• **Topics to cover:**
  
  • 1. Timber Tax Overview
  • 2. Hurricanes & Timber Taxation
• Overview Timber Taxation
  • Determine Property Type
  • Deductions
  • Sales and Reporting
  • Timber Basis and Depletion Deduction
• **Timber Property Types**
  
  • **Personal Use Property**
    • Personal use or enjoyment versus “profit”.
  
  • **Investment Property**
    • Mainly for generating profit from growing timber or asset appreciation.
  
  • **Business Property**
    • Regular, active and continuous profit making timber activities.
• **Deductions for Timber Expenses and Taxes**

  • For Timber owned as a business – if you are “materially participating” in the business
    • Ordinary & Necessary Expenses are fully deductible
    • Including: Forester, attorney, accountant, precommercial thinning, firebreak maintenance, overnight travel, vegetation competition control, insects disease, and fire control, and depreciation from equipment used.
    • Property Taxes are deductible on Schedule C or F.
    • Severance or Yield taxes are deductible from Timber Harvest.

  • For Timber owned as an investment
    • Timber expenses along with certain other “miscellaneous itemized deductions” are no longer deductible.
    • Taxes are Deductible on Schedule A, or can elect to capitalize “carrying costs” and deduct with Timber is sold.
• **Timber Sales & Reporting**
  
  • For a Timber Business
    
    • If business taxpayer cut his own timber (or had a “contract right to cut” the timber)
    • Capital gains treatment under IRC 1231 is available if owned more than one year.
    • Elect to treat the cutting as a sale on Form T, Part II.
    • Report sale of Timber on Form 4797.
  
  • For an Investment
    
    • Long Term Capital Gain if held more than 1 year.
    • Timber Sale Expenses are deductible from the sale proceeds.
    • Report sale of standing timber on Schedule D.
• **Timber Basis & Depletion**
  
  • Generally Timber Basis is the amount you paid for it, in a purchase. For inherited property it is the fair market value on the date of death.
  
  • Timber Depletion is a deduction against the timber basis upon sale of Timber.
  
  • Timber Depletion is computed on a “per unit” basis.
  
  • Form T, Forest Activities Schedule is required if you claim a timber depletion deduction, sell cut products in a business (under IRC 631(a)) or sell outright business timber.
• **Depletion Example**

  • Six years ago, Mr Forrest inherited a tract of timberland. A professional appraisal had retroactively established the timber basis as of the date of death, which consisted of $16,000 for 80 thousand board feet (MBF) of pine sawtimber and $5,000 for 250 cords of pine pulpwood.

  • Mr. Forrest sold 50 MBF of sawtimber. His depletion was $10,000 ($16,000 of total timber basis / 80 MBF of total volume X 50 MBF of timber sold.)
• **Technical Stuff**

• Form 1099-S Proceeds from Real Estate Transactions

• Form T – Forest Activities Schedule

• IRC requires depletion to be computed on a “per unit” basis
• **Form 1099-S**

  - IRS will match up proceeds reported on this form with your tax return.
  - Cash basis tax payers that receive a timber advance may be able to defer recognition, or elect installment sale treatment.
    - Use Form 6252 to elect to defer taxes by spreading the gain from the property sale over 2 or more years.
• **Form T – Forest Activities Schedule**
  
  • Must Complete Form T only if you:
    • Claim a deduction for depletion of timber,
    • Elect under section 631(a) to treat the cutting of timber as a sale or exchange, or
    • Make an outright sale of timber under 631(b).
  
  • Exception, you are not required to file Form T if you only have an occasional sale of Timber (one or two sales every 3 or 4 years). However you must maintain adequate records of these transactions and other timber-related activities during the year.
Form T – Record Keeping

• Maps – Do not attached to your Form T, instead retain records sufficient to substantiate your right to claim the deduction.

• Other Records – You must keep other items to support expenses claimed.
  • Maintain separate accounts for road construction and drainage structures, and how the total expenditures were either (a) capitalized, (b) amortized, or (c) claimed as an ordinary expense.
  • Keep separate records for each unique stand identifier, depletion account, block, tract or geographic area.
  • Also keep records that verify the basis in property for as long as they are needed to figure the basis of the property.
• **Part II Hurricanes & Timber Taxation**
  
  • Casualty Losses
  
  • Salvage & Involuntary Conversions
  
  • Reforestation
  
  • State Tax Credit and Other Programs
• **Business Casualty Losses – Timber held for business or investment**
  
  • Timber or landscape trees destroyed by the hurricane, fire, earthquake, ice hail, tornado, and other storms are “casualty losses” that may allow the property owners to take a deduction on their Federal income tax returns.
  
  • Deduction = Lesser of (1) Adjusted Basis or (2) Diminution in Fair Market Value
  
  • Report on Form 4684
  
  • Federally Declared Disasters can be claimed in year of loss or prior year.
  
  • Casualty Loss is not reduced by salvage proceeds.
    
    • This is often confused because casualty losses are reduced by insurance proceeds.
• **Adjusted Basis:**

• Generally the cost or the measure of your investment in the property you own is the property’s basis.
  
  • Purchased timber property = the purchase price and related costs.
  
  • Gifted timber property = the donor’s adjusted basis.
  
  • Inherited timber property = the fair market value on the date of death.

• **Adjustments to Basis** – increase in basis by new purchase or capitalized reforestation, decrease in basis by timber sales or depletion.
• Diminution in Value – The value immediately before the event less the value immediately after the event.
  
• The FMV is generally determined by a competent appraisal. The appraiser's knowledge of sales of comparable property about the same time as the casualty, knowledge of your property before and after the occurrence, and the methods of determining FMV are important elements in proving your loss.
• **Personal Casualty losses**
  
  • Now only deductible to the extent of casualty gains. Remainder may be carried forward.
  
  • No longer Presidentially declared—NOW FEMA Federally declared. 2018 - 2025
  
  • The new Form 4684 requires the FEMA number designating the area as a FEMA loss.
    
    • Casualty loss of trees in the private residence is measured based on the entire property (that is, the land, the improvement (house), and trees). In other words, the measure of the casualty loss is based on the tree loss that contributes to the overall decrease in the fair market value of the entire property immediately before and after the casualty.
• **Salvage Proceeds – Involuntary Conversion Election**

• A taxable gain may result if the salvage sale exceeds the adjusted basis of the timber and related selling expenses. Salvage sales are reported separately so after claiming casualty loss there may be $0 adjusted basis to apply against salvage proceeds.
  
  • Elect on your tax return under IRC 1033 to defer the recognition of gain.
  
  • 2 year to reinvest the proceeds in timber such as reforestation, purchase of timberland,
• **Other Programs & Resources**

  • Emergency Forest Restoration Program
    • Up to 75% of the cost to implement emergency conservation practices can by provided limit $500,000.

  • FL DOR refund of taxes paid on Fuel Used or Agricultural Shipments or Hurricane Debris Removal. October 2018 – June 30, 2019.

  • FL DOR refund for certain Farm Related Materials Damaged by Hurricane Michael. (fencing and farm buildings, etc.)
• **Other Programs & Resources (continued)**
• Extension to file your 2017 tax return until February 28, 2019.
• Georgia implement Timber Tax Credit to restore to 90% value in 10 years.
• Questions??

• Thank you,
• Tom Harrison