


NC STATE UNIVERSITY College of Natural Resources

Timber Taxes Webinar 11/30/2023

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Qualifier

This presentation is intended to be informational and serve as an educational resource for you and your tax advisor, but is not intended as financial, tax, or legal advice.

Please consult with your tax advisor concerning your unique tax situation.

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There are many tools in the toolbox to help the small forest landowner

- **Cost share**
- **Estate Planning**
- **Succession Planning**
- **New and Emerging Markets**
- **Legislative Reforms and Legal Architecture**
- **Tax Law and Strategies**



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Why Do We Care?


- The agricultural industry in North Carolina well over 100 billion dollars of **which 32 billion dollars is in forestry** (Morning Agricultural Clips 2022).
Forest Industry is 4% of total US GDP
- a **US population expected to approach 500 million people by 2060**, with an associated forest land loss of over 37 million acres (Tidwell 2016). Owners are expecting to subdivide some 5.4 million ac in the next few years, of which 60% is in the South.
- **North Carolina** is expected to be the *second most impacted state* for loss of agricultural land **by 2040** and may have as much as **1.1 million acres converted from farms and forests by 2040** (Morning Agriculture Clips 2022).

Morning Agricultural Clips (2022) "North Carolina Ranks 2nd in Nation in Potential Agricultural Land Loss by 2040", September 12, 2022.

Morning Agricultural Clips (2022) "N.C. Forestry Association, NC Forest Service Celebrates National Forest Products Week", October 2022.

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Small and Getting Smaller

The average size of a family forest holding is **29 acres**.
The average age of the owner is **62 years**.

Ongoing fragmentation through estate disposal will continue to alter forest management in the South.



BUTLER, B.J., AND E.C. LEATHERBERRY. 2004. America's Family Forest Owners. Journal of Forestry 102(7):4-14

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A few basic things to know.....

- Timberland value is separated out into two components (at least), one is the land itself, the second is the standing uncut timber.
- The value of each should be separated out as soon as possible to be able to maximize your tax advantages.

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Difference between standing timber and cut timber

- Standing timber can realize benefits from being treated as long term capital gain, from the point of purchase forward
- Already cut timber is treated as ordinary income



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What is timber basis?

- Not the cost of your land
- The value of your timber from point of purchase going forward, less the expenditures you make to improve the stand
- How you acquired it matters: Gift, Inheritance, Fee simple etc.



<https://content.ces.ncsu.edu/understanding-your-timber-basis>

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Timber basis is generally the amount of capital investment in your timber.

If the forestland was **purchased**, the original timber basis is the **amount of your total acquisition costs allocated to the timber**.

If the property was **inherited**, the timber basis generally is its **fair market value on the decedent's date of death**.

If the property was received as a **gift**, the basis is generally the **donor's basis plus the gift tax**.

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How can I determine the value of my standing timber I bought 20 years ago going forward?



Timber Cruising and Back Cruising

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What is a Timber Cruise?

- A timber cruise is a woodland survey to determine the timber volume, species, composition, and forest product allocation
- Not a guesstimate!
- More sampling, and better distribution the more precise the estimate
- Consulting forester is needed

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What is a Back Cruise

- A back cruise determines present timber volume (cruise) and then regresses to the time of purchase
- Those quantities can be looked at backwards (increment bore) and multiplied by historical timber prices to determine the value of the timber at acquisition.
- Back cruising is prohibited (IRS Purposes) once the timber is cut!
- Accurate and defensible number for timber basis

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Know the classification of your timber holding

Your timber holding type largely determines associated tax rates, applicable rules for expense and loss deduction, and tax filing requirements.

It normally could be classified as one of the following three types:

- 1) property for personal use or as a **hobby** (not-for-profit)
- 1) property held as an **investment**
- 3) property held in a trade or **business**.

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Hobby or Personal Use

- Your primary purpose for owning the property is for personal **enjoyment** or hobby, rather than making a profit.
- Tax deductions are quite limited under this scenario.

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Investment

- You have a profit motive for the property; however, your activities don't rise to the level of a trade or business (see below). Specifically, your primary purpose for owning the property is to **make money** (such as timber income or property appreciation), but the activity on the property is not contingent on you managing it.

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Business

- You have a profit motive, and your forestry activities are conducted in a business-like manner.
- Your ***involvement*** in the business implies regular, continuous, and substantial activity and will result in more favorable tax deductions.

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Some forestry related cost share programs may qualify for income exclusion

- Forest Health Protection Program (FHPP)
- Conservation Reserve Program (CRP)
- Environmental Quality Incentives Program (EQIP)
- Some State Programs

**Talk to each program administrator to see if cost share payments are excludable.*

https://www.fs.usda.gov/sites/default/files/fs_media/fs_document/2022-Tax-Tips-for-Forest-Landowners.pdf