

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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<https://forestrywebinars.net/sponsor-pages/woodland-stewards/>



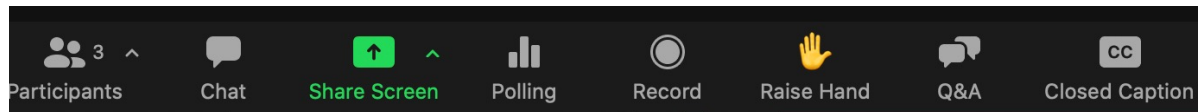
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Schedule

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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Timber Management Expenses and Deductions

Tamara Cushing
Extension Forest Business & Economics Specialist
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University of Georgia



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

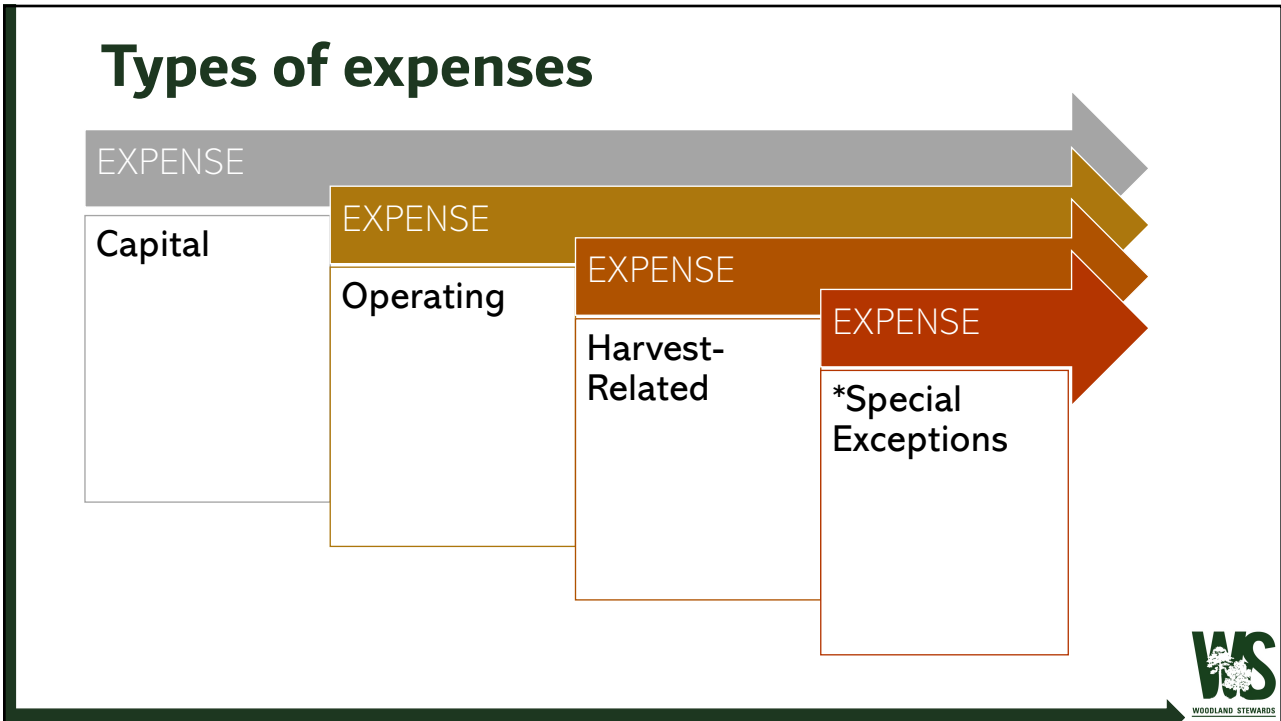
• Often hinges on details

• always changing

This presentation is NOT TAX ADVICE



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Capital Expenses

- Capital improvements
 - Useful life of 1 +years
 - Increase value of property
- Most capital expenses are related to land improvement, roads or equipment

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Recovery of Capital Expense

| Depreciation | Land | Depletion |
|--|---|---|
| <ul style="list-style-type: none"> Equipment Buildings | <ul style="list-style-type: none"> Basis recovered at time of sale or disposal of land | <ul style="list-style-type: none"> Usually for natural resources |



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Depreciation

Depreciable Property



- Annual Deduction for property used in business or held for production of income (investment)
- Property that will wear out, decay, get used up, become obsolete or lose value naturally

Modified Accelerated Cost Recovery System (MACRS)

- “useful life”

Unit of Production

- Deductions taken proportionally over life of operation

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Recovery of Expenses

- **Timber:**
 - **DEPLETION***
 - Recovered in proportion to volume sold
 - If all sold, entire basis is recovered
- **Deduction/Amortization available if you started the stand**
- **NOT DEPRECIATION**



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Operating Expenses

Maintenance, ordinary & necessary

- Industry standard, profit motive, includes appreciation in value
- Managing or maintaining

Deduct in year of expense

Referred to as expensing



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Deductions

Item that is currently used to reduce taxable income



subtracted from gross income

- Gross income = above the line deduction
- Reforestation amortization, business deductions
- Front of form 1040

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Deductions

subtracted from adjusted gross income

- Adjusted Gross income = itemized deduction
- Miscellaneous itemized deductions are currently suspended

Only advantageous if your total itemized deductions exceed your standard deduction

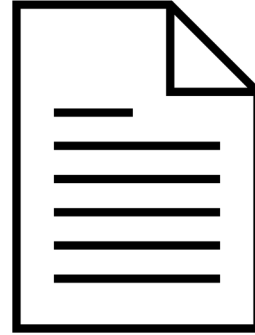
- 2021: \$12,550 S, \$25,100 MFJ



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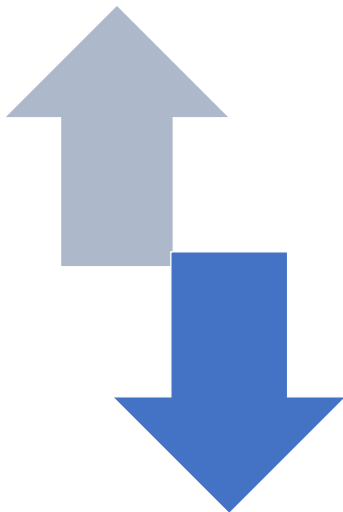
Harvest-related

- Expenses associated with sale of timber
- Cruise for sale, fees to forester for administration, marking
- Subtract from revenue as sale expense on Form T, report as appropriate depending on whether business or investor classification.



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Which is better?



Usually better
to deduct

Opportunity
cost of capital



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Expense or Capitalize??

- Property taxes
- Herbicide
- Fertilizer
- Pre-commercial thinning



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Timber Cruise

- For potential purchase
- For management purposes
- For sale purpose



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Roads

- Temporary logging
- Permanent installation
- Maintenance



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Culverts



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Reforestation

Afforestation or reforestation

- Site prep, seed or seedlings, brush & weed control
- Natural and artificial regeneration



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Reforestation Tax Incentives

- ✓ Outright deduction of expenses up to \$10K
 - Per qualified timber property
 - Per tax year
- ✓ Remainder amortized over 7 tax years

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Example Reforestation

1. Landowner spends \$25,000 on reforestation activities in 2021

2. Deduct \$10,000 on 2021 return

3. \$15,000 will be amortized

4. Can use another \$10,000 deduction on new reforestation in 2022

| | | | |
|-------------------|----------|--------------------------|------|
| Landowner SPENDS | \$25,000 | Reforestation activities | 2021 |
| DEDUCTION | \$10,000 | Tax return | 2021 |
| Will be Amortized | \$15,000 | | |
| DEDUCTION | \$10,000 | Reforestation | 2022 |

Recapture provisions for amortization

- 10 years, gain on disposition



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Tax Strategy!!!

Reforestation incentive available

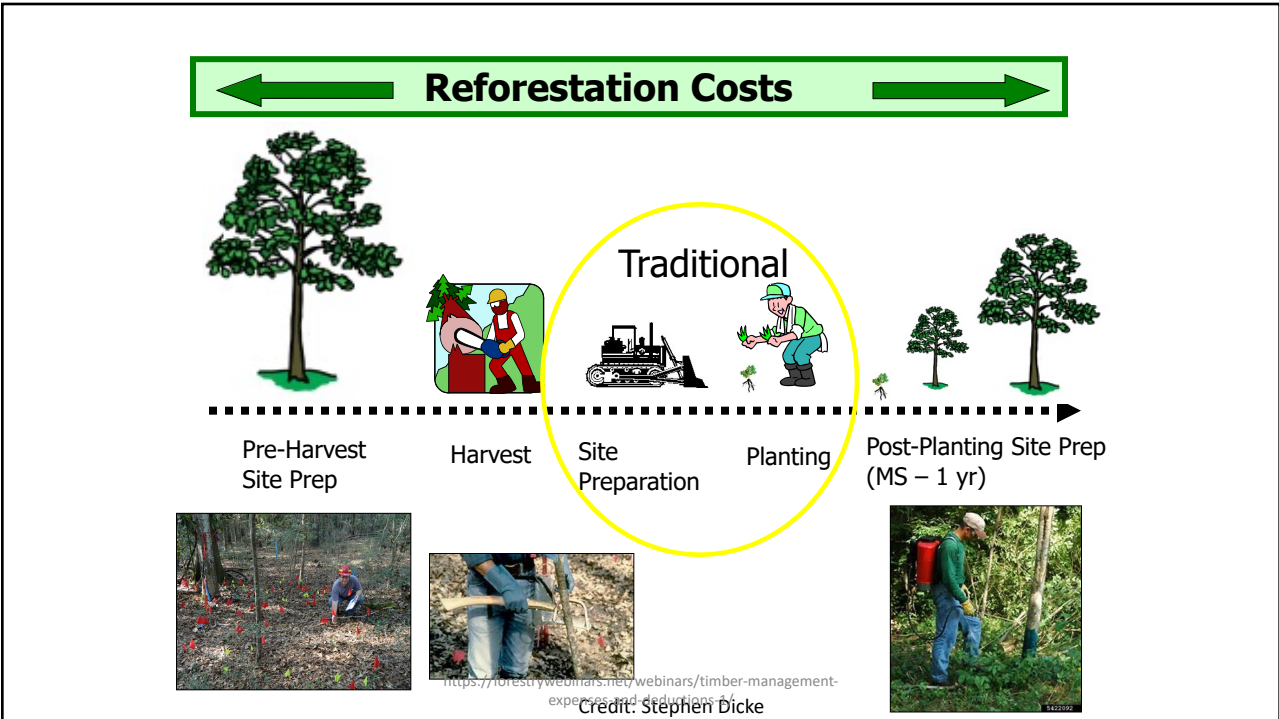
Forestry operations often naturally staggered

Take advantage of staggering operations

Use cost share programs to bring down costs





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Notes on Reforestation Incentive

- On timely filed return
- Must include cost share income
- No carryover of unused deduction
- **Recapture provisions!**



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Recapture provisions

- If the trees are disposed of within 10 years, 100% of the amortized reforestation costs will be recaptured as ordinary income
- Exceptions:
Disposal by gifts, inheritance, like-kind exchange, involuntary conversion



Utilizing the Reforestation Incentive §194

SCHEDULE 1 (Form 1040) Additional Income and Adjustments to Income
 Department of the Treasury Internal Revenue Service
 OMB No. 1545-0012
 2021 Attachment Sequence No. 01
 Go to www.irs.gov/Form1040 for instructions and the latest information.
 This schedule allows you to file Form 1040, 1040-SR, or 1040-NR. Your social security number

Part II Adjustments to Income

24 Other adjustments:

| | | | |
|---|--|-----|--|
| a | Jury duty pay (see instructions) | 24a | |
| b | Deductible expenses related to income reported on line 8k from the rental of personal property engaged in for profit | 24b | |
| c | Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8l | 24c | |
| d | Reforestation amortization and expenses | 24d | |

SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)
 Department of the Treasury Internal Revenue Service (99)
 OMB No. 1545-0074
 2021 Attachment Sequence No. 09
 Go to www.irs.gov/ScheduleC for instructions and the latest information.
 Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065. Social security number (SSN)

Part V Other Expenses. List below business expenses not included on lines 8-28 or line 30.

| | | |
|-----------------------------------|------------------------|--------|
| 194(b) expenses | Reforestation expenses | 10,000 |
| 194(a) Reforestation amortization | | 500 |

- Investors take deduction on Schedule 1 of Form 1040, businesses on Schedule C or F (file Form 4562 depreciation and amortization)
- Include a statement
- Can not be made on amended return!



Expenses

- Businesses deduct all “ordinary and necessary” expenses incurred for production or collection of income
- Investors deduct expenses associated with production of income (management, conservation or maintenance of property)
 - Suspension of miscellaneous itemized: Travel, tools, labor (not associated with sale)



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Hobby

- Presumed for profit if net income is earned from the property in any 3 of 5 consecutive years
- If property fails the test, does not imply hobby. Profit includes appreciation in value.
- Burden of proof on taxpayer



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Deductions

HOBBY EXPENSES ARE NOT DEDUCTIBLE!

Hobby TEST

- ✓ Not conducted in businesslike manner
- ✓ Expertise of taxpayer or advisor
- ✓ Time & effort expended
- ✓ Expectation of appreciation in value



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What about non-income producing years?

- Can you capitalize expenses instead of deducting?
 - Election
 - Only for non-productive years
 - Taxes, pruning, PCT
 - Consistency is key



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Where to report expenses

Investors



SCHEDULE A

Itemized Deductions

Businesses



SCHEDULE C

Farmers



SCHEDULE F



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