



TIMBER TAX FILING

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Disclaimer

Today's discussion is educational, NOT legal or accounting advice, since the facts and circumstances of each taxpayer's individual situation need to be taken into consideration for exact application of the tax law.

Today's Agenda

Timber Tax Reporting

- Timber Ownerships
- Deductible Expenses
- Form T (Timber)
- Tax Rates
- Reporting Timber Sales
- Taking Timber Depletion Deductions
- Taking Reforestation Deductions

Tax Law Changes

- Sec. 179 Expensing and Bonus Depreciation
- Timber C corporations Get Capital Gains Treatment
- Conservation Easement Provisions Permanently Extended

Bonus

- Form 1099

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Timber Ownerships

Personal Property

- Your main purpose of land ownership is for personal enjoyment, not for profit

Investment Property

- Your main purpose to generate profit

Business Property

- Your main purpose is to generate profit
- Your activity is more frequent and regular than investment

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Deductible Expenses

- Tools of short useful life or small cost, e.g., axes, handsaws, etc.
- Hired labor
- Fees of consultant and accountant
- Property taxes

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Deductible Expenses

- The costs of prescribed burning
- The expenses of fire, insect and disease control and protection; and
- road and firebreak maintenance costs
- Overnight travel

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Schedules for Reporting Expenses

For an investment timber property

- Form 1040, Schedule A
- Subject to 2 percent of your AGI floor

For timber business expenses

- Form 1040, Schedule C if you materially participating in the business

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What Is Form T (Timber)?

Forest Activities Schedule

This tax form has five parts:

- Acquisition
- **Timber Depletion**
- Profit or Loss from Land and Timber Sale
- Reforestation and Timber Stand Activities
- Ownership

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Who Must File Form T?

Occasional timber sellers

- are not required to file
- “Occasional”: one or two sales every 3 or 4 years

Prudent to file

- when you claim depletion deduction or
- if you sell business timber

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Tax Rates

Ordinary Income:

- 10% - 39.6%

Long-term capital gains:

- 0%, 15%, 20%

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Long-Term Capital Gain Tax Rates

0% capital gains tax rate:

- If your taxable income is up to \$74,900 (joint returns)
- up to \$37,450 for single taxpayers

15% max. tax rate

- for most taxpayers

20% max. rate

- If your taxable income is over \$464,851 (Joint) or
- over \$413,201 (Single)

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Tax Rates

3.8% Net Investment Income Tax

- The tax is imposed on the lesser of:
 - Net investment income for the year or
 - The excess of modified adjusted gross income over \$200,000 (\$250,000 joint filers)

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An Example

Facts

- Husband and wife had \$270,000 adjusted gross income, including \$50,000 capital gains.

Analysis

- The excess of \$270,000 over \$250,000 threshold is \$20,000.
- Thus, their net investment income tax is \$760 (or 3.8% of \$20,000)

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Quiz

If your adjusted gross income is less than \$200,000, your capital gains are not subject to the 3.8% net investment income tax.

True or False?

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Reporting Timber Sales

1. Sale of Standing Timber as Investment

- Sale of *standing* timber held as an investment is a capital gain
- Form 1040 Schedule D
Form 8949, as applicable

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Reporting Timber Sales

2. Sale of Standing Timber in Business

- Sale of *standing* timber held in a *business* is a capital gain if it's held for more than 1 year
- Tax Form 4797
Schedule D

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Reporting Timber Sales

3. Sale of *Felled* Business Timber

Special Election

- All gains are ordinary income unless a sec. 631(a) election is made

Tax Forms

- Make a sec. 631(a) election by checking the YES box on Form T
- Form 4797
- Form 1040, Schedule C

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Taking Depletion Deduction

- Depletion is a deduction from the timber sale income.
- Depletion is calculated using the **timber basis**.

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Taking Depletion Deduction

What is “Basis”?

For purchased property

- Your timber basis is the cost you paid for the property

For inherited property

- Your timber basis is the fair market value of the timber on the date of the decedent’s death

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Timber and Land Basis: An Example

	Original Basis
Land	\$16,966
Sawtimber . . .	\$21,457
Pulpwood	\$11,477
	\$49,900

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A Question

If I inherited the timber property 10 years ago, does this mean I have to go back 10 years to estimate the fair market value of my timber to set up my timber basis?

Yes or No?

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Taking Reforestation Tax Deduction

The First \$10,000 (married filing joint):

- You can deduct outright the first \$10,000 per year of qualifying expenses per qualified property; and

Excess amount over \$10,000:

- Deduct (“amortize”) *any* additional amounts over 8 tax years

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Tax Forms for Reforestation

For timber investment property

- take the deduction on Form 1040, as an adjustment to income

For timber business

- take the deduction on Form 1040, Schedule C for a business or Schedule F for a farm

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Tax Forms for Reforestation

- You must specifically elect to amortize reforestation expenses on **Form 4562, Part VI**
- Attach a **statement** to your return showing:
 - Unique stand identification number
 - Total acres reforested during the tax year
 - Nature of the reforestation treatment
 - Total qualified expenditures eligible to be amortized or deducted

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Tax Law Changes

1. Increased Depreciation Deduction

Sec. 179 Expensing

- Expense up to \$500,000 spent on qualifying business property in 2015

Bonus Depreciation

- A 50-percent depreciation deduction is allowed in 2015

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Tax Law Changes

2. C Corporation gets capital gains treatment

Capital Gains

- An maximum tax rate of 23.8% is provided for qualified timber gains of a C corporation

Requirement

- Qualified timber gain is the net gain from the sale or exchange of timber in a business(Code Sec. 631(a) & Sec. 631(b)).
- The timber must be held for more than 15 years

Effective Date

- Beginning in 2016

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Tax Law Changes

3. Conservation Easement Donation

Deduction

- Up to 50% of the taxpayer's Adjusted Gross Income
- Up to 100% if the taxpayer is "farmer or rancher"
- "Farmer and rancher" include timber owners

Excess Donation Carryforward

- 15 years

Effective Date

- The provision is permanently extended

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Form 1099-S Reporting

Who Must Issue 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

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Summary

Timber Tax Reporting

- Timber ownership determines how your timber is taxed
- Keep good records of deductible expenses
- Occasional timber sellers are not required to file Form T (Timber)
- Qualifying for timber sales for long-term capital gains are important
- Taking timber depletion deduction are based on timber basis
- Taking Reforestation Deductions

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Summary

Tax Law Changes

- Sec. 179 expensing is up to \$500,000 and the 50% cost “bonus depreciation”
- Timber C corporations get capital gains treatment
- Conservation easement donation deduction is up to 50% or 100% of AGI

Bonus

- Form 1099 are required for both lump-sum and pay-as-cut timber sales

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More Information

Tax Tips for Forest Landowners For the 2015 Tax Year


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Federal Income Tax on Timber A Quick Guide for Woodland Owners

Fourth Edition
2012
Dr. Linda Wang



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