

Timber Tax

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Tax

Important to Woodland Owners

- Tax is consistently listed as one of the top concerns for private forest owners

General Tax Principles

- **Income: capital gains is better than ordinary income**
- **Loss: ordinary loss is better 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 purchase cost if you purchased the property

Using Timber Basis

- Basis reduces your timber sale proceeds (and therefore taxes)
- It allows you to claim a loss deduction if your timber is lost by casualty (fire or storms), theft or condemnation

Inherited Woodland Property: Basis

- The basis is **the fair market value** of the property
- Measured on the **date of the decedent's death**

Timber Basis: An Example

Pine sawtimber:

$$200 \text{ tons} \times \$20/\text{ton} = \$4,000$$

Pine pulpwood:

$$100 \text{ tons} \times \$5/\text{ton} = \$500$$

Hardwood pulpwood:

$$2000 \text{ tons} \times \$1/\text{ton} = \$2,000$$

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

Woodland Management Expenses

- **For Investment tax status:**
 - **Currently deductible but subject to a 2% income reduction**
 - **The expenses must be reduced 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:

$$\mathbf{\$1,000 - 2\% \times \$40,000 = \underline{\$200}}$$

Forest Management Expenses

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

Property Taxes

- It is a deductible 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 deducted over 8 years (“amortized”)

Timber Loss

- Hurricane, tornado, fire, theft, high wind... (“casualty loss”)
- Loss is deductible
- 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

United States
Department of Agriculture



Forest Service
Southern Region



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Federal Income Tax on Timber

A Key to Your Most
Frequently Asked Questions

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