

FORESTRY TAXES

Learn, Plan & Save Money

WEBINAR SERIES

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

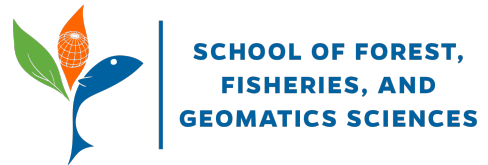
Jan. 25 Basics of Timber Basis: Re(setting) the Table:

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

Woodland Stewards Webinar Series Program was created by a team of Extension professionals from the following programs:



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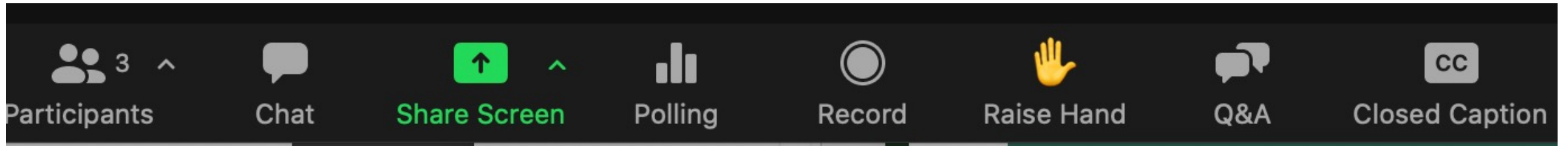
<https://forestrywebinars.net/sponsor-pages/woodland-stewards/>

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

Basics of Timber Basis: Re(setting) the Table

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WOODLAND STEWARDS

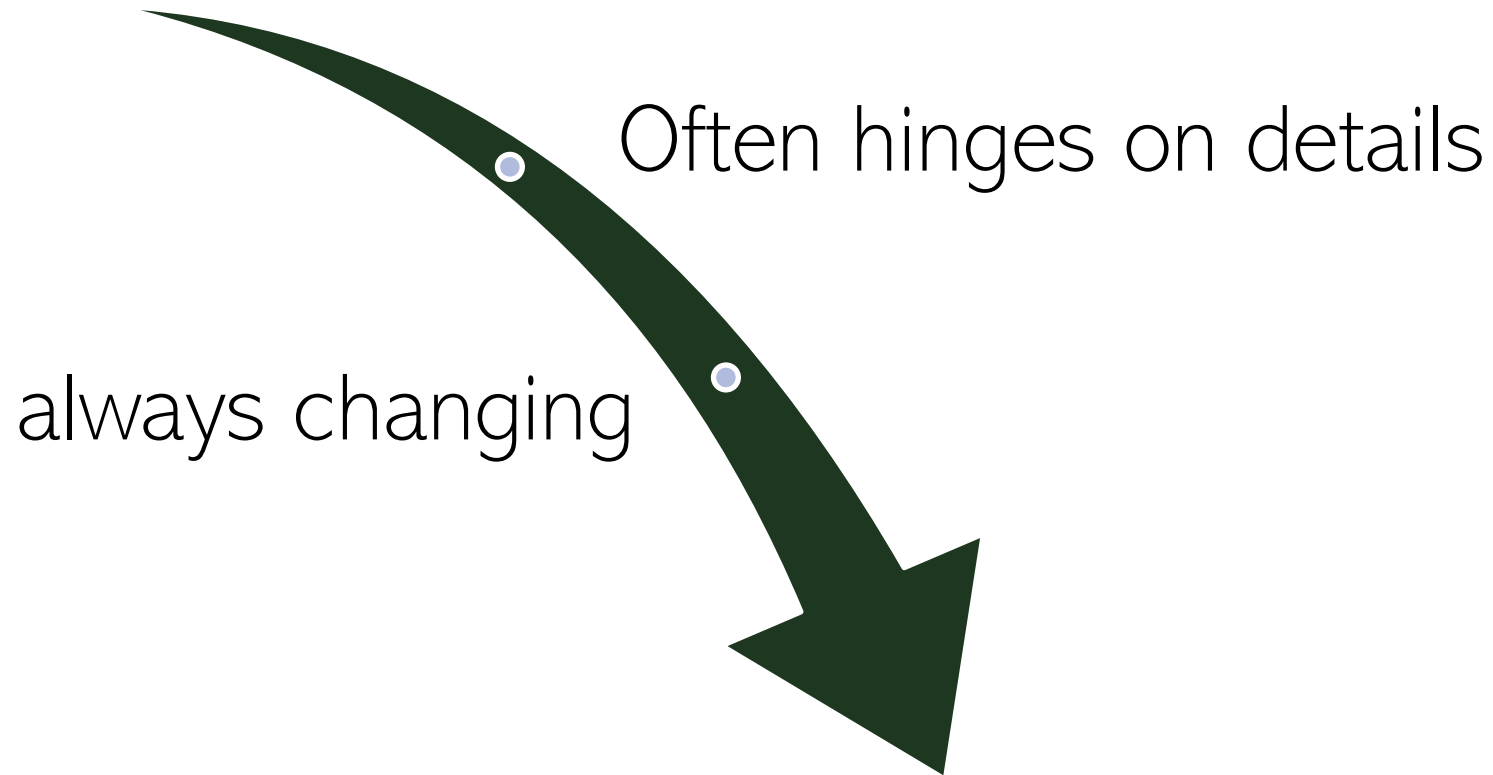
A Regional Extension Program for Landowners

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.

Disclaimer

Tax law is very complex



This presentation is NOT TAX ADVICE

Common Question from Landowners?

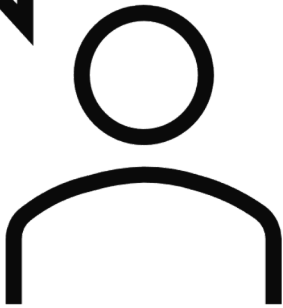
A tax conversation with an extension forester:

Landowner: “I need help with determining how much I owe in taxes from a timber sale”

“How long ago have you updated/ established your basis?”

Landowner: “What’s basis?”

“Well.....”

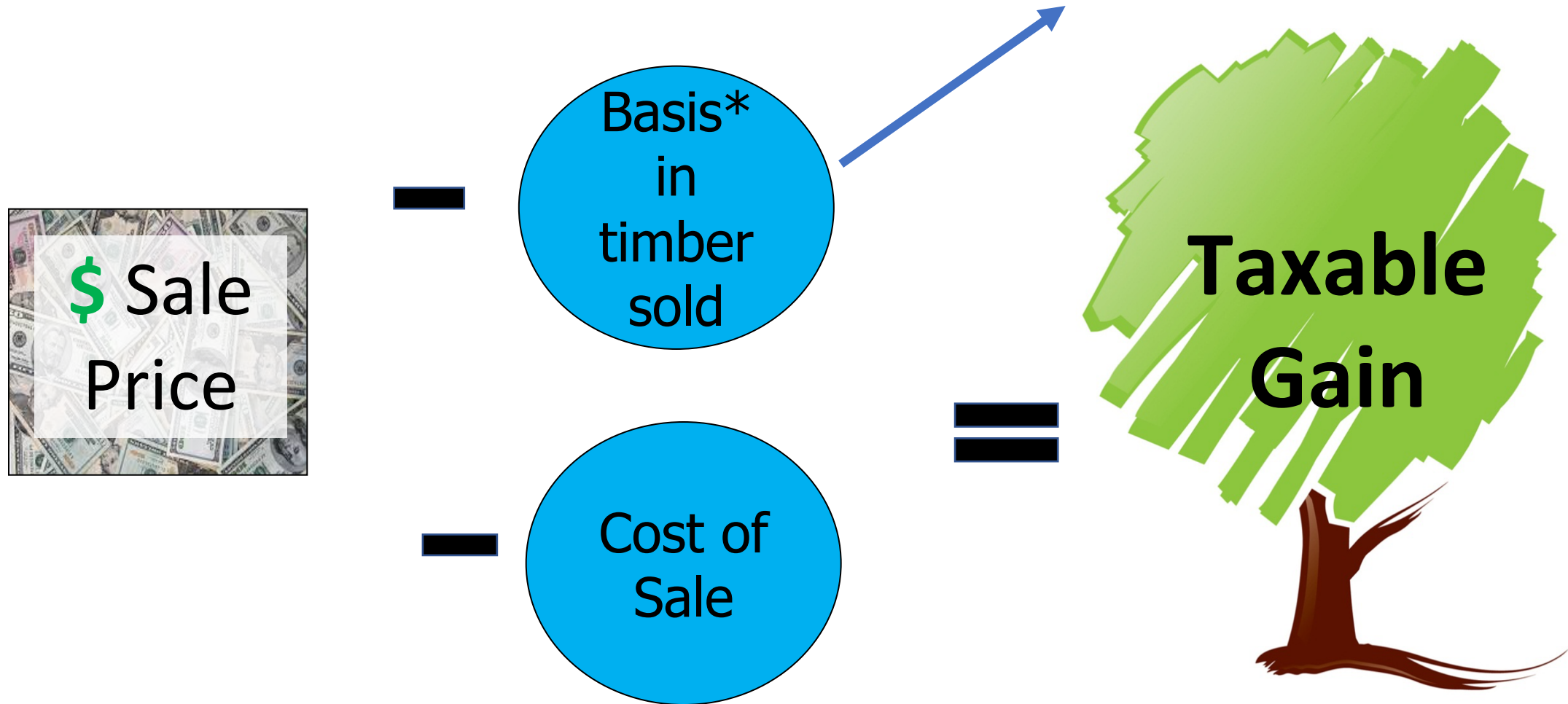


Let's Define Basis

Basis is the amount of your investment in capital assets for tax purposes

What are capital assets?

Why do we care?- Basis Recovery



Initial basis determination - Acquisitions

Purchased

- Acquisition Cost

Inherited

- Fair Market Value (FMV)*

Planted

- Can drop to zero within 1 year

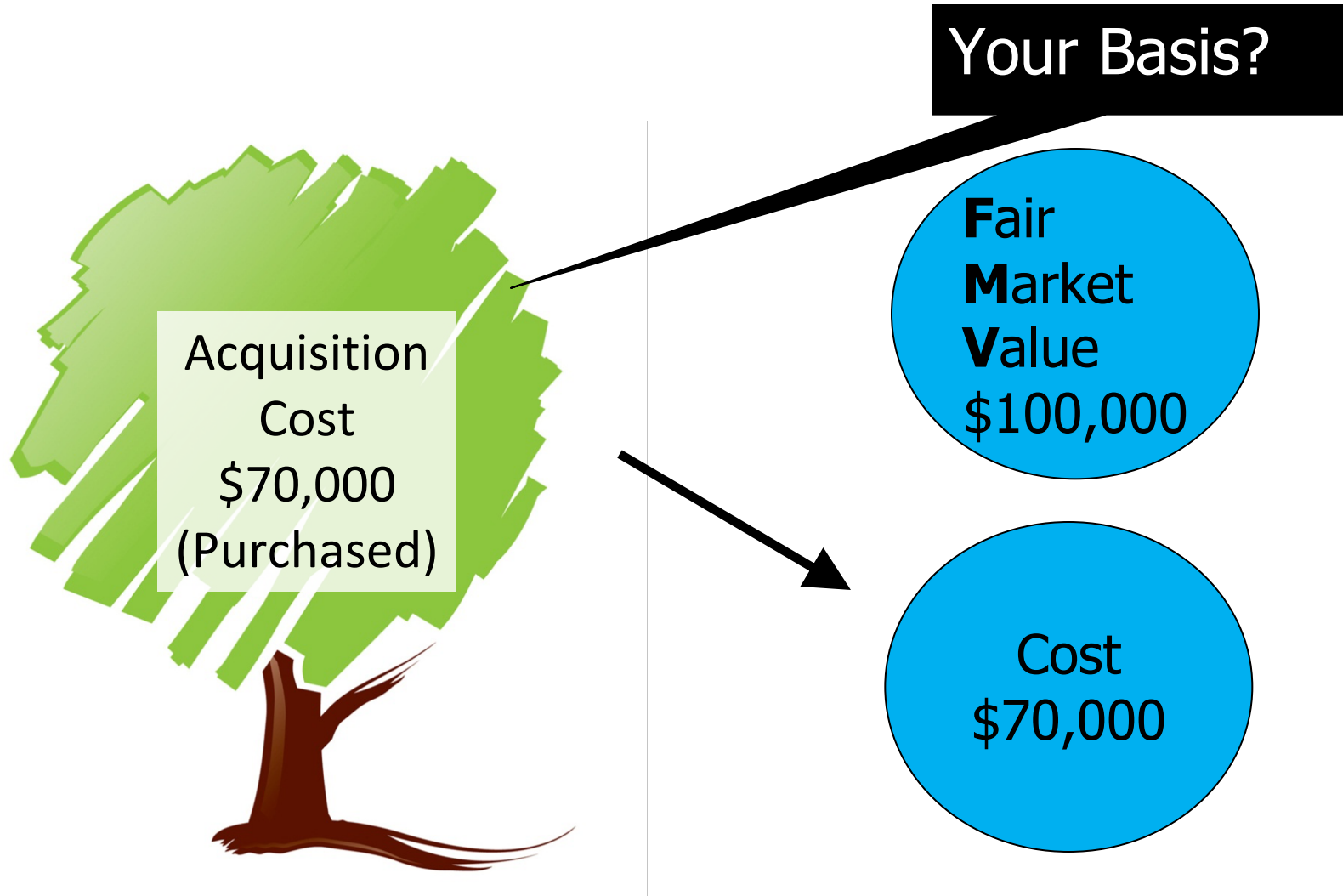
Gifts

- Various rules

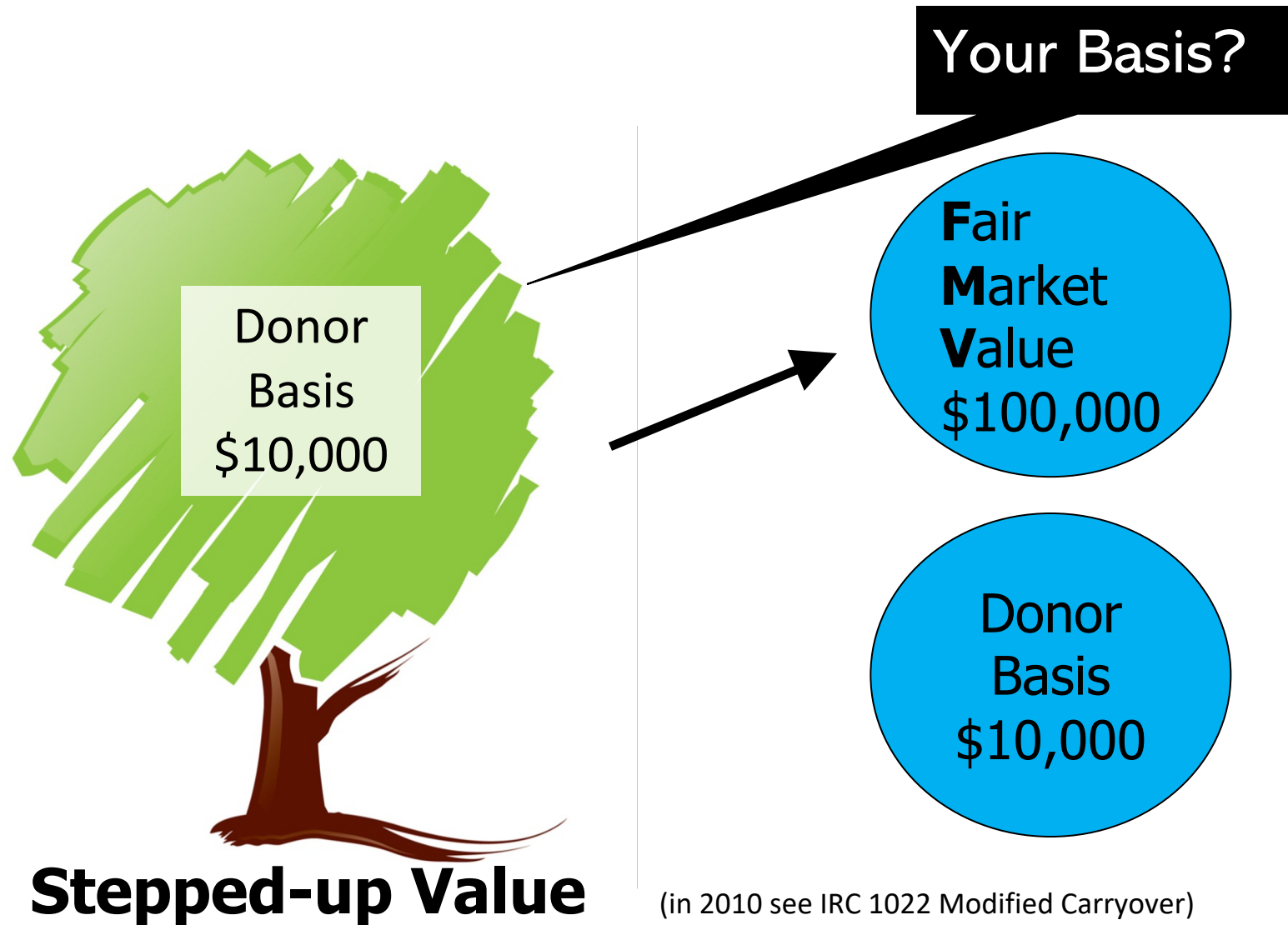
Exchange

- Taxable, Non-Taxable

Purchased property



Inherited property



Special-Use Valuation

The special use valuation election is used:
to reduce the value of qualified real property Sec. 2032A(b) used as a
farm or in a trade or business

- ✓ Generally, this property is **valued at fair market value** based on its highest and best use
- ✓ The election is designed to **ease the estate tax burden** and provide for the continuity of the existing business.

Planted

Your Basis?



Capitalize
\$20,000

Expense
<\$10,000
after
year one

Did you forget to establish a basis for your timber?

In order to establish basis:

- ✓ you need quantities and prices, at the time you assumed ownership of the property.
- ✓ This is called a retroactive basis determination.
- ✓ “Ungrow” the trees from now to the original date of ownership transfer

DO NOT TRY THIS YOURSELF

Regardless of how acquired

Table US-8 (2018; FFO, 10+).—Estimated area and estimated number of family forest ownerships (10+ acres of forest land) by acquisition type, source, and length of ownership, United States*, 2018

	Totals				Percentages				n	
	Acres	SE ^a	Owner- ships	SE ^a	Acres	SE ^a	Owner- ships	SE ^a		
	----- thousands -----				----- percent -----					
Acquisition type ^b										
Purchased	184,312	1,392	2,839	37	73	<1	77	<1	6,447	
Inherited	107,855	1,222	1,148	22	43	<1	31	<1	3,334	
Gift	9,478	369	105	7	4	<1	3	<1	299	
Other	1,258	138	13	3	<1	<1	<1	<1	52	
Acquisition source ^b										
Parents	112,624	1,211	1,280	23	44	<1	35	<1	3,562	
Spouse	4,925	252	58	5	2	<1	2	<1	176	
Other family	29,807	644	364	13	12	<1	10	<1	933	
Other individual	128,532	1,259	2,072	34	51	<1	56	<1	4,519	
Business	15,939	458	169	10	6	<1	5	<1	565	
Government	1,931	180	33	4	<1	<1	<1	<1	83	
Other	5,966	302	94	7	2	<1	3	<1	220	
Length of ownership (years)										
<10	41,570	839	665	19	16	<1	18	<1	1,415	
10-24	91,165	1,092	1,408	27	36	<1	38	<1	3,099	
25-49	99,536	1,179	1,376	25	39	<1	37	<1	3,479	
50+	21,040	607	246	10	8	<1	7	<1	646	

Basis should
still be
allocated!

Types of accounts

- Land
- Pre-merchantable timber
- Merchantable timber

MANY POSSIBILITIES!



Accounts Needed

Land

bare land,
land improvements
such as leveling costs,
impoundments,
permanent non-
depreciable structures

Depreciable assets

buildings,
bridges,
fences, etc.

Equipment

planting
machine,
tractors, etc.

Accounts Needed

Merchantable Timber:

record both quantity and dollar value (basis).

Keep units attached to quantity (cords, tons, MBF, etc.)

Pre-Merchantable Timber:

number of acres and basis

Site prep, planting costs

If purchased: allocated basis

QUIZ!!!



Which asset would you like to put the most value on?

Initial Purchase

- ✓ Allocate purchase price between assets
- ✓ Best indicator is comparable sales for land
- ✓ Mature timber based on market prices and volumes
- ✓ Premature timber will need help from forester

Initial Purchase Allocation

1. Determine total fair market value

- Land by comparable sales or appraisal
- Pre-merchantable timber with help

Timber = volume x price

2. Calculate percentage of fair market value for each asset

3. Multiply percentage by sales price to determine cost basis per asset

Fair Market Value

Purchase price	= \$100,000
Land	= \$65,000
Pre-Merchantable Timber	= \$10,000
Merchantable Timber	= \$50,000
Total Fair Market Value	= \$125,000

Initial Allocation

* Calculate percentage of fair market value for each asset

Asset Description	Fair Market Value	% of total FMV
Merchantable Timber	\$50,000	0.4
Land	\$65,000	0.52
Pre-merchantable timber	\$10,000	0.08
Totals	\$125,000	1.0

Initial Allocation

* Calculate percentage of fair market value for each asset

Asset Description	Fair Market Value	% of total FMV
Merchantable Timber	\$50,000	0.4
Land	\$65,000	0.52
Pre-merchantable timber	\$10,000	0.08
Totals	\$125,000	1.0

Example allocation

$$100,000 \times 0.4$$


Asset Description	Fair Market Value	% of total FMV	Basis
Merchantable Timber	\$50,000	0.4	\$ 40,000
Land	\$65,000	0.52	\$ 52,000
Pre-merchantable timber	\$10,000	0.08	\$ 8,000
Totals	\$125,000	1.0	\$100,000

Adjusting basis over time

- Basis will **increase** as capital improvements, carrying charges, or other costs are capitalized.
- Or **decrease** as allowances for depletion, amortization, or depreciation are deducted.
- The remainder is the **adjusted basis**.

Recovery of Basis

- **Timber:**
 - **DEPLETION***
 - Recovered in proportion to volume sold
- **NOT DEPRECIATION**



* if trees are planted and the reforestation incentive is used, there is a different process

Depletion

- Adjusted basis ÷ total volume of timber
- Calculated for each account

Form T

To provide information on timber accounts

Form **T (Timber)**

(Rev. December 2013)

Department of the Treasury
Internal Revenue Service

Name(s) as shown on return

Forest Activities Schedule

▶ Attach to your tax return.

▶ Information about Form T (Timber) and its separate instructions is at www.irs.gov/timber.

For tax year ending _____, 20____.

OMB No. 1545-0007

Attachment
Sequence No. **117**

Identifying number

Part I Acquisitions

1 Name of block and title of account

2 Location of property (by legal subdivisions or map surveys)

3a Name and address of seller or person from whom property was acquired

b Date acquired

Who files Form T?

Filed *only if*

MR. T SAYS FILE THE FORM T



- ✓ Depletion deduction claimed
- ✓ Elect §631(a) for sale
- ✓ Outright sale of timber

Filing Exceptions

- ✓ Only occasional sale of timber
(1-2 sales every 3-4 years or less)
- ✓ Maintain in records
- ✓ If not filing Form T, still submit other appropriate forms (ex. 4562)

EXCEPTIONS

Recording of basis

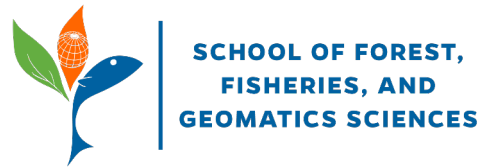
8 Total cost or other basis of property. Add lines 4a through 7				
9 Allocation of total cost or other basis on books:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
a Forested land	Acre			
b Other unimproved land	Acre			
c Improved land (describe) ▶	Acre			
d Merchantable timber. Estimate the quantity of merchantable timber present on the acquisition date (see Regulations section 1.611-3(e)). Details of the timber estimate, made for purposes of the acquisition, should be available if your return is examined.				
e Premerchantable timber. Make an allocation here only if it is a factor in the total cost or value of the land.				
f Improvements (list separately)				
g Mineral rights				
h Total cost or other basis (same amount as line 8). Add lines 9a through 9g				



Basis recommendations

- ✓ It is very important that accurate and up-to-date records are maintained.
- ✓ Form T is very highly recommended.
- ✓ Keep records **7** years past last filing.

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