwood Federation supports legislation recently introduced by Senator John Thune (R-SD) which would repeal the federal estate tax. Although the scope of this tax has narrowed over the years, we believe that as currently constructed it disproportionately affects small, family-held businesses that often lack the means of paying the tax. Our other criticism of the estate tax is that the administrative and compliance costs associated with implementation far outweigh its yield. Finally, it can be argued that at least a portion of wealth passed on through estates has already been subject to capital gains taxation. We believe that a comprehensive overhaul of our tax code should move away from provisions like the estate tax that, despite best intentions, tends to be regressive and focuses on a small subset of taxpayers.

3. **Maintain Deductions for Working Forests:** Standing timber is currently taxed at the capital gains rate, recognizing the long term investment and risk that landowners incur to produce trees that can take 20-80 years to mature. Since 1943, the federal tax code has treated timber harvest proceeds and the sale of standing trees as capital gains. We are concerned that adjusting or eliminating this deduction would be devastating for forest landowners across the spectrum--from small private landowners trying to put a child through college with a timber thinning project to industrial forest landowners that manage considerably larger holdings. The downstream effects on companies in the hardwood manufacturing sector that rely on forest fiber for making product and generating energy are consequential.

In addition to the capital gains rate, forest landowners can deduct operating costs in the year in which they were incurred, rather than capitalizing these costs over time, and may deduct up to \$10,000 of reforestation costs per stand. Again, these tax provisions were put in place to keep working forests working. The Hardwood Federation opposes any policy which makes the practice of forestry more difficult as this will only result in landowners opting to convert their lands to non-forestry uses. Such an outcome would have drastic repercussions throughout the forest products value chain in the U.S.

Again, the U.S. hardwood forest products industry thanks you for your leadership on this critical issue. We stand ready to work with you and the rest of the Senate Finance Committee as you continue your work on remaking a tax code that rewards innovation and capital investment while adhering to the twin principles of fairness and simplicity.

ⁱ The Hardwood Federation is the umbrella organization that serves the U.S. hardwood industry as a strong unified voice on federal legislative and regulatory policy in Washington, DC. It represents 26 local, regional and national trade associations that serve hardwood businesses in every state in the nation. The Federation advocates the industry's position on legislative and regulatory issues that will impact our industry and is the unified voice on behalf of US hardwood businesses.