

# Forestry Income Tax Series: Frequently Asked Questions about Timber Casualty Losses

*Note: This version of this publication is only accurate based on the One Big Beautiful Bill Act (OBBBA) and should be used with that in mind. This bill became public law in July 2025 and, unless overturned or altered, is valid indefinitely.*

## Casualty Losses

### What qualifies as a casualty loss?

Generally this is a loss caused by a sudden, unexpected, and unusual event from natural or other external forces. It is not a gradual or progressive loss, such as death caused by periods of low rainfall or natural competition. Examples are losses from hurricanes, tornadoes, floods, plane crashes, wildfires, hail, ice storms, etc.

### Is natural mortality or death of trees a casualty loss?

No. Normal losses are not deductible casualty losses. Tree death caused by competition, routine disease and insect infestations, or low rainfall is normal. Not all trees planted or naturally regenerated in a new forest will survive to biological maturity.

A noncasualty loss may be deductible for an unexpected heavy loss of tree seedlings during an abnormal drought (IRS Revenue Ruling 90-61). Check with your local USDA office to confirm the drought in your county was classified as a disaster. Heavy seedling losses during these droughts are deductible.

### Does damage from an insect or disease infestation count as a casualty loss?

The IRS says “no” for timber, “maybe” for shade trees. Refer to MSU Extension [Publication 3871 Casualty Losses of Shade Trees and Landscaping Elements](#) for more on casualties involving shade trees. Most timber losses caused by insects and diseases are considered normal losses. But epidemic levels of pine beetles get special consideration. Losses from

an epidemic attack of pine beetles may be considered and claimed as a noncasualty loss (IRS Revenue Ruling 87-59).

Shade tree losses around a home or business caused by a pine beetle attack may qualify as a casualty loss according to IRS Revenue Ruling 79-174. Ash trees killed by emerald ash borers will also qualify. Since most shade trees are held for personal use, their valuation and deduction follow special rules (refer to IRS Publication 547).

### What is the difference between a casualty loss and a noncasualty loss?

A casualty loss is unexpected, unusual, and sudden. Casualty losses are deductible the year of the casualty on [IRS Form 4684 Casualty and Thefts](#). The loss is considered an ordinary deduction that can offset most other kinds of income with very few restrictions. A noncasualty loss is unexpected and unusual, but not sudden. This loss applies to timber held for sale by a trade or business (refer to the following landownership categories). Landowners classified, or holding their timber, as an Investor could potentially claim a non-casualty loss under Internal Revenue Code (IRC) sections 165(a) and 165(c)(2). If you're an Investor, please discuss your eligibility with your tax adviser. Noncasualty losses are considered an involuntary conversion of IRS Section 1231 property, which includes depreciable property and real property used in a trade or business and held for more than 1 year. Land, timber, coal or domestic iron ore, and some types of livestock are 1231 property. Noncasualty losses must first be netted against income from all other 1231 properties. The net is reported as either a capital loss or gain on IRS Form 4797 and then transferred to the appropriate form.

### Who can claim a casualty loss deduction?

Under Section 165 of the Internal Revenue Code, there are three categories of ownership that can claim a casualty loss:

1. **Businesses** – Landowners who hold their timber for sale as a trade or business. Annual expenses are reported as either farm or business expenses. Casualty losses are reported on IRS Form 4684 Section B, for income-producing property. Also report depletion of timber basis on Form T.
2. **Investors** – Landowners who hold timber for profit, but not in a trade or business. Annual expenses are reported as miscellaneous itemized deductions. Casualty losses are reported on IRS Form 4684 Section B, for income-producing property. Keep in mind that to take these deductions as an investor could trigger a loss of the standard deduction. Other expenses that could be itemized by investors previously now trigger the loss of the standard deduction (currently only holding costs are allowed to be itemized-development costs must be capitalized for investors), so check with a tax professional. As of this writing, no clear answer was found from the IRS website.
3. **Hobby Owners** – Landowners who hold timber for personal use and not for profit. Annual expenses are not deductible. Beginning in 2018, only casualty losses during a presidentially declared disaster are deductible. However, beginning in 2026, state-declared disasters will be deductible as well. Hobby owners claim casualty losses on IRS Form 4684, Section A for non-income producing property. Only casualty losses that exceed \$100 plus 10 percent of adjusted gross income are deductible.

### What documentation is required to claim a casualty loss?

Take and file photographs and videos of the damage done to your timber. An appraisal of the damage is necessary to determine loss of fair market value. Document the casualty event with newspaper clippings or other materials. Timber accounting records and past income tax returns may be needed.

### What is the amount of timber loss that can be claimed as a casualty loss?

The deduction that can be claimed for a casualty loss is the lesser of the fair market value loss in timber and the timber basis. For example, if your timber basis is zero, then your deduction is also zero, no matter the size of the loss. Refer to the detailed discussion in the Timber Basis section to help you establish a basis for your timber.

To claim a deduction on IRS Form 4684, three numbers are required. All three numbers can be estimated by a forester, even following a casualty.

1. The fair market value (FMV) of the timber before the casualty. Foresters usually estimate “FMV before” using a timber cruise, but other methods are available.
2. The fair market value of the timber following the casualty. Again, “FMV after” is usually estimated with a timber cruise. But when total destruction occurs, salvage value becomes the best estimate of “FMV after.” The FMV loss is calculated using the difference (FMV before – FMV after). This FMV loss is deductible up to the amount of the basis.
3. The basis in the timber.

## Timber Basis

### What is a basis?

The basis in your property is its investment value. When you acquire property, such as timber or land, it has an initial basis, which varies according to how the property was acquired. Then, as you invest in the property, the basis increases. When the property is sold, lost through casualty or other loss, or is used up, the basis is reduced (depleted) by recovering it through deductions or adjustments to gross income on the tax return. The current value of the basis is called the adjusted basis.

### How do you determine initial basis?

**For purchased property**, the initial basis of land and timber is the total acquisition cost. Total acquisition cost includes such things as the purchase price, lawyer’s fees, surveying costs, title fees, etc. The total cost is then divided proportionally between the land, timber, and other assets based on the proportion of total fair market value that is provided by each. Therefore, if purchased timberland had any standing timber, part of the acquisition cost should be placed in the timber basis.

**For inherited property**, the initial basis is usually stepped up to the fair market value of the property at the time of the donor’s death. Inherited property usually passes to an heir via a will or by the state laws of succession and does not become the heir’s property until that time. In Mississippi, a surviving spouse of jointly owned property is assumed to own half and inherit half. Basis for the half inherited is stepped up to

fair market value, while the remaining half keeps the original basis. Check with your tax adviser to confirm you qualify for a step up valuation in basis.

**For gifted property,** the initial basis is a carry-over value or the donor's basis. Gifted property is given or deeded to a recipient by the donor while they are still alive.

### **What is the initial timber basis of bare land?**

Zero. If no timber is present when property is acquired, then no basis can be placed in the timber account.

### **What is the timber basis of land planted in trees?**

Basis is usually zero for landowners who reforested their own property. Most landowners take advantage of reforestation tax incentives, including deduction, amortization, and a Mississippi reforestation tax credit to recover costs quickly. This results in a zero timber basis for the new forest. If all costs were not recovered, the unrecovered costs may be added to the timber basis.

### **How can the timber basis be increased?**

Some landowners may capitalize or add timber management costs to the timber basis instead of deducting them each year. A landowner may elect each year to capitalize certain carrying charges, such as property taxes, interest on mortgage, or insurance. Investors and hobby owners may have to capitalize other expenses like timber stand improvement and pre-commercial thinning. Adding costs into basis rather than deducting them as they occur is usually not the most financially advantageous option. This usually results in later recovery and less tax reduction.

### **Why does basis matter?**

Following a timber sale, timber basis and sales expenses are deducted from the proceeds of the timber sale to determine net taxable gain. Since basis helps reduce taxable income, it also reduces the amount of taxes owed. Here is an example:

*Buck Hunter, after a timber sale, claims a basis deduction of \$1,000 against the sale proceeds. Because Buck's federal capital gains rate is 15% and 4% state (19% total), basis reduces the tax owed by \$190 ( $\$1,000 \times 19\%$ ).*

As stated before, the loss from a casualty is deductible up to the basis. Since casualty losses are considered an ordinary

loss rather than a capital loss, ordinary income tax rates apply. Here is an example:

*Buck has a casualty loss, with a \$1,000 basis in his timber account. Because Buck is in the ordinary income tax bracket of 24% federal plus 4% state (28% total), basis reduces his tax by \$280 from the \$1,000 casualty loss deduction ( $\$1,000 \times 28\%$ ).*

### **What if I had a basis in timber but did not use it when I sold my timber to reduce my net taxable gain?**

For basis, the rule is "use it or lose it." Basis associated with timber removed should be subtracted from the timber account whether it is or is not deducted by the landowner. An example explains:

*Curtis Leafblower inherited timber in 1971, clearcut in 1994, and did not use the basis available to offset gains (profit from the timber sale in 1994). After Curtis cut the timber, the basis started over at zero, even though he did not claim depletion of his basis after the timber sale.*

### **I inherited my timberland several years ago and did not have a basis determination made. How can I figure out my basis?**

If the timber that was on the property at the time of acquisition is still standing, a retroactive basis determination can be made. A consulting forester should be able to make this determination. Using methods approved by the IRS, a forester can estimate the volume of timber present at the time of acquisition. By using contemporaneous timber price reports (available at <https://extension.msstate.edu/natural-resources/forestry/forest-economics/timber-prices>), the forester can estimate the value of the timber at the time of acquisition. Valuation of immature timber stands is also possible.

### **Is it always worthwhile to determine basis?**

No. Low-value timber acquired many years ago is generally not worth the cost of retroactive basis determination. A general rule is to hire a forester to estimate basis only if fees are less than 15 percent of the expected value of the basis. Many people will not have a basis in their timber. Those whose timber naturally regenerated after acquiring the land; those who reforested and recovered all out-of-pocket costs by tax credits or deductions; and those who received gifted property with no basis do not have a timber basis.

## How Much Can Be Deducted?

### **My timber was worth a lot of money and it was totally destroyed. I don't have a basis. Does that mean I do not get to deduct the loss?**

Casualty losses are deductible up to the basis. If basis is zero, then you will not be able to deduct a loss. [Ward v. U.S., 428 F.2d. 1288, Ct. Cl. 1970]

### **How much of the basis can be deducted for the loss?**

For a casualty, the entire basis in the timber account can be compared to the fair market value loss to determine what is deductible. The entire basis is used even when the casualty only causes partial loss. This IRS position allows the entire timbered acreage represented by the timber account, called the Single Identifiable Property (SIP), to be considered damaged by the casualty. Here is an example:

*Holly Ivytree has 160 acres of timberland with a timber basis of \$30,000. A casualty damaged 10 acres, resulting in a fair market value loss of \$25,000. The loss on 10 acres is compared to the basis on 160 acres because that is how Ms. Ivytree kept her timber basis account. Since basis is greater than fair market value loss, Holly was able to deduct her entire \$25,000 loss. The timber account was adjusted to show \$5,000 basis remaining.*

Landowners who keep 10,000 or more acres in one timber account may be subject to discounting rules. For more information on the SIP concept see Rev. Rul. 99-56, I.R.B. 1999-51, (December 6, 1999). Code Sec. 165: Casualty loss: Timber: Single Identifiable Property (SIP) damaged or destroyed: Damaged trees. Section 611—Allowance of Deduction for Depletion, 26 CFR 1.611-3: Rules applicable to timber. (Also §165; 1.165-7.)

### **Can I include the land basis in my timber account to increase my loss deduction?**

No. Land and timber basis are separate. Land basis cannot be used to offset timber losses.

## Salvage of Damaged Timber

### **Is salvage of timber required?**

No, while it is common to find timber tax publications that say yes, this stems from a mistake in the The Forest Landowners Guide to the Federal Income Tax - Ag. Handbook No. 731. However, nowhere in the tax code can this language

be found. However, if the damage is severe it is encouraged for forest health reasons to attempt to salvage any timber on the property in a prompt fashion. Efforts to salvage timber, such as phone calls or site visits with consulting foresters or timber buyers can be documented in a tree farm journal, diary, or financial records. If you have sawtimber that is no longer merchantable as sawtimber but can be used for pulpwood, the salvage requirement still holds.

### **Will I have to pay taxes on the salvage income, if it is more than the basis?**

If the landowner receives payment for timber salvaged from a casualty, they have two options. One is to pay tax on net gains, which is salvage income minus the basis and sales expenses. Net income will be a capital gain if the timber has been owned at least a year and a day. There is no required holding period for inherited timber to claim a capital gain. With gifted property, the holding period of both the giver and the recipient together must total a year and a day.

The other option is to treat the income as an involuntary conversion, which allows the taxpayer to take the entire proceeds of the salvage, postpone recognition of the gain, and take up to 2 years to reinvest in qualified replacement property as explained below.

## Purchasing Replacement Property

### **Can I buy more timberland with that money and avoid paying taxes on the gain?**

Yes. Total proceeds from a salvage sale (not just the net gain) following a casualty can be reinvested in qualified replacement property. Qualified replacement property should be similar or related in service or use to the replaced property. For standing timber, qualified replacement properties include timber, timberland, reforestation costs, and stocks of a corporation that owns timber and/or timberland (if you have 80% or more control of the corporation). Some people have incorrectly interpreted IRS rules and suggested purchasing stock in a timber corporation might be an option. Stock purchases will not qualify unless you can obtain controlling interest, which has been defined by the IRS as 80 percent of the company's stock.

Special rules about qualified replacement property apply to "presidentially declared disasters." According to the IRS

from Publication 547, “[A]ny tangible replacement property you acquire for use in any business is treated as similar or related in service or use to the destroyed property.” Consult with your tax adviser to see if this is advantageous. It may be better to pay the lower capital gains tax on the involuntary conversion than to reinvest it in property that can be deducted at ordinary rates, particularly property subject to special accelerated depreciation such as under Section 179 or Bonus Depreciation.

### **Are there special rules for reporting such a gain?**

Yes. The taxpayer must let the IRS know that they are electing to defer the gain on an involuntary conversion. With the election, the taxpayer must explain the circumstances of the conversion (casualty or other loss) and what replacement property is to be acquired. Make the election with a statement attached to the tax return.

### **How long do you have to acquire replacement property?**

For a casualty loss or loss other than condemnation, the replacement period is 2 years from the date the property was damaged or destroyed. The replacement period ends 2 years after the close of the first tax year in which any part of the gain is realized. Extensions may be granted in some cases by applying to the director of the IRS for your area. Details on replacement property purchases can be found in [IRS Publication 547 Casualties, Disasters, and Thefts](#).

### **If the replacement property costs less than the total gain, can I still avoid taxation?**

Only on what was spent for the replacement property. The remainder is taxed. What is the basis of replacement property? It will be the cost of the replacement property that extends the postponed gain.

## **Time of Deduction**

### **When can I deduct the casualty loss?**

Generally with a casualty loss, the deduction is taken the year in which the loss occurs. However, taxpayers with losses within a presidentially declared disaster area may elect to treat the loss as if it had occurred in the preceding taxable year. If the past year’s tax return has already been filed, the taxpayer may file an amended return for a refund. Refer to Tax Topic 308 Amended Returns on the [IRS website](#) for details. If you file an amended federal return, file an amended state return, as well.

## **IRS Forms**

### **How can I claim depletion of timber basis?**

Business and farm owners must use Part II of Form T Forest Activities Schedule to claim depletion of basis. This form can be obtained from the [IRS website](#). Search for Form T within the Forms and Publications search block. Investors, while not required to use Form T, must have appropriate basis records and can use Form T as a model for setting up accounts and claiming depletion.

### **If the timber is held for personal use (not for profit), as for a personal hunting preserve or other recreational use, what forms are required?**

Form 4684 Casualties and Thefts; Section A: Personal Use Property. Transfer as directed to Schedule A, Line 15 Casualty and Theft Losses. In the past, only casualties in a presidentially declared disaster would be deductible. But beginning with the 2026 tax year, due to the OBBBA, claims can also be made given state-declared disasters.

### **If the timber is part of a farming or business operation, what forms are required?**

Businesses and farmers report losses on Form 4684 Casualties and Thefts; Section B: Business and Income-Producing Property. Transfer to Form 4797 Sales of Business Property where all gains and losses of business property are netted. If a gain results, it is treated as a capital gain and transferred to Schedule D of the 1040. If a loss results, it is claimed as an ordinary loss on Form 1040. Gains from involuntary conversions (such as casualty events where subsequent salvage proceeds exceed the basis) may be deferred if the conversion proceeds are reinvested in replacement property as explained above. Make the election to defer by explaining the decision on a plain piece of paper attached to the tax form.

### **If the timber is investment property or property held for the production of income, not part of a trade or business, what forms are required?**

Investors report losses on Form 4684 Casualties and Thefts; Section B: Business and Income-Producing Property to report the loss, and transfer to Schedule A. Personal use property gains and losses must not be combined with gains and losses from income producing property, such as timber held for investment or for business. When personal use and income

producing properties are mixed, as when the landowner's residence is located on their tree farm, the personal and income producing property losses must be calculated and claimed separately.

### **What happens if the deductions for the year are greater than income?**

When a loss is greater than income, the taxpayer may have a net operating loss or NOL. Net operating losses from casualties or presidentially declared disasters (most likely state-declared disasters as well beginning in 2026) are, as of the OBBBA, limited to 80% of taxable income. These losses can be carried forward indefinitely, unless exhausted at an earlier time. There are still some 2-year carry backs for certain farming losses, but these likely do not apply to timber. Please consult IRS Publication Instructions for [Form 172 Net Operating Losses \(NOLs\) for Individuals, Estates, and Trusts](#) and your personal tax adviser for more information.

### **What about Mississippi taxes?**

Mississippi is considered a "piggy-back" state, because its tax system depends on the federal income tax rules and regulations for most situations. Casualty losses are treated in the same way for Mississippi income tax as they are for the federal income tax. Use federal form 4684 to report casualty losses for the Mississippi tax return as directed

in the Mississippi State Income Tax instructions. For more information, refer to the [Mississippi Department of Revenue website](#).

## **For More Information**

The [IRS website](#) has an assortment of publications concerning losses. These publications can be found by entering "disaster assistance" in the search bar. Of particular interest are [IRS Publication 547 Casualties, Disasters, and Thefts](#) and [IRS Publication 584 Casualty, Disaster, and Theft Loss Workbook \(Personal-Use Property\)](#). These publications are updated every year.

IRS Publication 2194 *Disaster Losses Kit for Individuals* and IRS Publication 2194-B *Disaster Losses Kit for Businesses* may be useful. All IRS publications may be ordered online or by calling 1-800-829-3676. For more information about timber basis, refer to MSU Extension [Publication 1983 Forestry Income Tax Series: The Basics of Basis](#). Extension publications relating to disaster issues may be found at <https://extension.msstate.edu/publications>.

Federal timber taxation information is available at <https://timbertax.org/>. Enter "casualty losses" in the search bar for specifics on casualty losses.

## Resource

Wang, L. (2018). *Income tax deduction on timber and landscape tree loss from casualty*. USDA Forest Service. <https://www.fs.usda.gov/managing-land/private-land/tax/federal-income-tax>

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