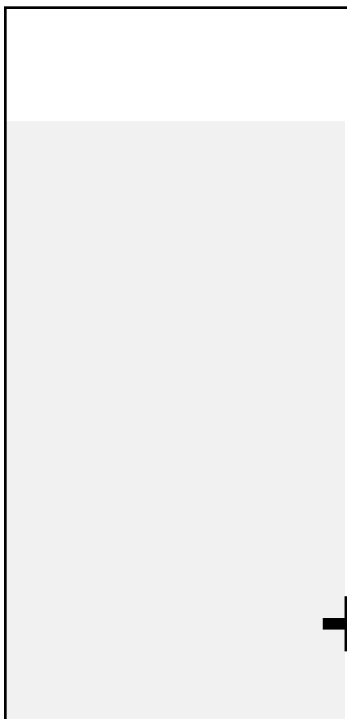


# Timber Tax Overview

Kevin Burkett, Clemson University, Extension Associate  
Kurt Smith, NCSU, Assistant Professor

1



## Recordkeeping

At the heart of a lot of issues

More work on the front end but many  
benefits later

What you decide to do with the  
records is up to you

2

# Recordkeeping

## Short-Term Operating Plan *for farms and ranches*

### Employees:

| Name | Phone number | Frequency of Pay (hourly, weekly, etc.) | Payment Method (accountant, on-line, check) | Notes: |
|------|--------------|---|---|--------|
|      |              |   |   |        |
|      |              |   |   |        |
|      |              |   |   |        |

### Utilities:

|          | Due Date | Payment Method (on-line, check, etc) | Other Information (passwords) |
|----------|----------|--------------------------------------|-------------------------------|
| Water    |          |                                      |                               |
| Electric |          |                                      |                               |

### Insurance:

| Company | Agent | Contact Information | Policy Type and Number |
|---------|-------|---------------------|------------------------|
|         |       |                     |                        |
|         |       |                     |                        |

### Local Contacts:

| Name | Contact Information | Contact Type (trucker, bulldozer, electrician, seasonal help, etc.) |
|------|---------------------|---|
|      |                     |   |
|      |                     |   |
|      |                     |   |
|      |                     |   |

### Additional Information:

\_\_\_\_\_

**LGPRESS - 1171**

**SHORT-TERM OPERATIONS  
SUPPORT FARM CONTINUITY  
IN TIMES OF DISTRESS**

3

# Poll Question



4

Classification of Activity

Hobby

Investor

Business

5

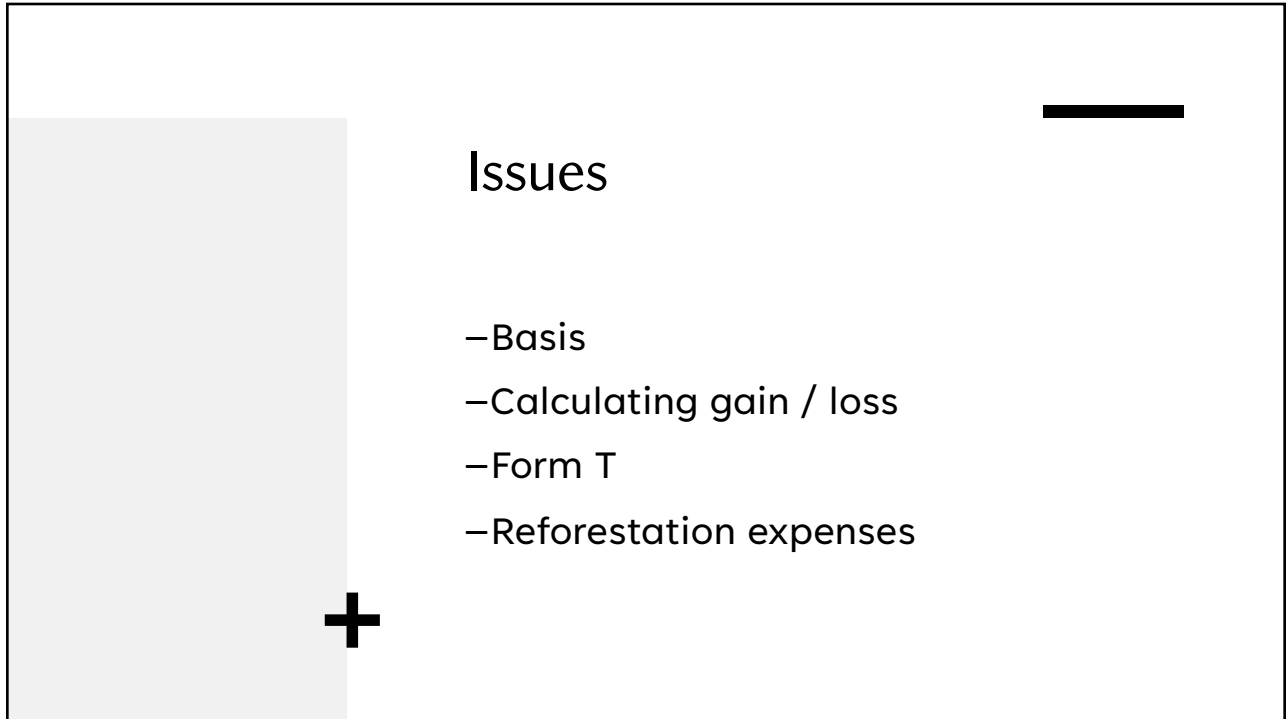
Taxes

Can be complex

Landowner may leave money on the table

Find a practitioner to work with

6



## Issues

- Basis
- Calculating gain / loss
- Form T
- Reforestation expenses

7

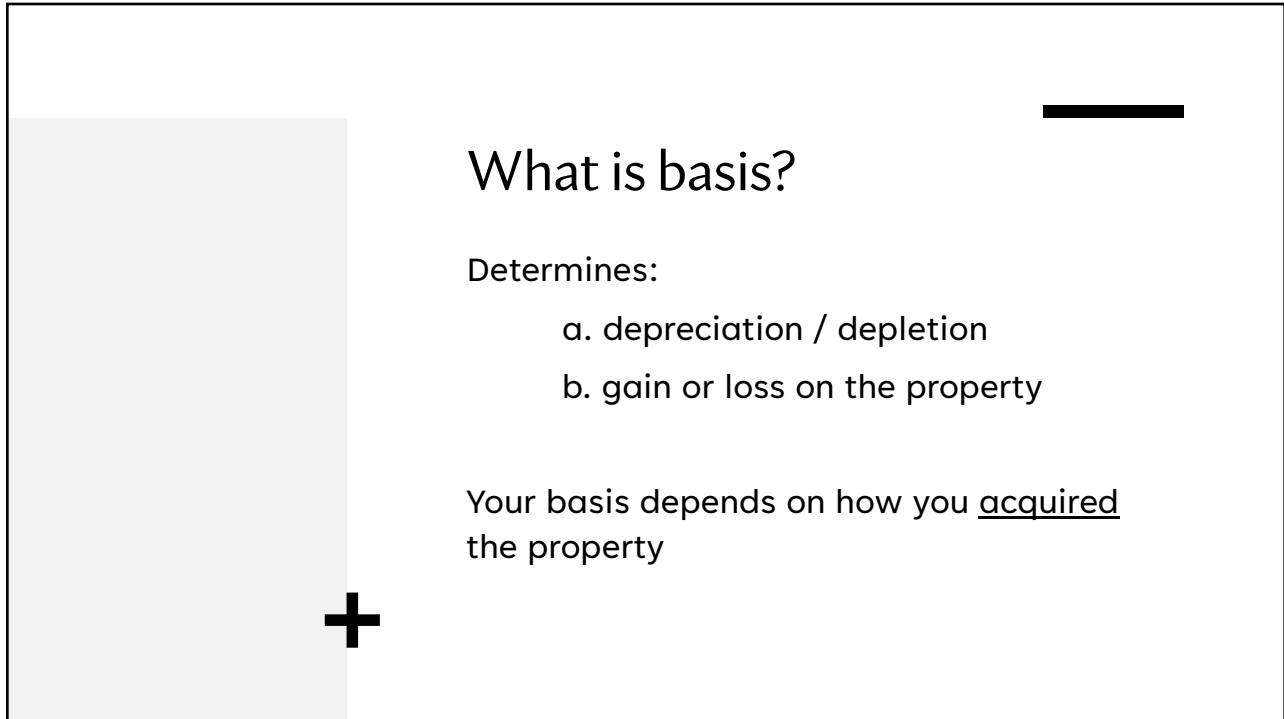


## What is basis?

Your amount of investment in a piece of property

IRS Publication 551 – Basis of Assets  
<https://www.irs.gov/pub/irs-pdf/p551.pdf>

8



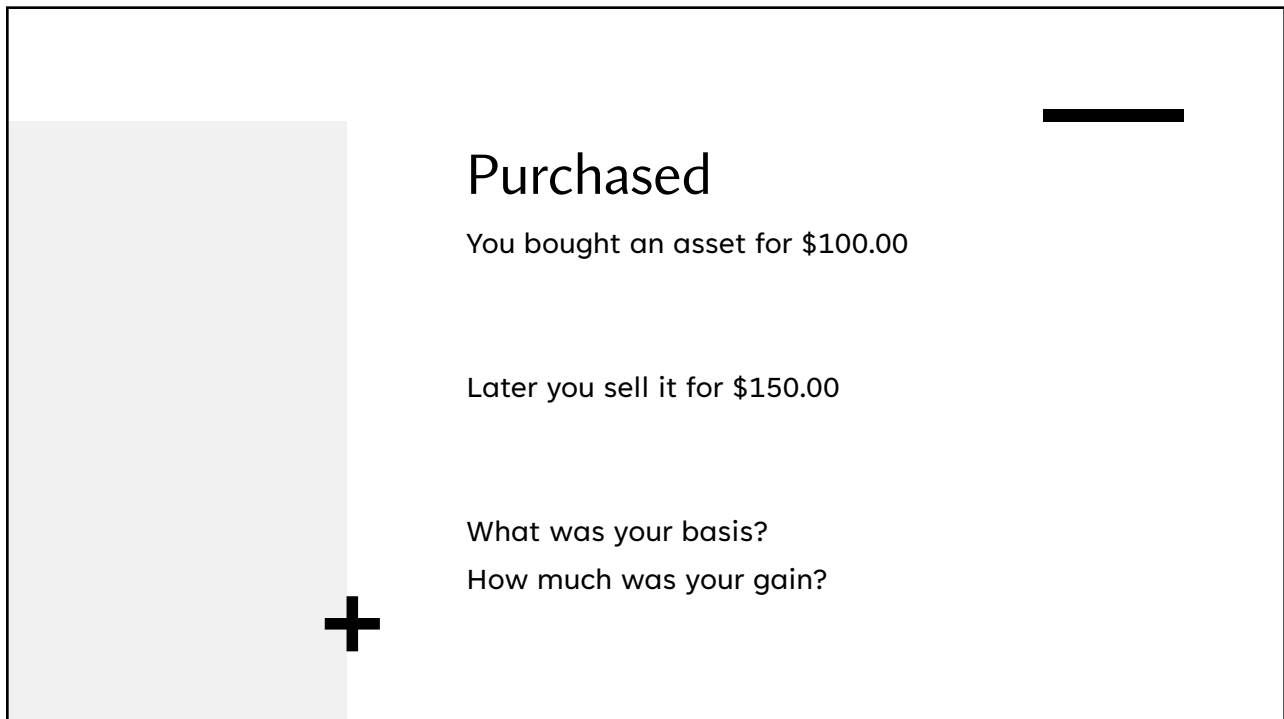
## What is basis?

Determines:

- a. depreciation / depletion
- b. gain or loss on the property

Your basis depends on how you acquired the property

9



## Purchased

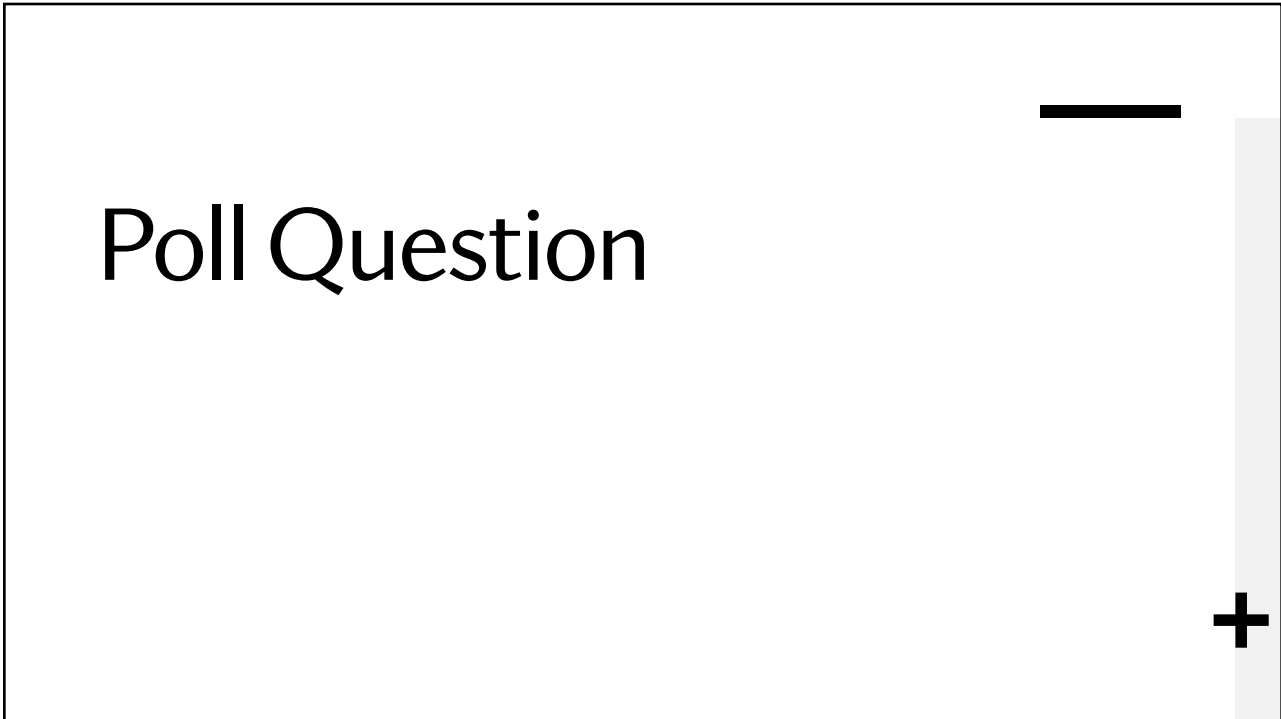
You bought an asset for \$100.00

Later you sell it for \$150.00

What was your basis?  
How much was your gain?

10

# Poll Question

A slide with a white background and a black border. In the top right corner, there is a thick black horizontal line. In the bottom right corner, there is a black plus sign. The text "Poll Question" is centered in a large, black, sans-serif font.

11

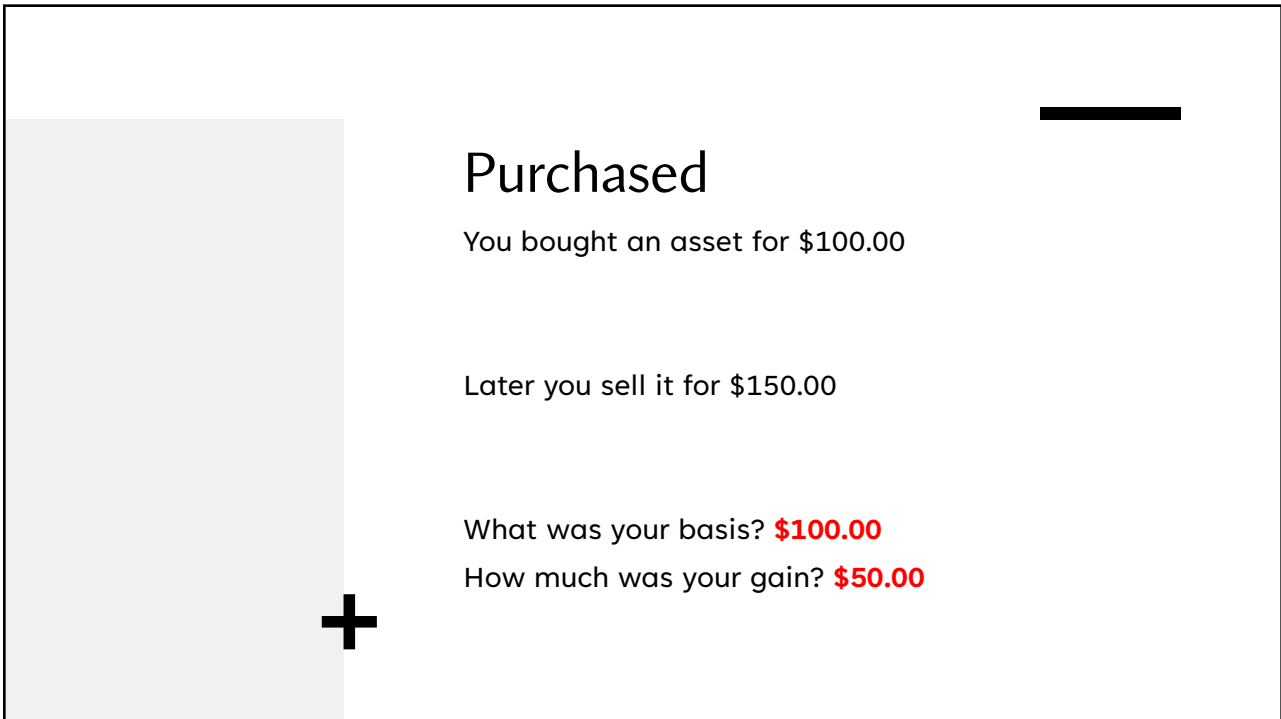
## Purchased

You bought an asset for \$100.00

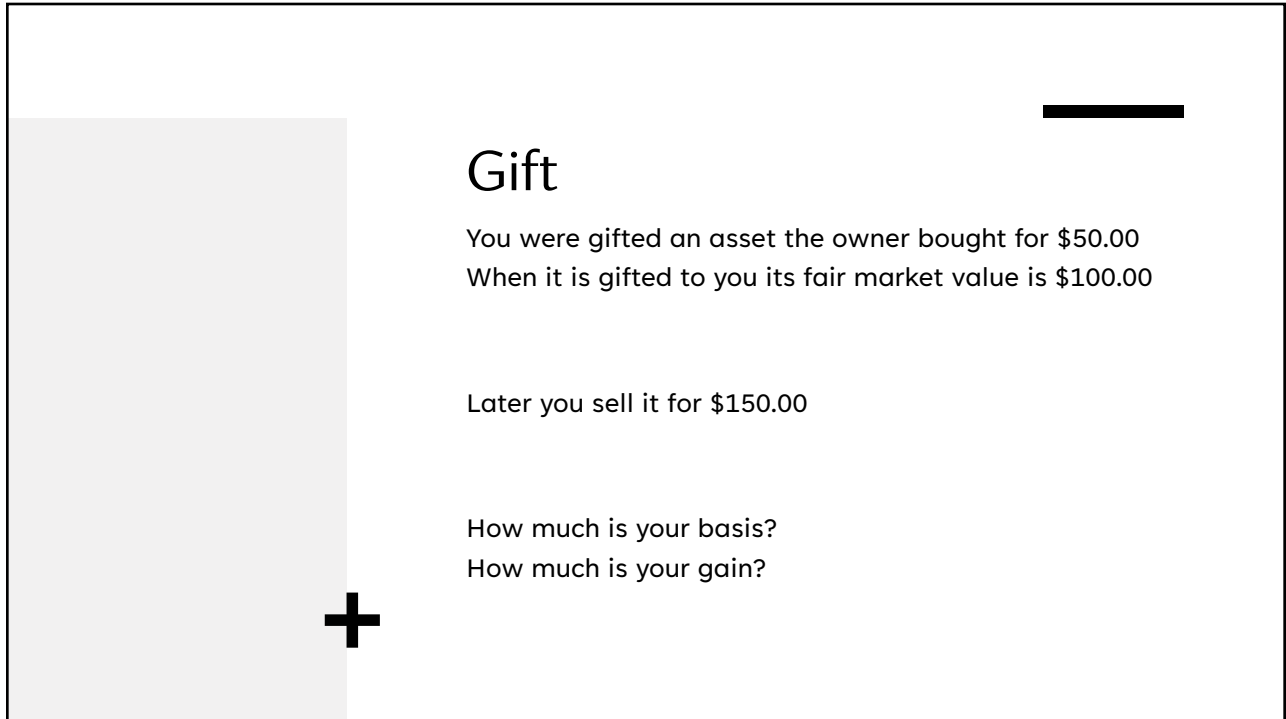
Later you sell it for \$150.00

What was your basis? **\$100.00**

How much was your gain? **\$50.00**

A slide with a white background and a black border. On the left side, there is a vertical grey bar. In the top right corner, there is a thick black horizontal line. In the bottom left corner, there is a black plus sign. The text "Purchased" is centered at the top in a large, black, sans-serif font. Below it, the text "You bought an asset for \$100.00" and "Later you sell it for \$150.00" are centered. At the bottom, two questions are listed: "What was your basis? **\$100.00**" and "How much was your gain? **\$50.00**".

12



**Gift**

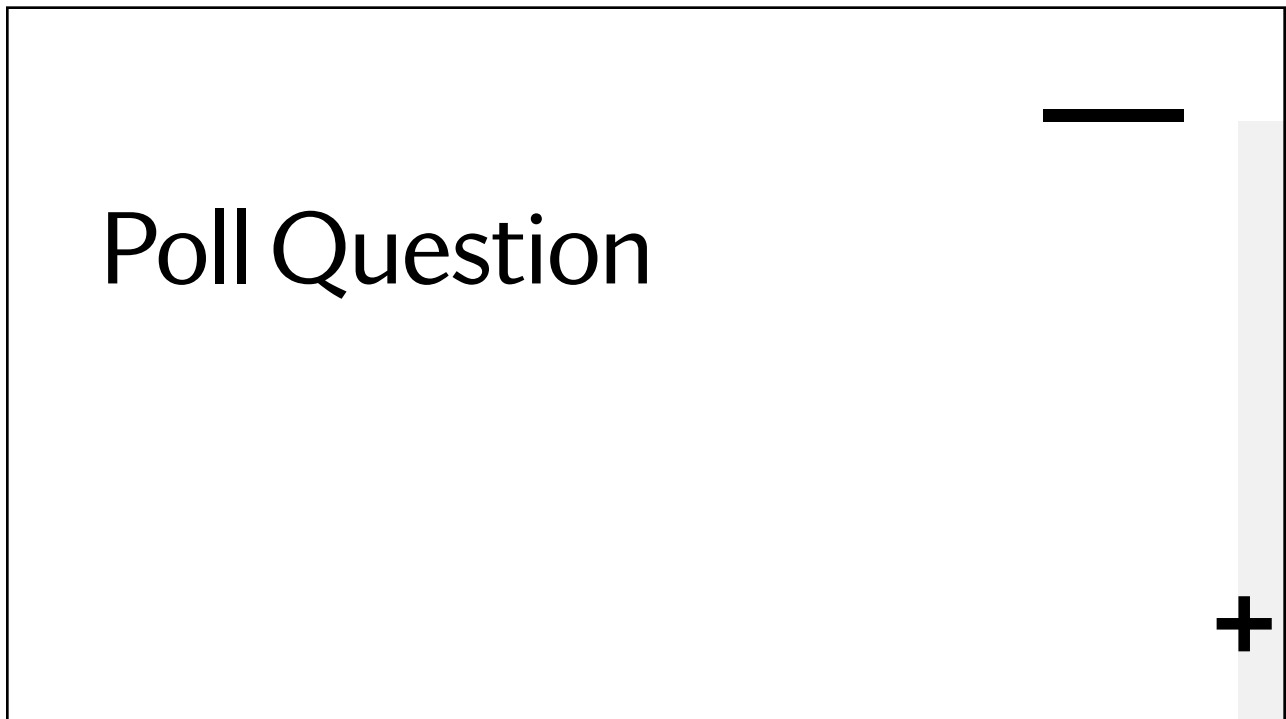
You were gifted an asset the owner bought for \$50.00  
When it is gifted to you its fair market value is \$100.00

Later you sell it for \$150.00

How much is your basis?  
How much is your gain?

The slide features a light gray vertical bar on the left side with a large black plus sign (+) at its base. A thick black horizontal line is positioned in the upper right corner of the slide area.

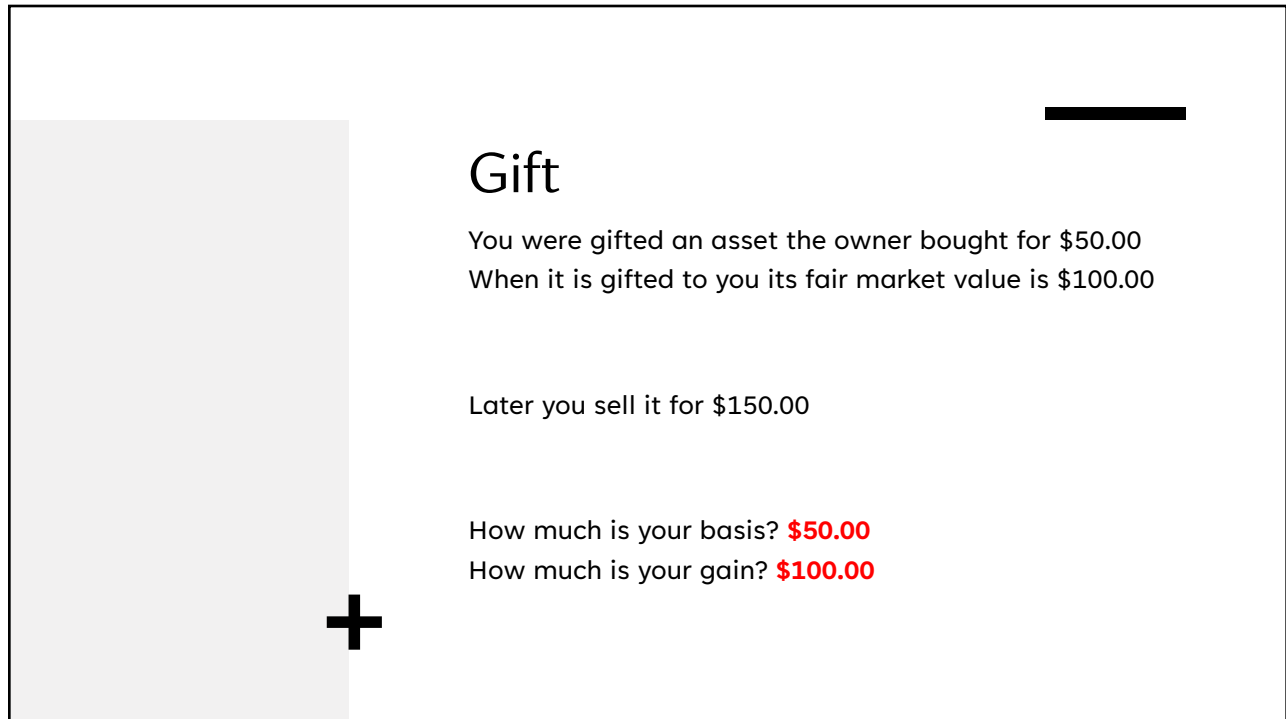
13



**Poll Question**

The slide features a light gray vertical bar on the right side with a large black plus sign (+) at its base. A thick black horizontal line is positioned in the upper right corner of the slide area.

14



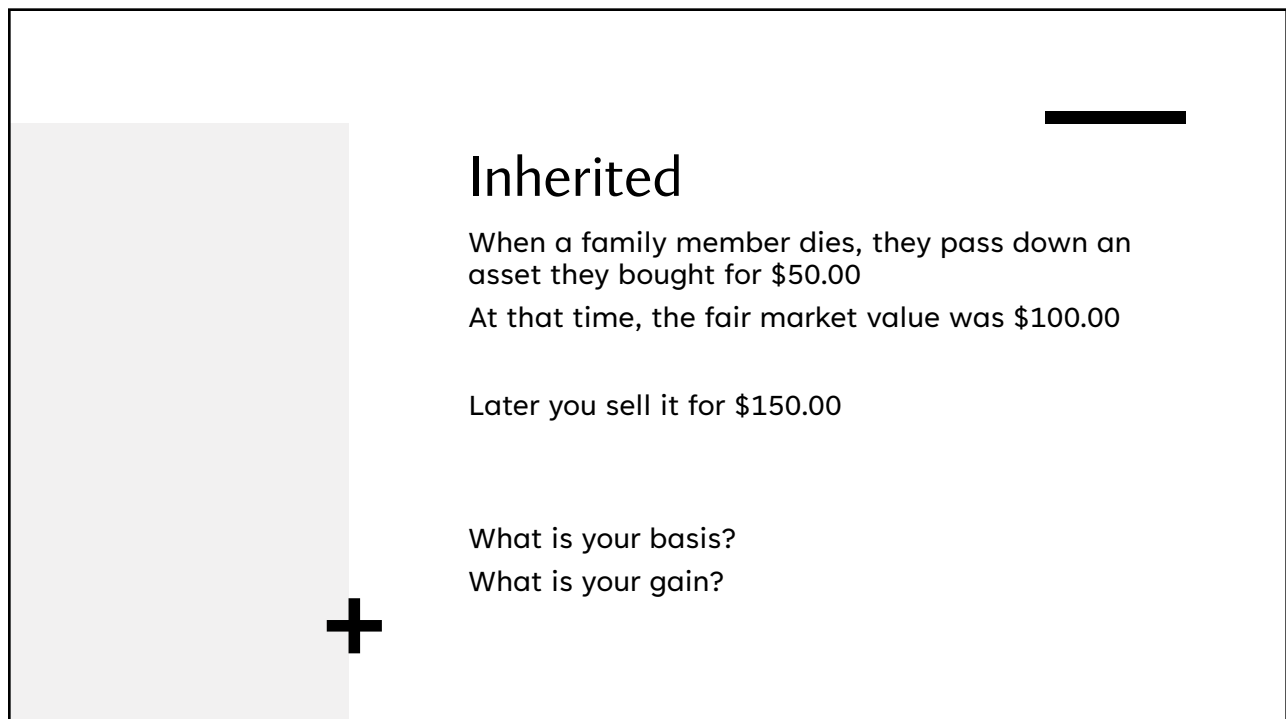
## Gift

You were gifted an asset the owner bought for \$50.00  
When it is gifted to you its fair market value is \$100.00

Later you sell it for \$150.00

How much is your basis? **\$50.00**  
How much is your gain? **\$100.00**

15



## Inherited

When a family member dies, they pass down an asset they bought for \$50.00  
At that time, the fair market value was \$100.00

Later you sell it for \$150.00

What is your basis?  
What is your gain?

16

# Poll Question

17

## Inherited

When a family member dies, they pass down an asset they bought for \$50.00

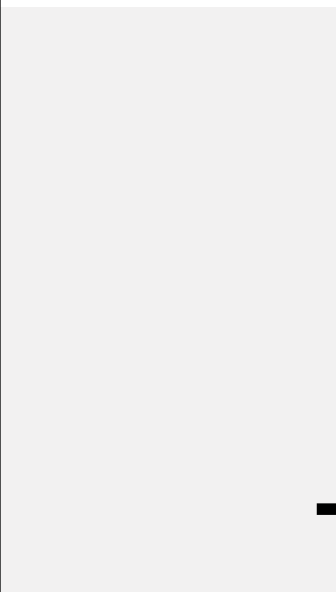
At that time, the fair market value was \$100.00

Later you sell it for \$150.00

What is your basis? **\$100.00**

What is your gain? **\$50.00**

18




## Basis

Can go up or down

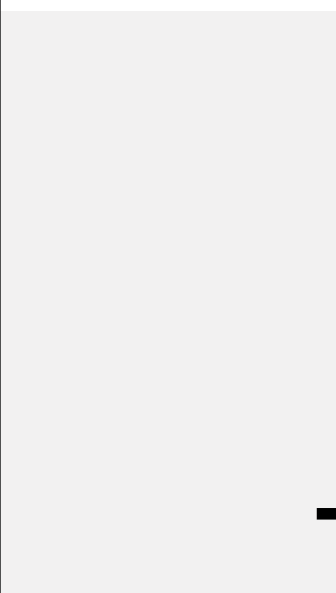
- Depreciation / depletion (down)
- Improvements / capitalized costs (up)

It is then referred to as *adjusted basis* - **\$0.00**

When it is sold, it affects the gain / loss on the asset - **\$150.00**




19



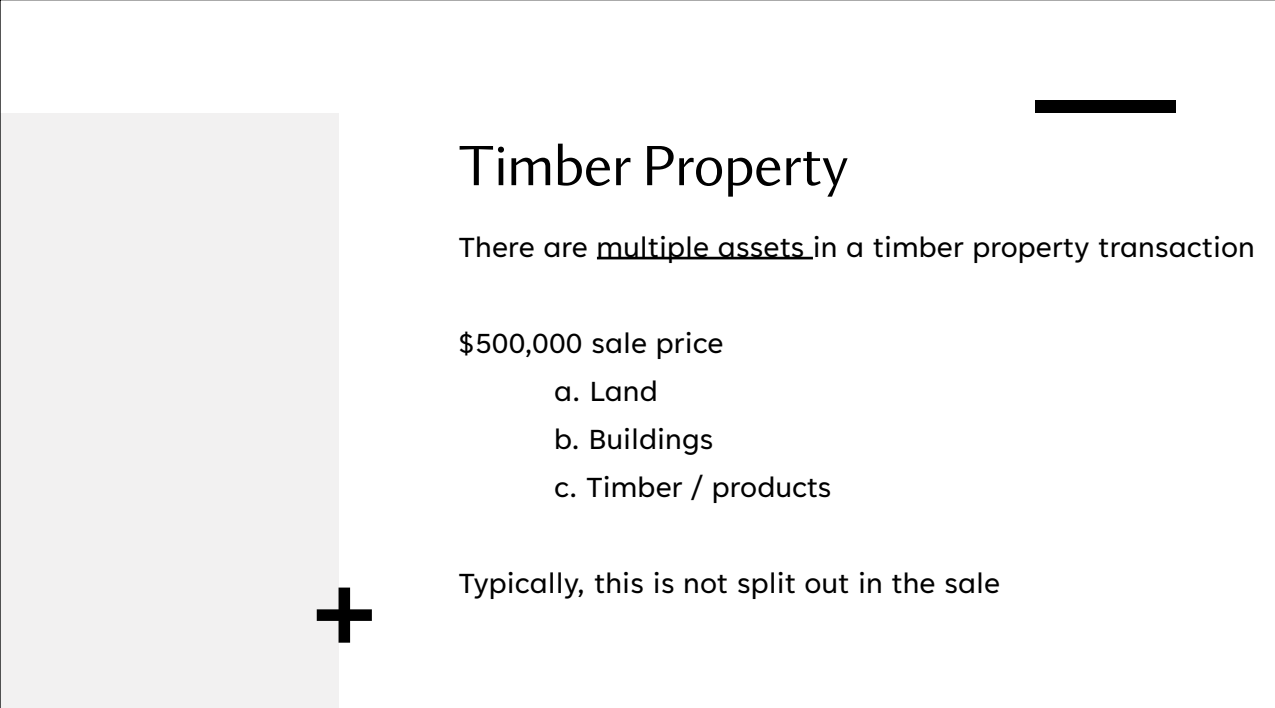
## Timber Property

Issues:

- Basis should be determined at time property changes hands
- Basis gets “lost”
- There are multiple assets in a timber property transaction



20



## Timber Property

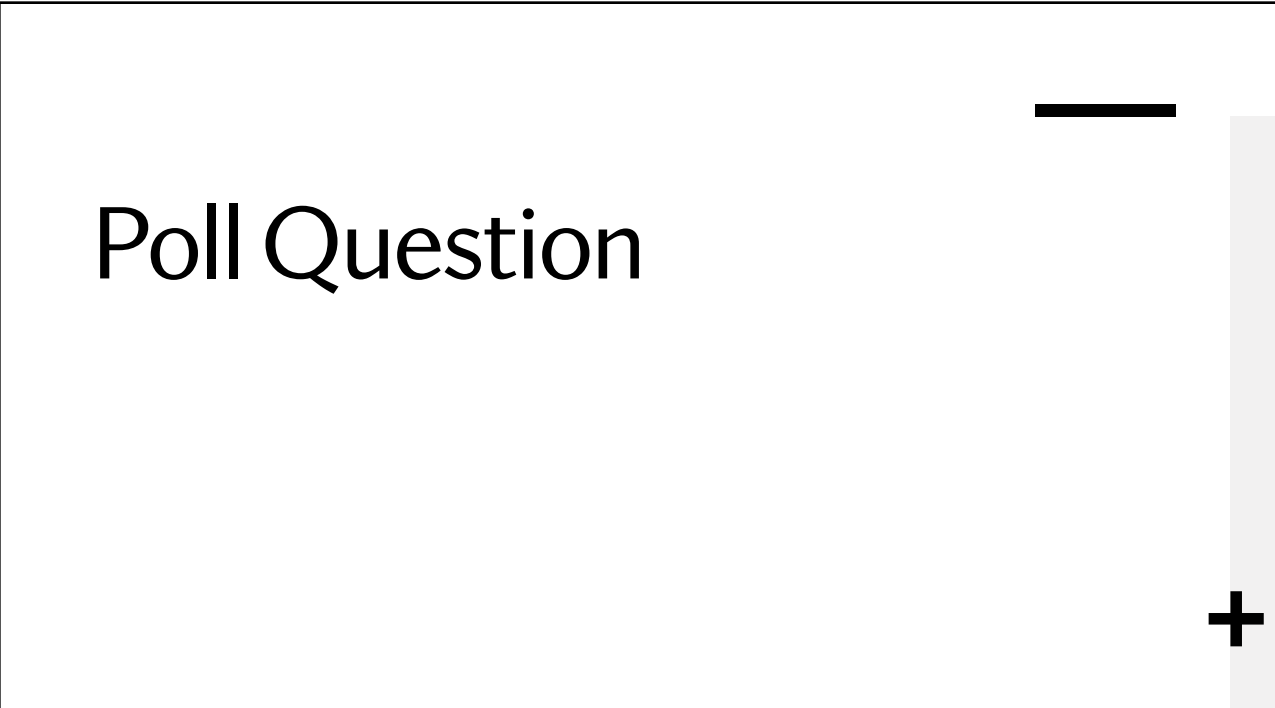
There are multiple assets in a timber property transaction

\$500,000 sale price

- a. Land
- b. Buildings
- c. Timber / products

Typically, this is not split out in the sale

21



## Poll Question

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|                       | <b>FMV</b>       | <b>% of FMV</b> | <b>Basis</b>     |
|-----------------------|------------------|-----------------|------------------|
| Land                  | \$200,000        | 0.385           | \$192,307.69     |
| Timber (merchantable) | \$150,000        | 0.288           | \$144,230.77     |
| Timber (pre-merchant) | \$70,000         | 0.135           | \$67,307.69      |
| Buildings             | \$100,000        | 0.192           | \$96,153.85      |
|                       | <u>\$520,000</u> | <u>1</u>        | <u>\$500,000</u> |

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## Inheritance & Gift

**Inheritance:**  
 can be determined at time of inheritance

**Gift:**

- historical records
- back cruise
- may not be worth it

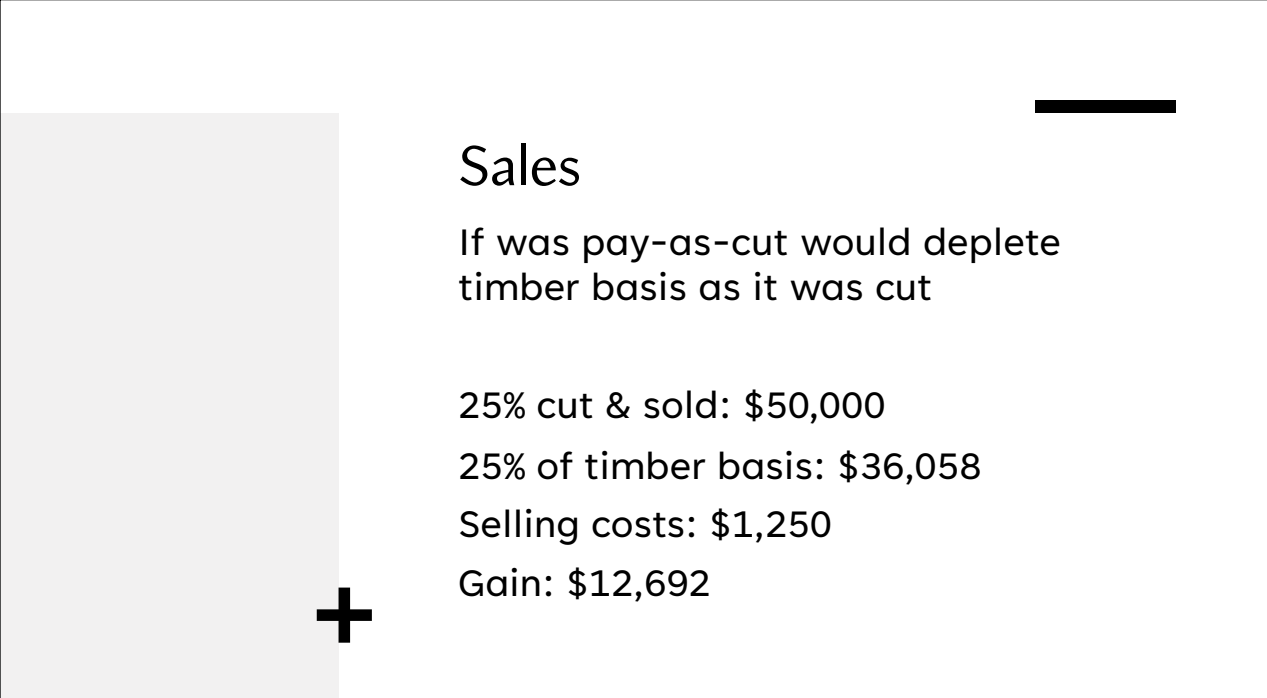
24

|                       | <b>FMV</b>       | <b>% of FMV</b> | <b>Basis</b>     |
|-----------------------|------------------|-----------------|------------------|
| Land                  | \$200,000        | 0.385           | \$192,307.69     |
| Timber (merchantable) | \$150,000        | 0.288           | \$144,230.77     |
| Timber (pre-merchant) | \$70,000         | 0.135           | \$67,307.69      |
| Buildings             | \$100,000        | 0.192           | \$96,153.85      |
|                       | <u>\$520,000</u> | <u>1</u>        | <u>\$500,000</u> |

25

| <b>Sales</b> |                              |
|--------------|------------------------------|
|              | Lump-sum sale for: \$200,000 |
|              | Basis: \$144,230             |
|              | Selling costs: \$5,000       |
|              | Gain = \$50,770              |

26

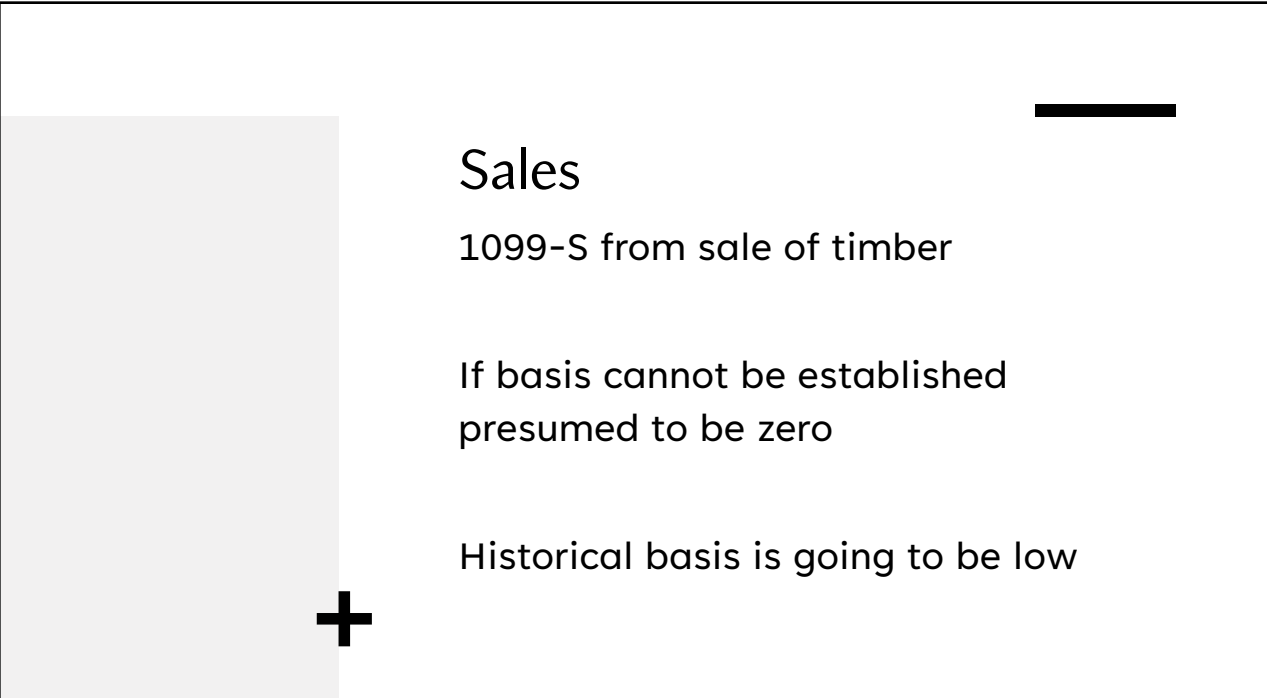


## Sales

If was pay-as-cut would deplete timber basis as it was cut

25% cut & sold: \$50,000  
 25% of timber basis: \$36,058  
 Selling costs: \$1,250  
 Gain: \$12,692

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## Sales

1099-S from sale of timber

If basis cannot be established presumed to be zero

Historical basis is going to be low

28



## Character of Gain - Investment

Timber sales from investment receive more favorable capital gains treatment

- Form 8949 / Schedule D

Long-term capital gains always more favorable than ordinary rates – 0, 15, 20%

Short-term rates still better than ordinary income as there's no self-employment tax on capital gains (1221 asset)



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## Character of Gain - Business

Timber sales from business can receive more favorable capital gains treatment

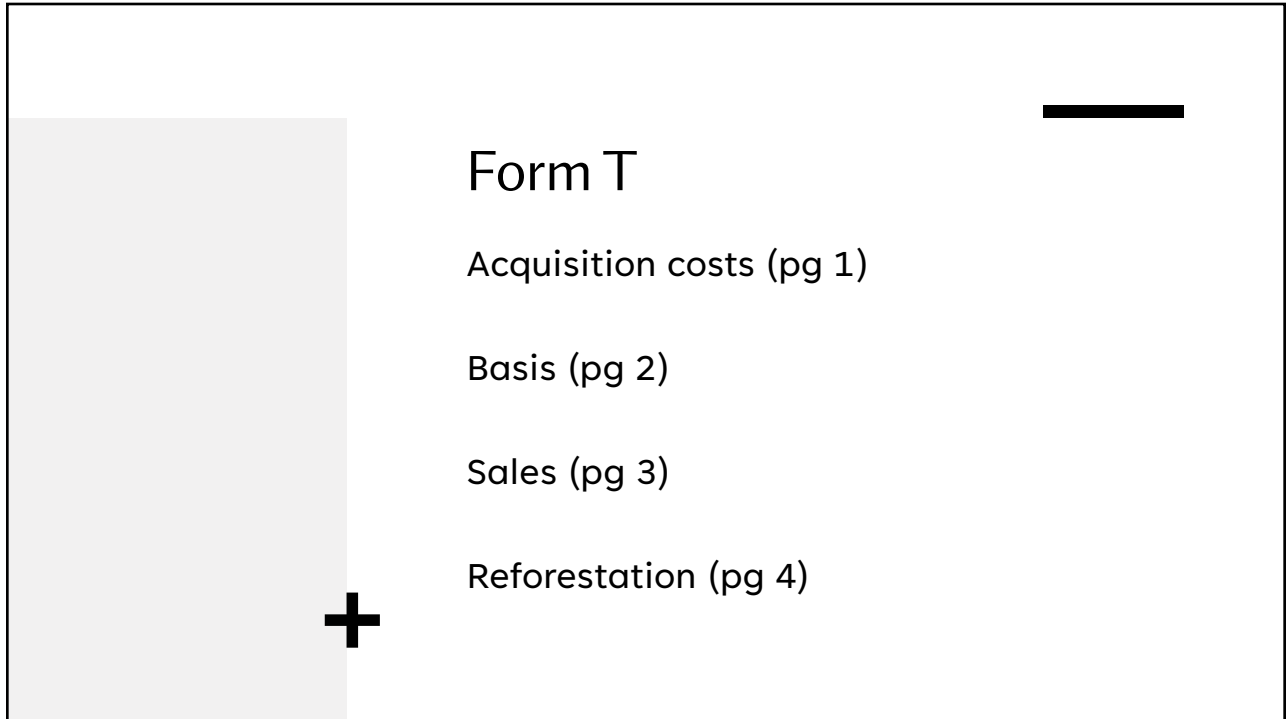
- Form 4797 / F or C (631 election)

Long-term capital gains always more favorable than ordinary rates – 0, 15, 20%

If held less than a year, gains receive ordinary income treatment (1231 asset)

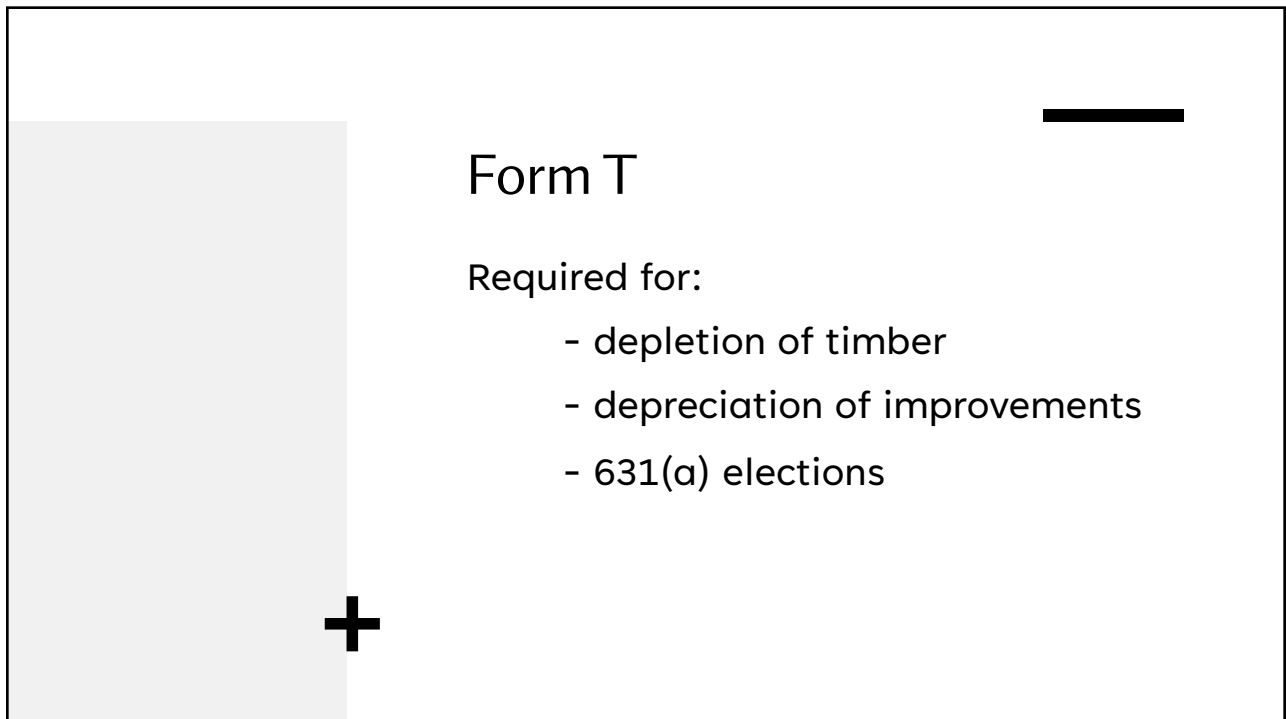


30




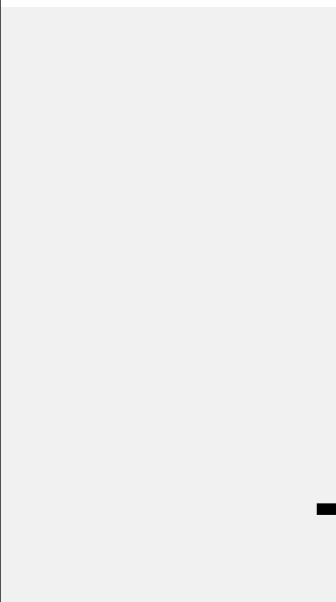
The diagram shows a large rectangular box representing a form. On the left side, there is a vertical grey bar. To the right of this bar, the text "Form T" is centered. Below "Form T", there are four lines of text: "Acquisition costs (pg 1)", "Basis (pg 2)", "Sales (pg 3)", and "Reforestation (pg 4)". A large black plus sign is positioned at the bottom of the grey bar. In the top right corner of the main box, there is a thick horizontal black line.

31



The diagram shows a large rectangular box representing a form. On the left side, there is a vertical grey bar. To the right of this bar, the text "Form T" is centered. Below "Form T", the text "Required for:" is followed by a bulleted list: "- depletion of timber", "- depreciation of improvements", and "- 631(a) elections". A large black plus sign is positioned at the bottom of the grey bar. In the top right corner of the main box, there is a thick horizontal black line.

32


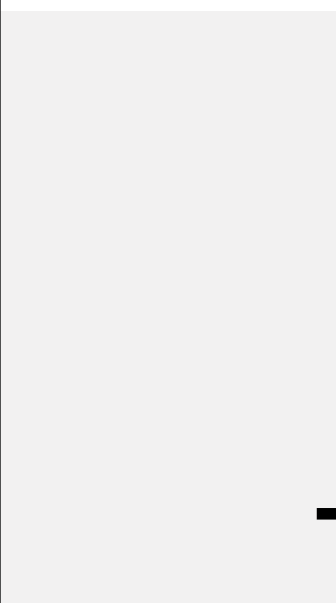


## Form T

Practically speaking, required for someone in the business

A very practical form for an investor

33



## Reforestation Expenses

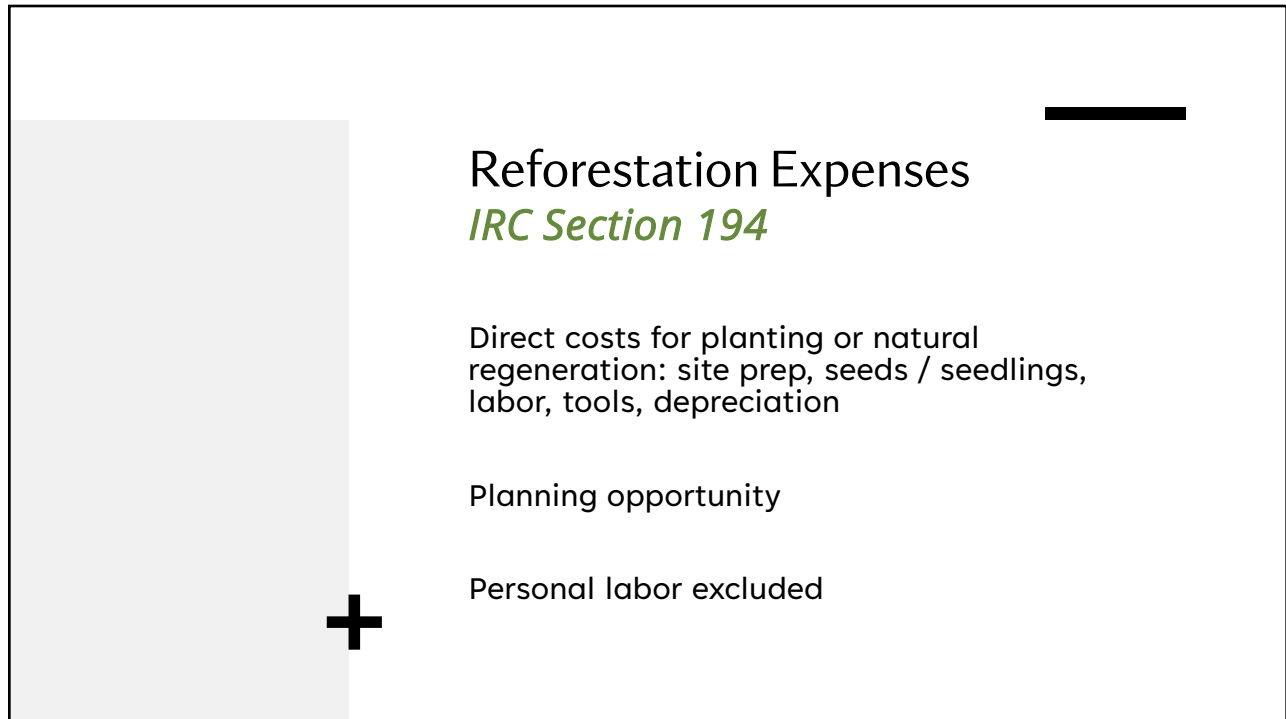
*IRC Section 194*

For investors or business

Can deduct up to \$10,000 per qualified timber property (QTP) for reforestation expenses

- Remaining amortized over 84 months

34



## Reforestation Expenses

### *IRC Section 194*

Direct costs for planting or natural regeneration: site prep, seeds / seedlings, labor, tools, depreciation

Planning opportunity

Personal labor excluded

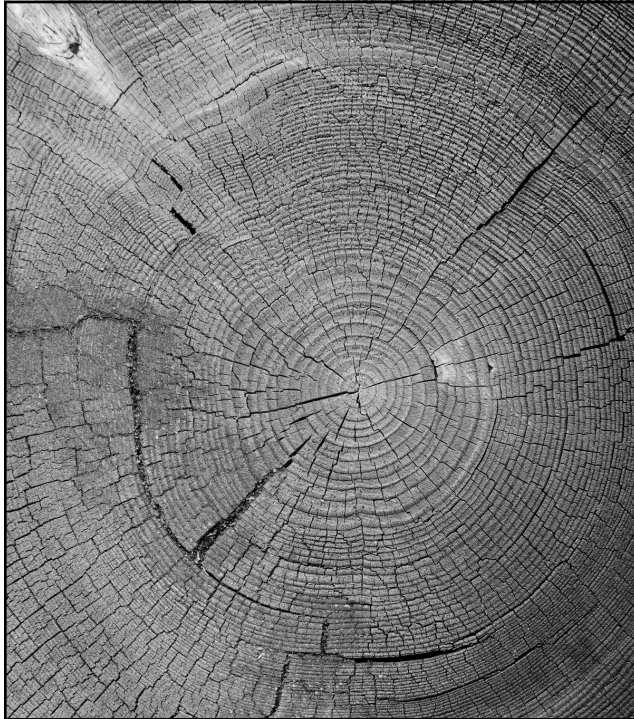
35



## Sources / Resources

- <https://lgpress.clemson.edu/publication/short-term-operations-support-farm-continuity-in-times-of-distress/>
- <https://extension.usu.edu/ruraltax/tax-topics/how-to-choose-a-tax-professional>
- <https://www.irs.gov/pub/irs-pdf/p551.pdf>
- <https://www.irs.gov/forms-pubs/about-form-t-timber>
- [www.timbertax.org](http://www.timbertax.org)
- <https://www.irs.gov/help/ita>
- <https://www.irsvideos.gov/Business/SBTW>

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## Questions and Contact

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540-239-4602