



# TIMBER TAX FILING FOR THE 2017 TAX YEAR

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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.**

## Topics

### Tax Filing of Timber Transactions

- Reporting Timber Sales
- Form T (Timber)
- Form 1099 Reporting on Timber Sales
- Deductible Expenses
- Casualty and Theft Loss
- Taking Reforestation Deductions

### Special Topics

- New Tax Law Updates

### Bonus

- Record Keeping Rules

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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 of owning timber is 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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## Reporting Timber Sales

### Types of Income

#### Ordinary Income:

- 10% - 39.6%

#### Long-term capital gains:

- 0%, 15%, 20%

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## Reporting Timber Sales

### 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

### 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

***Tax Code Sec. 631(b)***

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## Reporting Timber Sales

### 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

***Tax Code Sec. 631(a)***

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## Quiz

- I bought a tract of woodland with a loan and sold timber for \$20,000. Since I used the income directly to pay down my loan, the income from the timber sale is not taxable.

True or False?

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## Reporting Timber Sales

### Taking Depletion Deduction

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

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## Reporting Timber Sales

### 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 Basis

### An Example

- You bought 40 acres of timberland for \$48,000.
- You also paid \$1,900 fee for your consulting forester.

Question: What’s your timber basis?

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## Fair Market Value

Asset	Fair Market Value (FMV)	Proportion of FMV
Land . . . . .	\$15,000	<b>34%</b>
Sawtimber . . .	\$19,000	<b>43%</b>
Pulpwood . . . .	\$10,000	<b>23%</b>
	<b>\$44,000</b>	<b>100%</b>

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## Timber and Land Basis

Sawtimber: \$49,900 cost x 43% = \$21,457

Pulpwood: \$49,900 cost x 23% = \$11,477

Land: \$49,900 cost x 34% = \$16,966

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## Quiz

**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 then to set up my timber basis?**

**Yes or No?**

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## Recover Timber Basis Through “Depletion”

Timber basis /  
Timber volume

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**“Depletion Unit”**

× Timber sold

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**Depletion Deduction**

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## Quiz

**If you sold a portion of your timber, the basis for the entire property can be deducted from the income.**

True or False?

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## Reporting Timber Sales

### **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 (single taxpayer) or \$250,000 (married filing jointly)

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## An Example

### A Hypothetical Case:

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

### Analysis

- The excess of \$270,000 over **\$250,000 threshold** is \$20,000.
- Thus, their net investment income tax is \$760:  
 $3.8\% \times \$20,000 = \$760$

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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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## 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?

Complete Form T only if you:

- claim timber depletion deduction
- sell *felled* timber in the timber business (Sec.631(a) sales)
- sell timber outright in the timber business (Sec. 631(b) sales)

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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

### It is prudent to file

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

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## Form 1099-S

- Form 1099-S is the form to report real estate transactions
- It is required for timber sales

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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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## Deductible Expenses

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

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## Deductible Expenses (Cont'd)

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

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## Deductible Expenses Depreciation of Property

### Depreciable Assets

- are property used in business or income production in forest land:
  - Logging machines and equipment
  - Pickup trucks, tractors
  - Temporary road
  - Computer
  - Farm buildings
- Land cannot be depreciated

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## Deductible Expenses

### Special Depreciation

#### First-Year Expensing of Asset (or “Sec. 179 Deduction”)

- Expense up to \$510,000 spent on qualifying **business** property in 2017

#### Bonus Depreciation

- It is an additional first-year depreciation deduction
- The amount is 50-percent of the cost (adjusted basis) of eligible property

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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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## Casualty and Theft Loss

### Investment or Business Property

- **The amount of the deduction is the lesser of**
  - the fair market value loss of your timber or
  - the adjusted basis of your timber
  
- **If returns from a salvage harvest, court award, or insurance claim, exceed your timber basis, you will have a *gain***

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## Casualty and Theft Loss

### Landscape Trees

- **The amount of the deduction is subject to:**
  - A limit of the lesser of FMV loss or basis
  - \$100 limit per casualty and
  - A 10-percent AGI floor
  
- **Taxpayers affected by Hurricanes Harvey, Irma, or Maria:**
  - The 10-percent AGI floor was eliminated
  - “Itemized deduction” requirement eliminated

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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* such additional amounts over 84 months (8 tax years)

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## Taking Reforestation Tax Deduction

### 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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## Taking Reforestation Tax Deduction

- 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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## Quiz

You own a woodland tract. In 2017, you paid a total of \$15,000 to reforest the property.

You can deduct the \$15,000 in your 2017 tax return.

True or False?

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## New Tax Law Updates

### Pass through business

- 20% income deduction

### Miscellaneous Itemized Deduction (subject to 2% AGI floor)

- Repealed temporarily

### State and Local Tax Deduction

- Capped at \$10,000

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## New Tax Law Updates

### Capital Gain Rates

- Remain unchanged: 0%, 15%, or 20%

### Individual Tax Rates

- 10% - 37%

### Corporate Tax Rates

- Top tax rate drop from 35% to 21%

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## New Tax Law Updates

### Sec. 179 Expensing

- Deduction increased to \$1 million

### Bonus depreciation

- Deduction increased to be 100%

### Federal Estate Tax

- Exemption doubled, to \$10 million/individual (indexing)

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## New Tax Law Updates

### Personal Casualty and Theft Losses

- The provision was eliminated unless they are attributable to a “Federally declared disaster”
- Affect landscape tree loss deduction

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## Quiz

### Whether timber sale qualify for capital gains

Starting in 2018, due to the new tax law changes, timber sale no longer qualify for capital gains. That provision was eliminated.

True or false?

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## Record-Keeping Rules

### What Records?

- Property acquisition records
- Forest management plan
- Forest management activities
- Property tax record
- Travel expenses
- Business meals and entertainment expense

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## Summary

### 2017 Timber Tax Reporting

- Timber ownership types determines how your timber is taxed
- You must own your timber for more than 1 year to qualify for long-term capital gains \*
- Occasional timber sellers are not required to file Form T (Timber)

\* *Exceptions for inherited timber*

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## Summary

### 2017 Timber Tax Reporting

- Form 1099 is required for both lump-sum and pay-as-cut timber sales
- Set up your timber basis for tax deductions
- Expenses are deductible for investment or business

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## Summary

- Taking reforestation deductions for tree planting
- Casualty loss deduction is limited to your timber basis

### New Tax Law Updates

- Most tax law changes for individuals are temporary (2018-2025)
- Many taxpayers may see lower taxes although impact varies based on individual circumstances
- Elimination or restrictions of certain deductions affect property owners including timber

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## Summary

- Tax planning for individual and businesses

### Bonus

- Forest management plan are part of the tax records
- Keep tax records, written records are best!

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## More Information

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### Tax Tips for Forest Landowners For the 2017 Tax Year

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## Federal Income Tax on Timber A Quick Guide for Woodland Owners

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Fourth Edition  
2012  
Dr. Linda Wang



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## Q & A

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**Thank you for your participation!**