Timber Tax

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Tax Important to Woodland Owners

 Tax is <u>consistently</u> listed as one of the <u>top concerns</u> for private forest owners

General Tax Principles

 Income: <u>capital gains is better</u> than ordinary income

Loss: <u>ordinary loss is better</u> than capital loss

Tax Rates

Ordinary Income:

10% - 35%

• Long-term capital gains:

0% - 15%

Tax Status Is Key

- Timber property is taxed as a personal, investment or business property
- Business is taxed either as an active or passive business

What Is This Year's Tax Filing Deadline?

- A) April 13, 2012
- B) April 15, 2012
- **C) April 17, 2012 (Tuesday)**

Common Tax Questions

 "I have let a company cut down my trees on my land and want to know: 1) how to report the \$7,500 I received for taxes; 2) what deductions I can take."

 "A fire has burned part of my timber property in the summer. Is there anything we can deduct for taxes?"

The Key Is "Basis"

 In both situations, the key is to establish the basis of your timber

Timber Basis

 Basis is the <u>purchase cost</u> if you purchased the property

Using Timber Basis

Basis <u>reduces your timber sale</u>
 <u>proceeds</u> (and therefore taxes)

 It allows you to claim a <u>loss deduction</u> if your timber is lost by casualty (fire or storms), theft or condemnation

Inherited Woodland Property: Basis

 The basis is <u>the fair market</u> value of the property

Measured on the <u>date of</u> the decedent's <u>death</u>

Timber Basis: An Example

Pine sawtimber:

200 tons x \$20/ton = \$4,000

Pine pulpwood:

100 tons x \$5/ton = \$500

Hardwood pulpwood:

2000 tons x \$1/ton = \$2,000

\$6,500



Quiz

What transactions may involve timber basis?

- A) Timber sale
- B) Timber sale and claiming casualty loss

Sale Income of Timber

- Sale of <u>standing</u> timber are capital gains
 - Investment: Sec. 1221
 - Business: Sec. 631(b)
- Sale of <u>cut</u> timber by <u>business</u>: two parts
 - Capital gain and ordinary income
 - Sec. 631(a)

Woodland Management Expenses

- For Investment tax status:
 - Currently <u>deductible</u> but subject to a 2% income reduction
 - The expenses must be <u>reduced</u> by 2% of adjusted gross income

2% Floor Example

Your adjusted gross income was \$40,000.

Your woodland expenses was \$1,000.

Only \$200, not \$1,000, is deductible:

 $$1,000 - 2\% \times $40,000 = 200

Forest Management Expenses

- Business:
 - Active Business: Fully deductible
 - Passive Business: Restricted

Property Taxes

- It is a <u>deductible</u> expense
 - Deduct it annually
 - Or put it into the timber basis ("capitalize") and deduct it upon timber sale

Form T

- A tax form called Forestry Activity Schedule
- Filing is not always required

Reforestation

- Reforestation costs may be expensed, up to \$10,000
- Excess over \$10,000 may be <u>deducted</u> over 8 years ("amortized")

Timber Loss

- Hurricane, tornado, fire, theft, high wind... ("casualty loss")
- Loss is <u>deductible</u>
- The amount is: the smaller of fair market value loss or timber basis

For High-Income Taxpayers: New Tax on Investment Income

 Beginning in 2013, investment income of a high-income taxpayer is subject to a new tax of 3.8%

– Married filing joint: \$250,000

- Single: \$200,000

Sale of Standing Timber: 1099 Now Required

 Form 1099-S reporting is required for both lump-sum or pay-as-cut sales in 2011

Who Must File 1099-S?

- (1) the person (including attorney or title company) responsible for closing the transaction,
- (2) the mortgage lender,
- (3) the seller's broker,
- (4) the buyer's broker, or
- (5) the buyer

Tax Resources by US Forest Service

- Provide timber tax workshops
- National Timber Tax Website:

www.timbertax.org

Tax Publications by US Forest Service

- Annual Timber Tax Tips
- The Forest Landowner's Guide to the Federal Income Tax (Ag Handbook 718)
- 2009 Edition: Estate Planning for Forest Landowners

Brand New Tax Publication

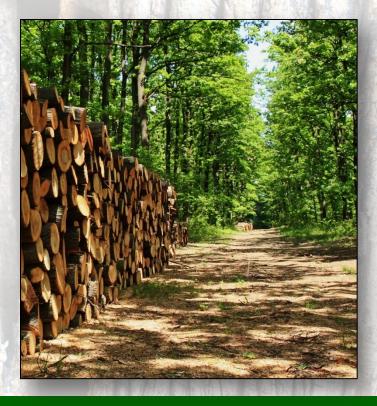
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Federal Income Tax on Timber

A Key to Your Most Frequently Asked Questions

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