

# FORESTRY TAXES

Learn, Plan & Save Money

## WEBINAR SERIES

**Jan. 18** Seeing the Forest for the Trees: An Overview of Forestry Taxes

**Jan. 25** Basics of Timber Basis: Re(setting) the Table:

**Feb. 1** Timber Management Expenses and Deductions

**Feb. 8** Keeping More of Your Timber Income Following a Timber Sale

**Feb. 15** Coping with the Losses from Nature and Chance



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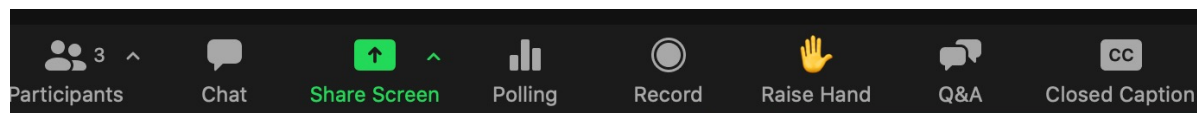
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### Schedule

1:00- 1: 45 Presentation

1:45- 2:00 Question & Answer session

## Please Ask Questions via the Q&A



Q& A can be found in the  
bottom of your zoom Screen

*For Zoom Webinar*



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# Seeing the Forest for the Trees: An Overview of Forestry Taxes

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**WS** **WOODLAND STEWARDS**  
A Regional Extension Program for Landowners

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## Disclaimer

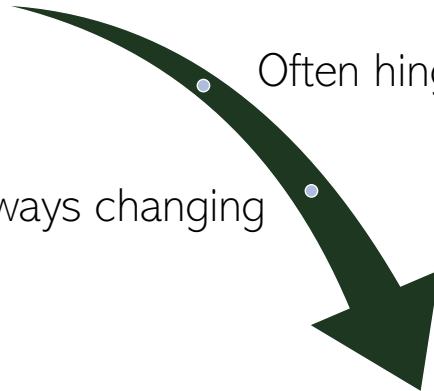
- The material and discussion in this presentation are NOT legal or accounting advice. The information is for educational purposes only.
- The facts and circumstances of each taxpayer's individual situation need to be taken into consideration for exact application of the tax law.
- This presentation is an overview, for awareness raising, and omits various provisions and complexities that might affect certain people of all categories.



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## Disclaimer

Tax law is very complex



Often hinges on details

always changing

This presentation is NOT TAX ADVICE



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## Introduction



1/25/22

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# Introduction

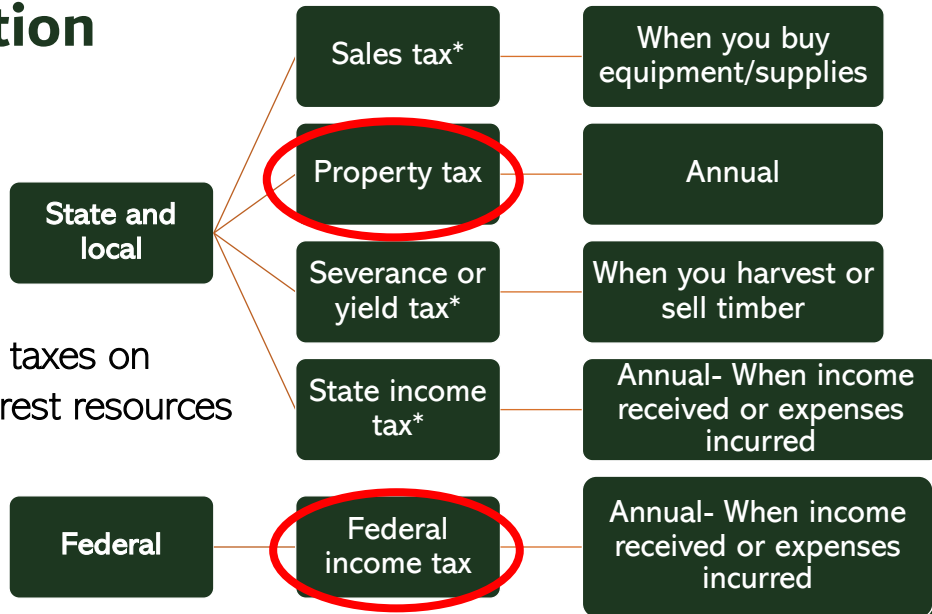
- Few people have all the knowledge and expertise needed to fully plan all aspects related to owning and managing forests
- You may need advice from:
  - an attorney
  - an accountant
  - a forester
- It is up to you to:
  - lead your team
  - set the overall objectives
  - understand the basics
  - balance benefit versus cost
  - monitor progress

U.S. tax law + regulation =  
10,000,000 + words!



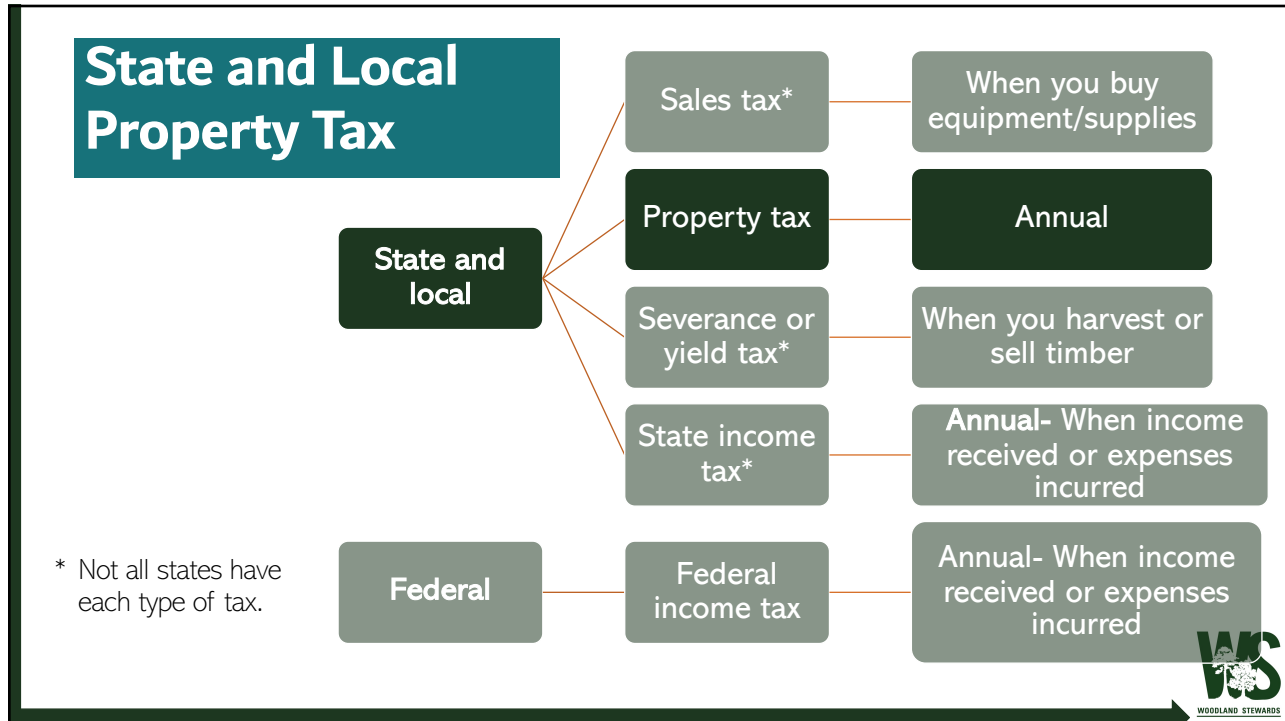
# Introduction

Major types of taxes on forestland & forest resources



\* Not all states have each type of tax.





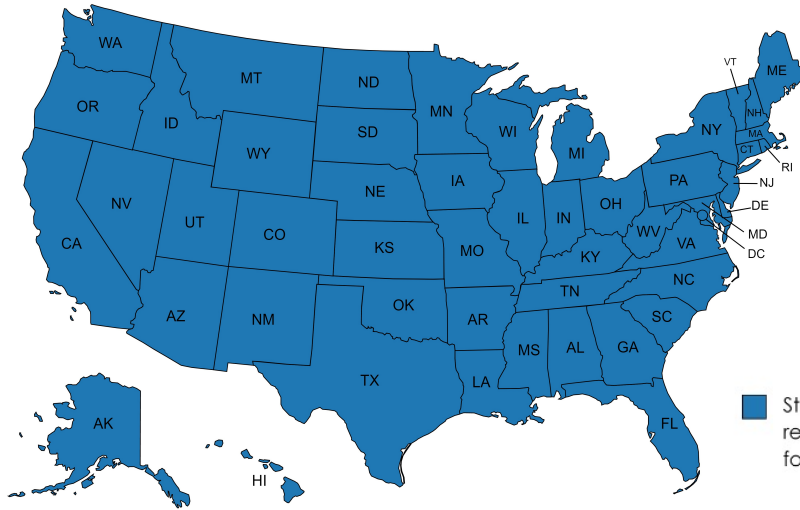
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# Property Tax

- States with program to reduce taxes on private forest:



\* May be combined with ag. program

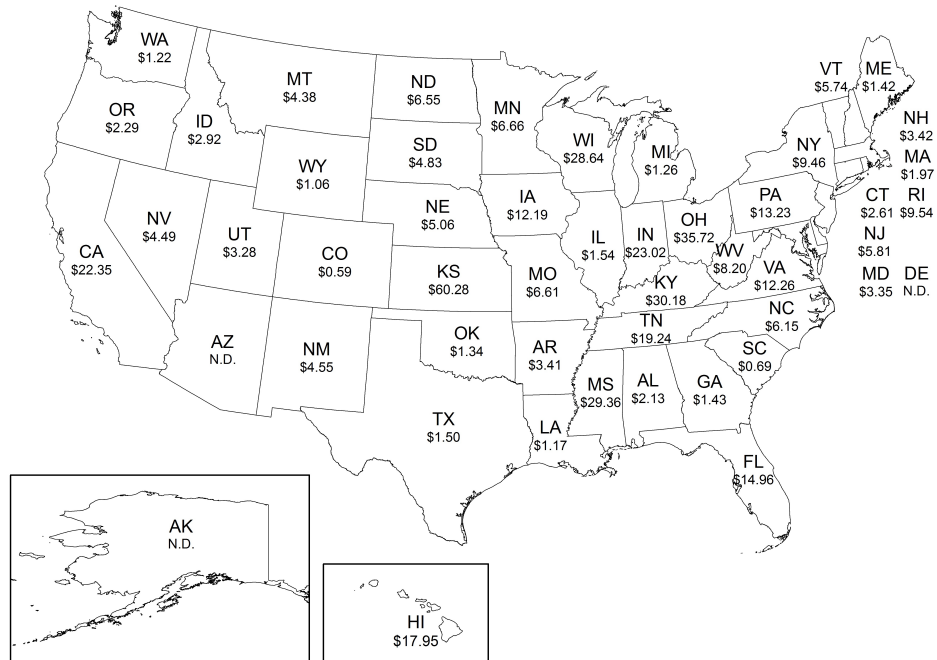
States with program to reduce taxes on private forest



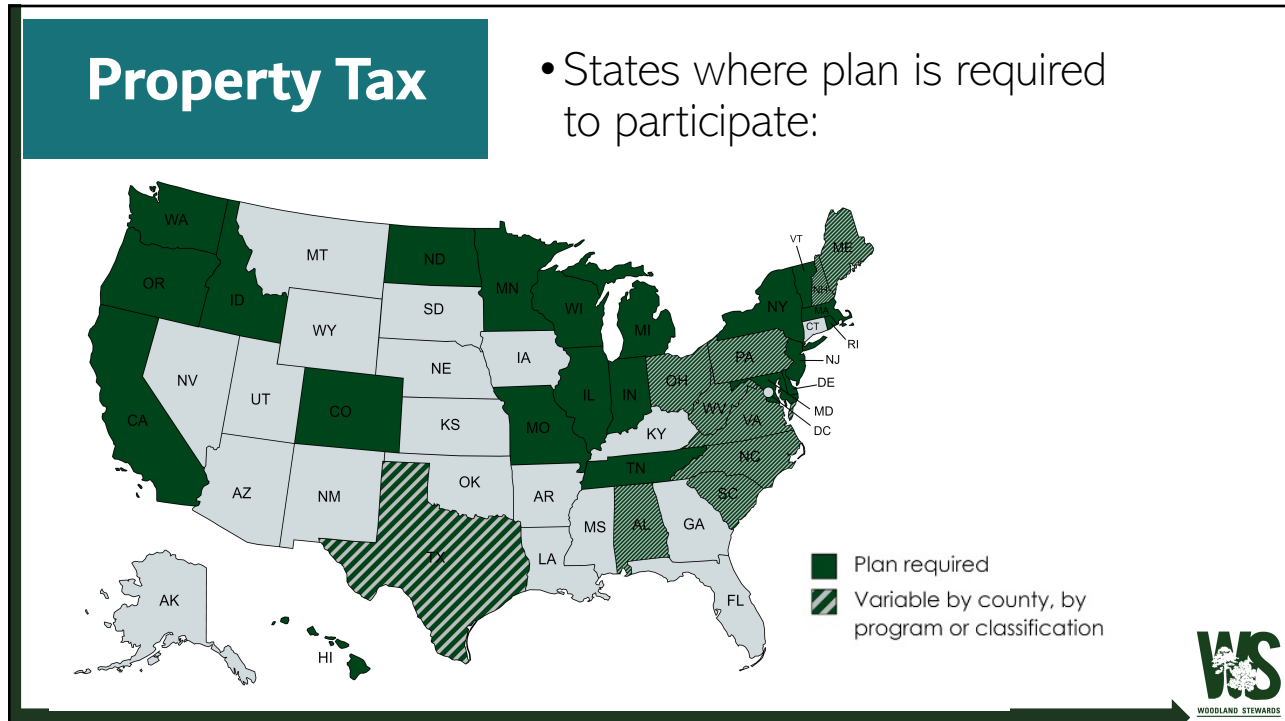
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# Property Tax

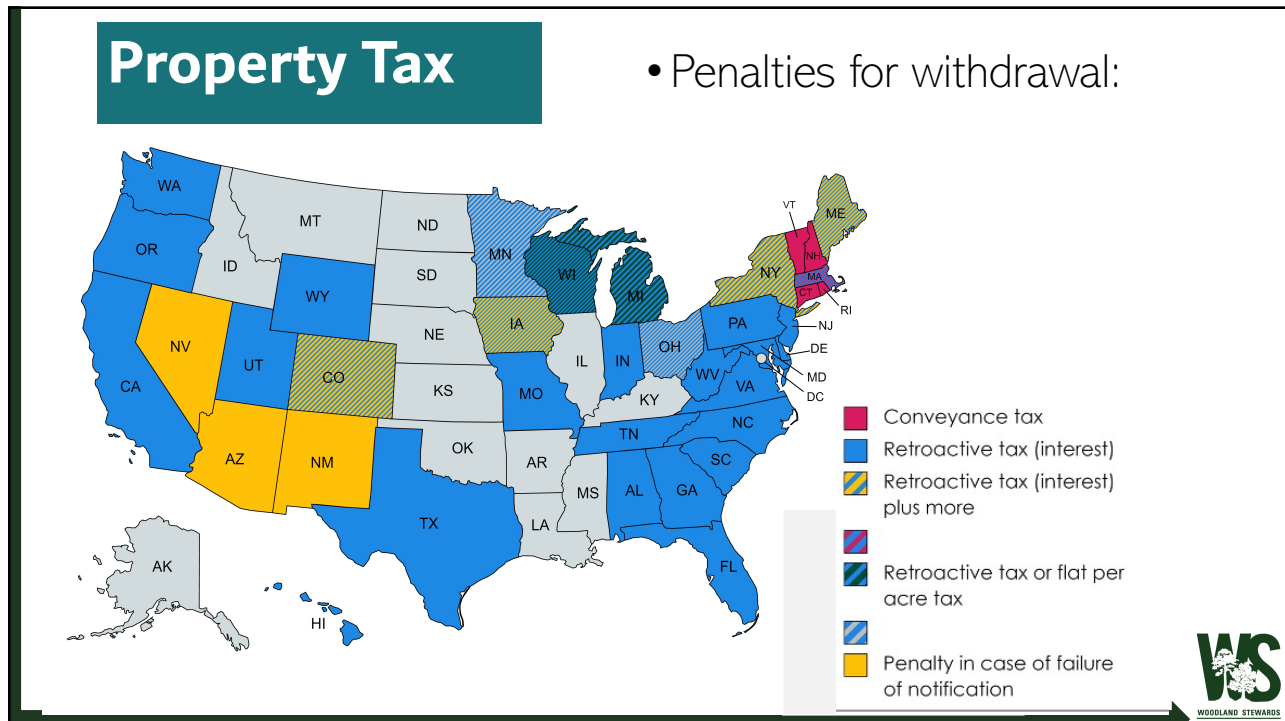
Estimated average tax savings per acre per year (as of 2014)



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# Property Tax

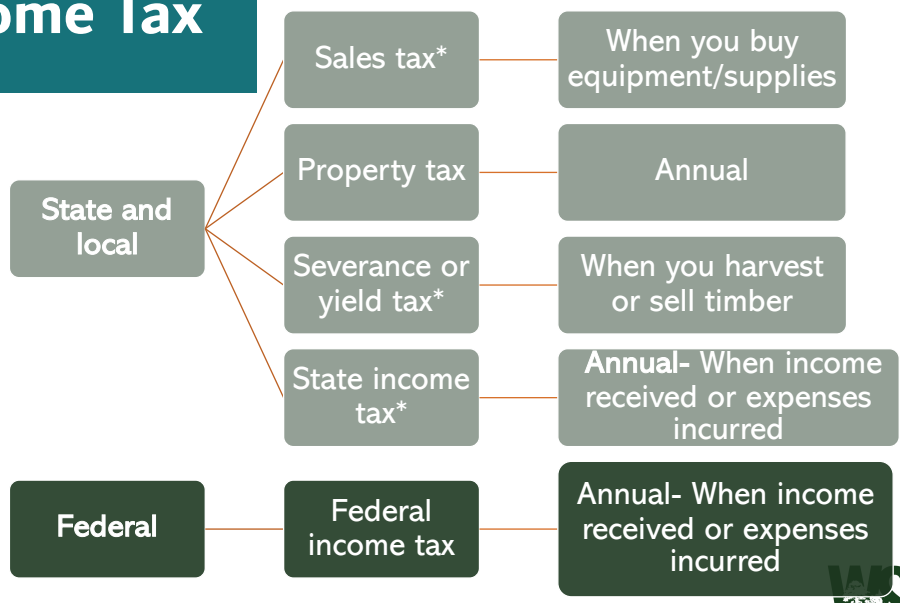
## KEY POINT

Speak to your local tax assessor or county/area forester



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# Federal Income Tax



\* Not all states have each type of tax.



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# Overview of Federal Income Tax

Form **1040** Department of the Treasury - Internal Revenue Service (99) **2019** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only - Do not write or staple in this space.

**Filing Status**  Single  Married filing jointly  Married filing separately (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
 Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial Last name Your social security number  
 If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street), if you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign  
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.  You  Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name Foreign province/state/county Foreign postal code If more than four dependents, see instructions and ✓ here ▶

**Standard Deduction**  Someone can claim:  You as a dependent  Your spouse as a dependent  Spouse itemizes on a separate return or you were a dual-status alien

**Age/Blindness** You:  Was born before January 2, 1955  Are blind **Spouse:**  Was born before January 2, 1955  Is blind

**Dependents** (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions): Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

<b>1</b> Wages, salaries, tips, etc. Attach Form(s) W-2		<b>1</b>
<b>2a</b> Tax-exempt interest	<b>2a</b>	<b>2b</b>
<b>3a</b> Qualified dividends	<b>3a</b>	<b>3b</b>
<b>4a</b> IRA distributions	<b>4a</b>	<b>4b</b>
<b>c</b> Pensions and annuities	<b>4c</b>	<b>4d</b>
<b>5a</b> Social security benefits	<b>5a</b>	<b>5b</b>
<b>6</b> Capital gain or (loss). Attach Schedule D if required. If not required, check here	<input type="checkbox"/>	<b>6</b>
<b>7a</b> Other income from Schedule 1, line 9		<b>7a</b>
<b>b</b> Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your <b>total income</b>		<b>7b</b>
<b>8a</b> Adjustments to income from Schedule 1, line 22		<b>8a</b>
<b>b</b> Subtract line 8a from line 7b. This is your <b>adjusted gross income</b>		<b>8b</b>
<b>9</b> Standard deduction or itemized deductions (from Schedule A)	<b>9</b>	
<b>10</b> Qualified business income deduction, Attach Form 8995 or Form 8995-A	<b>10</b>	
<b>11a</b> Taxable income. Subtract line 11a from line 8b. If zero or less, enter -0-		<b>11a</b>
<b>b</b> Taxable income. Subtract line 11a from line 8b. If zero or less, enter -0-		<b>11b</b>

**Standard Deduction for:**  
 • Single or Married filing separately, \$12,200  
 • Married filing jointly or Qualifying widow(er), \$18,400  
 • Head of household, \$18,350  
 • If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

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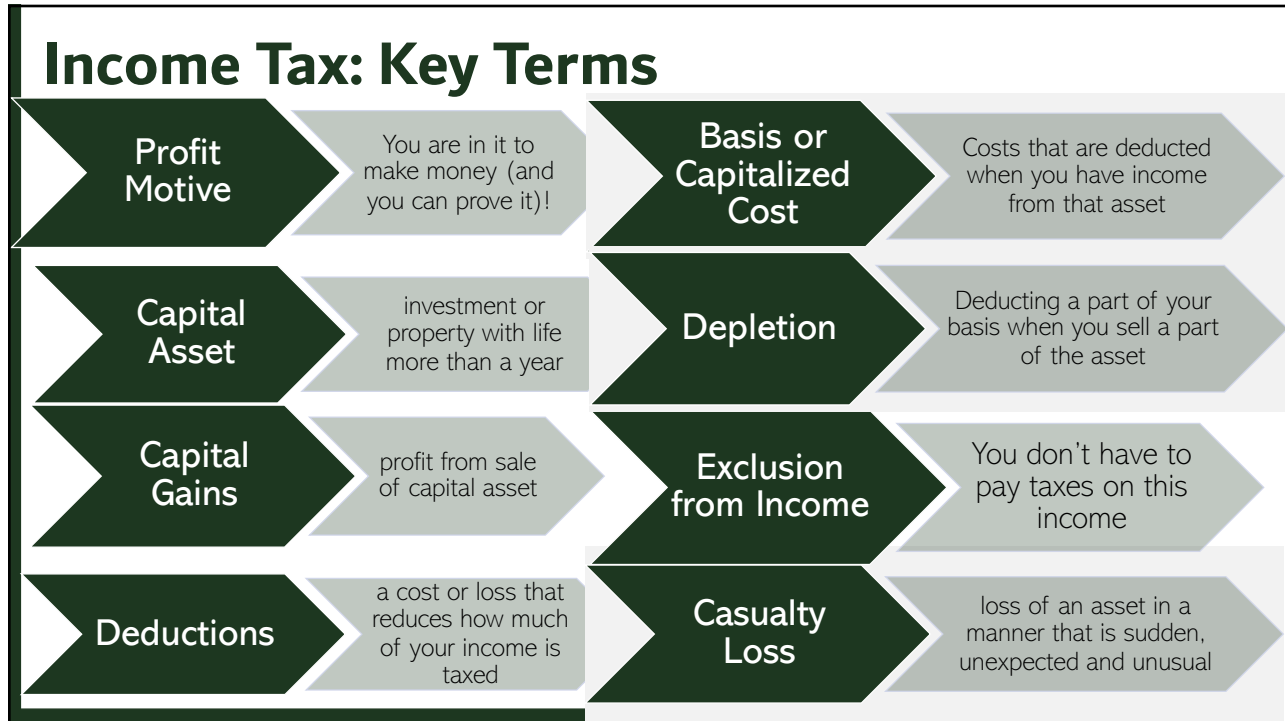
- Ordinary Income
- + Capital Gains Income
- = Total Income
- Adjustments
- = Adjusted Gross Income (AGI)
- Standard Deduction or Itemized Deductions
- ~~Personal Exemption(s)~~
- = Taxable Income
- x Tax Rate
- = Income Tax
- + Other Taxes
- Tax Credits
- Payments
- = Taxes Due/Refund

# Overview of federal income tax

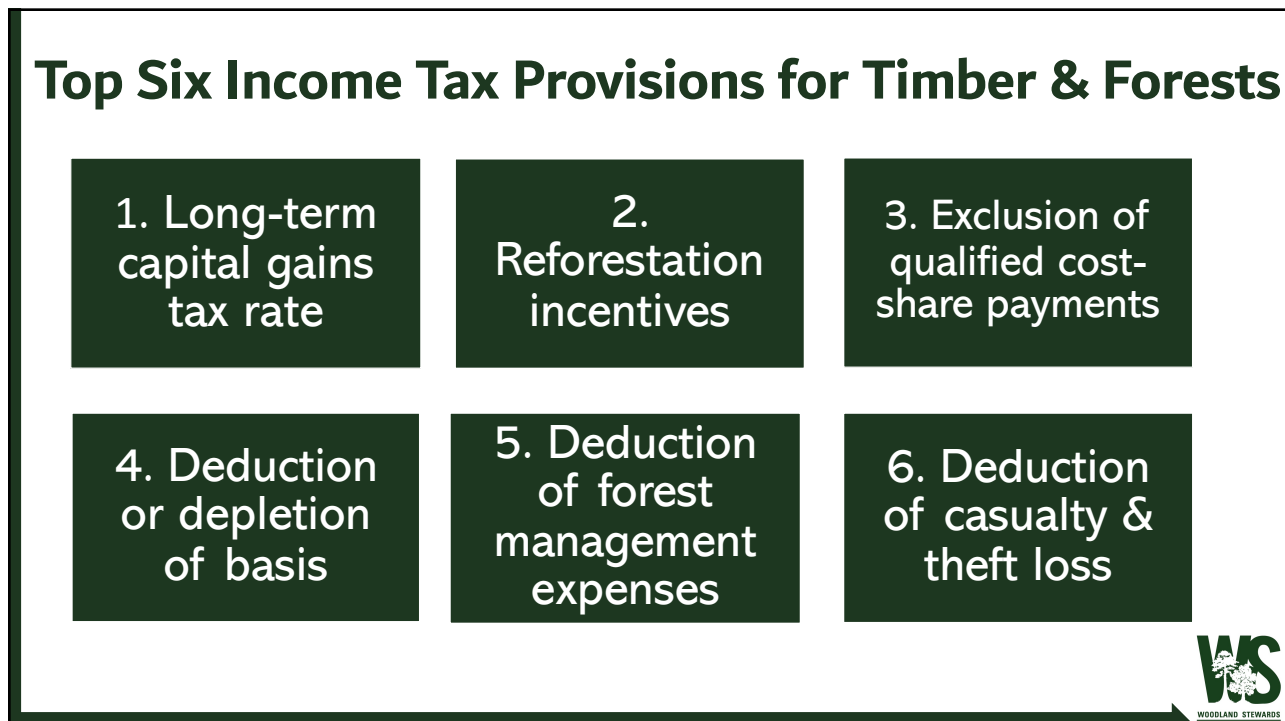
Personal exemption reduced to 0 by 2017 Tax Cuts and Jobs Act



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Shumaker, Loop & Kendrick, LLP



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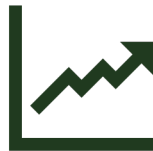
## ACTIVITY TAX CLASSIFICATION

Three Options:

**Business**



**Investment**



**Personal**



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# HOW TO CLASSIFY

Classification is highly fact-specific

## Business

**TWO REQUIREMENTS:**

1. Entered into **primarily for profit**
  - Owner's **motive** for growing timber

*Is forestland run like a business?*

Ex: business plan, organized books/records, attempting to earn a profit
2. **Regularly and continuously** carried on
  - *How much time does the owner spend managing the forestland?*
  - **"You work for money"**

## Investment

- Does not meet the 2 Business Requirements
- Still **motivated by profit** vs personal or hobby reasons
- **"Money works for you"**

## Personal

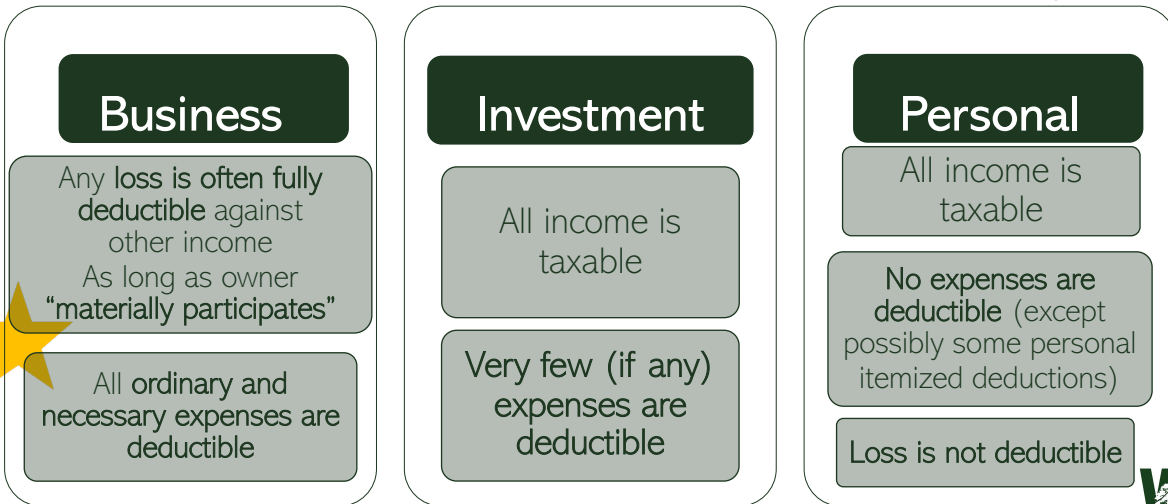
- No or minimal profit motivation
- **Own property primarily for hobby, recreation, or personal residence**



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# WHY IS PROPER CLASSIFICATION IMPORTANT?

Business Classification Generally Results in a Lower Tax Liability



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## TWO MAIN TYPES OF ENTITIES

Taxable	Non-Taxable
Entity itself pays tax	Entity does not pay tax; profit and loss “passes through” to owners
Subject to double-taxation	No double-taxation
C-corporations, some trusts	S-corporations, partnerships, many LLCs, some trusts
Result in lower taxes if owners can defer taking money out of the corporation	Result in lower taxes in many situations



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## CONSIDERATIONS WHEN CHOOSING AN ENTITY

- How many owners will there be?
- Who are the owners going to be?
- Do the owners need to take money out of the company regularly?
- What are the owners' future plans?
  - Plan to sell forestland or leave to heirs?
- How business-savvy are the owners?
- Will the business be electing capital gain treatment under IRC §631?



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## PROPER RECORD KEEPING IS KEY

- Additional tax owed in IRS audits is most often due to poor recordkeeping.
- Many digital and cloud options are available:



Evernote



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## TAILOR YOUR SYSTEM TO FORESTRY

- ✓ Keep a “Tree Farm Journal”
- ✓ Edit the chart of accounts

### Capital Accounts

- Land account
- Timber account
- Depreciable improvements account

### Equipment Account

### Non-Capital (Income & Expense Account)

- Timber sale income
- Consulting Forester expenses
- Tools & Supplies
- Travel
- Labor



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# QUESTIONS?

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Q& A can be found in the bottom of your zoom Screen



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NEXT WEEK,  
1:00 PM ET, →  
12:00 PM CT

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