# Applying Clean Tax Cuts to Agriculture & Forestry

The Grace Richardson Fund, The Nature Conservancy, Climate Advisers, and the Rodale Institute co-hosted a full-day charrette (workshop) at The Nature Conservancy's Worldwide Office in Arlington, Virginia on April 3, 2017 to explore the potential for applying Clean Tax Cuts (CTC) to the U.S. agriculture and forestry sectors.

CTCs cut tax rates on debt and equity investments that help reduce waste, or conserve natural resources. CTCs do not impose taxes, fees, regulations, or create carbon offsets, tax credits or other price support subsidies. They avoid creating artificial market constructs and barriers to capital of any kind. CTCs are so designed both to avoid the drawbacks of these other policies, and to accelerate capital to and demand for clean solutions simultaneously, by the simple means of reducing tax rates and ultimately, the cost of both capital and outputs for clean solutions and technologies. CTC employs carrots, not sticks. Mechanisms include only positive (rather than negative) feedback loop mechanisms to reward and accelerate profitable, sustainable practices and technologies. CTC's simple, 100% positive, market-friendly approach aligns consumer and business interests on environmental conservation and economic growth.

We assembled a group of experts from the U.S. agriculture and forestry sectors, including businesses and non-profits, who are working on improving environmental and sustainability practices in these areas. Their task was to identify what is "clean" for the purposes of CTC, what taxes are typically paid and could be reduced as a policy incentive, and what specific tax cut mechanisms might be devised to accelerate high-impact sustainable solutions.

The land-based sectors present unique challenges for CTC. One key challenge: farmer's make little taxable income. So this charrette considered ways to target CTCs at those around the farmer who do make taxable profits, to use CTC to reduce costs for suppliers of sustainable operations, and boost demand for products of those operations. (This concept is called "Sustainable Supply-Chain Tax Cuts.") But the lack of a single certification for sustainable farming is another challenge which must be solved next, to more powerfully implement CTC.

CTC proposals discussed at the charrette which the participants felt merited further exploration and support included:

1. **No Capital Gains Tax on Conservation Easement Sales.** To provide farm and forest landowners who are often 'cash poor land rich' landowners with more capital on an after-tax basis and to address the CTC problem of preventing further habitat fragmentation, the Federal tax code could be amended to provide that landowners who sell land and/or easements for conservation purposes, should be entitled to exclude the entire capital gain from the sale from being subject to tax. The current Federal tax code provides for deductions for gifts of easements but in many cases, farm and forest landowners need cash payments to secure the capital value of their land asset. This proposal would enable landowners to realize the full capital value from their land at the same time that CTC goals are achieved.

2. **Preserve Property Tax Deduction for Forest Lands.** Another proposal deserving of support involves the GOP Better Way Tax Plan which includes a proposal to repeal the current income tax deduction for state and local tax payments that is available to individual taxpayers. The tax deduction for property taxes on forested lands should be retained as an incentive to keep forests in forests consistent with CTC goals. Property taxes are the largest cost that forest landowners face on an annual basis so this proposal could be a meaningful incentive to prevent habitat fragmentation and to achieve CTC goals.

3. **Sustainable Farming & Forestry: Clean Half-Tax Cuts (50% off)** on all corporate or personal income, dividend and capital gain taxes in proportion to the percentage of taxable income derived from revenue from sales of services, supplies, property, plant and equipment (PPE) and insurance to farming and forestry operations certified as sustainable. This would greatly reduce the cost of sustainable practices. Such 50% tax rate cut would also apply on all revenue from the wholesale or retail sale of "certified" sustainable products derived from certified sustainable farms and certified wood. For buildings, such tax cuts would apply in proportion to the percentage of the construction budget spent on certified wood. This would increase the demand for sustainably produced foods and wood, providing support for sustainable farming and conservation of forests. Existing forestry certification and organic farming certifications would qualify operations as sustainable. Further charrettes are needed to better define sustainable farming certification beyond organic farming. (This "Clean Half-Tax" concept is based on proposals in the GOP "Better Way" tax plan for capital gains tax rates at 50% of ordinary rates.) This half-tax could be expanded apply to taxes on the sale of certified sustainable farms and forest lands, and possibly to property taxes on such land.

4. **Debt-Side: Tax-Exempt Loans and Clean Asset Bonds (CABS) For Sustainable Farming and Forestry.** Tax-exempt loans for certified sustainable farms and timber operations would directly incent more financing for sustainable practices. Such loans could also be bundled into tax-exempt bond-like securities, to accelerate capital to sustainable operations. Absent certification, tax-exempt loans and CABs could also finance the manufacture, purchase and ongoing operation of assets with a known sustainable impact, such as anaerobic digesters or no till tractors.

5. **Green Bond and Power Sector CTC Charrette Proposals for Farm-Based Wind, Solar and Bioenergy Power Production.** These two CTC charrettes provide powerful incentives that would expand the use of solar, wind and bioenergy power on farms, providing farmers with an additional source of sustainable income, and powering farm operations more sustainably. Tax-free CABs and loans would finance the manufacture and installation of these technologies at a low cost of capital. A Clean Half-Tax (50% off) or Quarter Tax Cut (25% off) on all income, dividend and capital gain taxes in proportion to the percentage of taxable income derived from clean energy revenues would incentivize utilities to pay farmers for clean power. Similarly, the automobile sector CTC proposals could be adapted to reduce emissions from farm equipment.

6. CTC could incentivize forest replanting and restoration by creating forestry income tax reduction (or possibly a tax exclusion) on harvested timber (which currently is subject to regular capital gains tax treatment), if landowners guarantee a reforestation plan.