Timber Tax Overview

Forestry Income Tax Series

Are you a taxpayer? Do you own forestland? Everyone who answers "yes" to these questions needs to understand the unique tax rules that can affect forest management decisions and the profitability of any forest investment.

This publication gives an overview of the tax laws that apply to forest landowners. It focuses mainly on federal taxes, but it also includes information on the Mississippi Reforestation Tax Credit.

Mississippi, like most states, has a "piggyback" tax code, meaning that state deductions are usually the same as federal deductions. Generally, you can assume that deductions for federal tax purposes will also be deductions for state purposes, with the exception of reforestation costs treated with the Mississippi Reforestation Tax Credit.

Because the tax code is so complex and dynamic, this publication should be considered an educational guide, not the definitive answer to any one landowner's particular tax situation. However, it does provide useful information on timber taxation, with brief examples that will alert landowners to find additional information when needed.

IRS Categories for Forest Landowners

The IRS separates forest landowners into three different taxpayer categories: hobby owners, investors, and business owners. How can you determine what category best fits your situation? Each category differs in how expenses are deducted and income is reported. The appropriate category depends on your desire to produce income from growing timber and how involved you are in managing the timberland.

Fortunately, you are able to choose a preferred category based on your individual profit motive and actions. Once you select a category, it cannot be changed without permission from the IRS. The category you choose must be based on the facts and circumstances of your individual forest activities. The following sections describe the three categories and how they differ.

Hobby Owners or Personal Use Owners

Forestland held and managed for personal use is considered a hobby. A typical hobby owner owns land for personal hunting or recreation and does not intend to make a profit from growing and selling timber. As a hobby owner, yearly operating expenses cannot be deducted except against income from the timber property. However, expenses may be capitalized and deducted from future timber sales. Capitalization is the process of writing costs in an account so they may be recovered (deducted) in the future when the property is sold (such as timber) or lost in a casualty or theft.

Hobby timber sales do qualify for capital gains treatment. If held for a year and a day, that timber sale will qualify for a lower rate of taxation than ordinary income rates. A capital gain is the increase in value of a capital asset, such as land and timber. Long-term capital gains are taxed at lower rates than ordinary income rates, ranging from 0 to 20 percent, depending upon the taxpayer's marginal rate. Both rates are set by the U.S. Congress and are subject to change. Generally, the asset must be owned for more than a year to qualify for capital gains treatment. Capital gains are not subject to self-employment taxes.

To avoid being characterized as a hobby landowner, it is important to demonstrate a profit motive. At a minimum, you should state your intention to make a profit from the management of timber, either in your management plan or in the timber tax or tree farm journal. Actions should reflect your desire to make a profit—for example, any investments in the forest should be expected to pay for themselves through increased growth or eventual profit.

Investors

If you own forestland and intend to sell timber in the future for a profit or if you grow timber for capital appreciation, but you are not an active manager, you may be an investor. A typical investor has limited timber sales—perhaps only one or two timber sales in his or her lifetime. Investors deduct most management expenses as miscellaneous itemized deductions (investment expenses) on Schedule A of Form 1040. Investors who must take the standard deduction may be able to capitalize these expenses, as long as they are recorded in proper fashion. Investors qualify for the federal tax programs for reforestation, so you can recover all site preparation and reforestation costs through an initial deduction of up to $10,000 per qualified timber property and amortization of the remainder. Amortization is the recovery of capitalized expenses over a period of years before any sale of property. Qualified reforestation expenses over the initial $10,000 annual reforestation deduction can be amortized and deducted over an 84-month period following the expenditure.

Investors are eligible for long-term capital gains treatment of timber sales income if they have owned the timber for the required amount of time. Investors are categorized as those who make only occasional sales of timber. Unfortunately, the IRS has never issued official rules on what defines "occasional sales." The IRS did, however, on the updated Form T Timber Activities Schedule, give an example of occasional sale of timber as being "one or two sales every 3 or 4 years." Those who make more frequent timber sales should be categorized as business owners.

Business Owners

Business owners intend to make a profit from growing and/or selling timber. These owners are usually more involved in managing the forest. Business owners are not limited to those who are incorporated or have a physical business office. Instead, these owners hold themselves out to be operating as a business, for example, as a sole proprietor. To be a business owner, one must be operating in a businesslike fashion, making financial decisions based on a reasonable profit motive. Business owners are further subdivided according to Passive Loss Rules into two categories: material participants or passive participants. The difference between material and passive participation is the amount of time spent on the business activity.

The Passive Loss Rules originated with the Tax Reform Act of 1986, which was designed to eliminate tax shelters. They apply only to businesses, not hobby owners or investors. The rules affect the deduction of expenses and the ability to offset operating losses against income from other sources. They also affect the ability to use the reforestation provisions to recover costs early in the new forest's life.

Material participants manage their property on a "regular, continuous, and substantial" level and may deduct expenses against any source of income. Passive participants consider themselves "in the business" but are inactive managers. Passive participants face special restrictions for deducting expenses and reporting losses.

To be considered a material participant, the forest owner will need to pass one of seven tests in the Passive Loss Rules that assess activity levels. Business owners need

What Kind of Owner Are You?

IRS Category Examples

Hobby

Lola Friendly has 60 acres of land she inherited from her grandfather. She and her family use the property as a retreat from their city life. Her husband is an avid birdwatcher and has planted sunflowers and other seed-bearing plants for the birds. Her children love to hunt deer, and they have the forested areas prescribe-burned every 5 years. Lola doesn't plan to harvest any timber except in case of an insect infestation or other destructive event. She is a hobby owner.

Investor

Jane Brown has 160 acres of land she inherited from her parents. She is an absentee landowner and seldom visits her property. Jane had the entire tract planted in pine 10 years ago. Every third year she has a neighbor plow fire lanes. Apart from property taxes, this is her only operating expense on the property. On the advice of her consulting forester, she plans to thin the trees twice during the next 10 years and harvest and replant in 25 years. Her consultant will manage all the sales activities. She is an investor.

Business

Cliff Robin, Jane's brother, owns 160 acres next to his sister. He lives 30 miles from his land and is actively involved in its management. Cliff is practicing nonplantation management and has a small timber sale every year or two. His yearly expenses include a home office, travel to and from the property, tractor operation and maintenance (for fire lanes and road maintenance), herbicides, and property taxes. He is a materially participating business owner.

to keep records of time spent managing the forest business to prove at least one of these tests are met each year.

Landowners who are "in the business" and material participants may deduct forest management expenses on the front of IRS 1040. Forest expenses are itemized on Schedule C Profit or Loss from Business or the business form that matches their business structure. Some landowners qualify for the "Farmer" category, which is a special business category. Farmers use Schedule F, Profit or Loss from Farming to claim business deductions.

Because of recent changes in the tax laws in the American Jobs Creation Act of 2004, business owners are eligible for long-term capital gains treatment of timber sales income, regardless of sales method, as long as the required holding periods are met. As a business owner, use of the special federal tax programs allows outright deduction of the first $10,000 per qualified replacement property in reforestation expenses each year and recovery of the year's remaining reforestation costs within 8 years by amortization. There is no limit on the amount of reforestation expenses that can be amortized.

Record Keeping

As a forest landowner, you must keep good records in order to take maximum advantage of the special tax treatments available for timber. At a minimum, you should keep a tree farm journal that lists all activities, costs, and incomes from the forest (see example below). You also should have accounts for land, timber, and other capital assets. When setting up timber basis accounts, it is a good idea to use Form T, Forest Activities Schedule as a guide. It may be required when claiming depletion of the timber basis after a timber sale or loss. Claiming depletion will reduce the taxes paid on a timber sale or allow a loss to be deducted.

Business owners and investors with recurring operating costs, such as travel or equipment maintenance, may want to have operating accounts for various categories. The IRS does not require that records follow a certain format. Agricultural Handbook 731 Forest Landowner's Guide to the Federal Income Tax has an excellent example of a double-entry bookkeeping system for a forest owner. Software programs like Quicken or QuickBooks make it easy to set up and maintain business records. Small operations, and especially investors with small holdings, may be satisfied to keep records in a tree farm journal. See MSU Extension Publication 2306 *Setting Up the Books Using a Tree Farm Journal*.

How Long to Keep Records

Basis accounts for land and timber, including reforestation and site preparation, should be maintained as long as the property is owned, plus 3 years. Basis is the book value of investment in a capital asset as recorded in a capital account such as land, timber, or equipment. The initial basis for a property depends on how it was acquired, as described later. The basis increases as non-deducted costs are capitalized into the account. The basis is reduced by use of tax credits, amortization, depreciation deductions, depletion, or sale of the asset. Initial basis should be determined for the timber account and updated when timber is sold, lost, or invested in. If the property is deeded to someone as a gift, these records should be passed on to the new owners because they will need this information to determine their timber basis.

Operating expense and income records should be kept for at least 6 years. If you want to determine the economic return from each forest investment, you may want to keep records for each separate parcel or timber stand. (A timber stand is a group of trees of similar size and species that will be treated as a management unit.)

Business owners must keep records of the time spent on the forest business to prove material participation. These time records can be kept in the tree farm journal or in a business diary or calendar. They do not have to be provided to the IRS, but they may be required in case of an audit. Investors are not required to keep records of time spent on the forest investment.

Example: Tree Farm Journal—Business Owner

Date	Activity	$ Income/(Cost)
4/3/14	Attended MSU Forestry Extension short course "Marketing Your Timber," Rankin Co. Extension Office;10 hours; 64 miles travel @ $.560/mile standard rate for January–August 2014.	(35) (35.84)
6/1/14	Hired Trees-R-Us Forestry Consultants to cruise Grandpa's Woods and establish timber basis for property inherited 3/1/99; 3 hours walking landlines with consultant; 36 miles travel @ $.560.	(500) (20.16)
12/1/14	Miss. Forestry Commission prescribe-burned Grandpa's Woods; 7 hours burning time; 1 hour walking landlines; 36 miles travel @ $.560.	(300) (20.16)
4/5/15 to 4/8/15	Marked Grandpa's Woods for pulpwood sale; 30 hours work; purchased paint gun and paint from Forestry Suppliers; 92 miles travel @ $.575.	(200) (52.90)
6/5/15 to 6/18/15	Sold marked wood to Cutter's Pulpwood Services for $8/cord, 150 cords; was on site 2 hours each day to ensure security of sale; travel expenses of $269.10 (36 miles round trip, 13 trips, $.575/mile standard rate for 2015).	1,200 (269.10)

Recovering Forestry Expenses

Timing and purpose of an expense determine its category and eventual recovery. Many of the costs incurred from managing forestland can be at least partially recovered through deductions from taxes. How these expenditures are recovered depends on whether the sum is an operating cost, a sales expense, or a capital cost. Categorizing forestry-related expenses is tricky because the same practice can be a capital, operating, or sales expense, depending on why and when the expense was incurred. For example, a timber cruise (estimation of the amount of timber and its value) is a capital expense when done to acquire property; a management expense when done to write a management plan; and a sales expense when done to sell the timber.

Operating or Management Costs

Ordinary operating costs are the routine expenses incurred in managing the forest in an ongoing manner. Ordinary operating or management costs are generally expensed in the year they occur. This means they are deducted as miscellaneous itemized deductions (investment expense) for investors; deducted as business expense for business owners; and deducted as farming expense for farmers. The forest owner may choose to capitalize all forest management costs instead of deducting them yearly, and this decision may be made on a year-to-year basis.

Examples of operating and management costs include the cost of small tools, travel expenses, timber cruises for management purposes, prescribed burning for hazard reduction, fire lane maintenance, road maintenance, herbicide release not associated with reforestation, equipment operating expense, home office expense, and so on.

Salaries and wages paid to hired help (not related to tree planting and other capital projects) may also be expensed. However, you cannot deduct the value of your own labor. Carrying charges such as property taxes and mortgage interest can be expensed or capitalized.

Wildlife habitat improvement expenses are not deductible unless they have a profit-related motive (for example, if you lease your property to hunters) or have a legitimate conservation purpose such as prevention of soil erosion.

Timber Sales Expenses

Costs associated with making a timber sale can include forestry consulting fees, surveying, advertising, attorney's fees, timber sales monitoring, and security. These costs are not deducted as operating expenses. Instead, they are subtracted directly from the timber sales proceeds, reducing the amount of taxable gain. Form T's Part II: Timber Depletion and Part III: Profit or Loss From Land and Timber Sales are the appropriate tax forms to determine your profit or loss and fill out your tax return.

Capitalized Costs

Capital costs are the costs of investment in long-term assets like land or timber. Examples are the costs of acquisition or purchase of land or timber, site preparation and reforestation, equipment, and buildings. These costs are not deducted as annual expenses. Capital costs are capitalized or recorded in the appropriate account to increase basis, and then recovered through amortization, depletion, or depreciation deductions, or when the asset is sold. How you recover the costs depends on standard accounting rules and the nature of the asset. These are the methods of capital cost recovery:

- Tax Credits—A tax credit is a dollar for dollar reduction in the amount of taxes paid. A Mississippi reforestation tax credit is available.
- Reforestation Deduction—The first $10,000 spent on establishing a new forest for commercial timber production in any year is deductible per qualified timber property. Business owners take this deduction on Schedule C or F. Investors take this deduction as an adjustment to gross income on the front of the 1040 on line 36, not as a miscellaneous itemized deduction.
- Amortization—Reforestation expenses over the $10,000 yearly deduction are recovered through amortization. This capital cost-recovery method allows taxpayers to amortize and deduct these costs over a period of 84 months according to the schedule outlined in the law. These deductions are taken in the same way as the reforestation deduction.
- Depletion—For natural resources such as timber, the cost or other basis is recovered as the timber is cut and sold or otherwise disposed of. The timber is depleted by subtracting its basis from the timber account, and then subtracting it from the timber sales proceeds to determine the net taxable gain. For a clear-cut harvest, the entire basis of the timber is subtracted from the sales proceeds. When only part of the timber is cut, such as a thinning, a proportional amount of the basis is subtracted from the timber account and the sale proceeds. This proportional amount of basis is determined by calculating the depletion unit, which is usually expressed as a dollar amount per unit of timber measurement [thousand board feet (MBF), cords,

or tons]. The depletion unit is calculated by dividing the total timber basis dollar value by the total timber volume. If you have more than one timber basis account, you will need to calculate a basis depletion unit for each. If the timber suffers a loss from casualty, theft, condemnation, etc., the deductible loss is the loss in fair market value or the basis, whichever is less. The basis is depleted as the loss is taken.

- Depreciation—This method of recovery is used for material assets such as trucks, tractors, roads, culverts, etc. Depreciation is the deduction of the cost or other basis of a material asset over its estimated useful life. Deductions are taken as the asset is used up or wears out according to standard accounting rules.

Initial Basis

The cost of acquiring forestland must be capitalized into the land and timber basis accounts when purchased. Such costs include attorney's fees, surveying costs, timber cruises for acquisition, title fees, and purchase price of the property. The acquisition cost is divided between land and timber based on the proportion each asset contributes to total fair market value and is recorded in the appropriate land or timber account. These costs form the initial basis of the property and cannot be recovered until the land or timber is sold.

The initial basis of inherited or gifted property is very different from the basis of purchased property. The initial basis of inherited property is the fair market value of the property at the time of the decedent's death. This is called a **stepped-up basis** because the basis is usually increased or "stepped-up" to fair market value.

Gifted property generally retains the basis of the giver. **It is called a "carryover" or "transfer" basis.** Any gift tax paid also affects the initial basis of a gift, and the application of gift taxes depends on the year of the gift. Check with IRS regulations on gifted property to see how gift tax applies for each situation.

Timber Basis

Timber basis is important because it helps determine the net taxable income on any timber sale. When timber is sold, the basis in that timber (along with sales expenses) is subtracted from sales income to determine the net taxable gain. Basis also is used to determine the amount of deductible loss in case of a casualty or other loss. The initial timber basis should be established when the property is acquired and updated for additions and depletions of basis. It is not necessary to update basis every year, but updates should be made as needed. Keeping the basis up to date involves adding any capitalized costs as they occur, updating volumes before any timber is sold, and depleting or subtracting basis as timber is cut, sold, or destroyed. Use IRS Form T, Forest Activities Schedule as a guide to set up the timber basis account. See Extension Publication 1983 *Basics of Basis* for detailed information.

Basis Example

Leif Oakman owns 180 acres of land acquired in 1975 for $18,000. He did not set up separate land and timber accounts at that time. Leif clearcut his property twice and allowed natural regeneration to re-establish the forest, so he has no basis in his timber account. He sells 60 acres to his neighbor, Forest Green, for $87,000. He gives his nephew, Hilton Glade, 60 acres. He dies soon after, and his daughter, Scarlet Oakman, inherits the last 60. The three new landowners have similar properties. What is the timber basis of each?

Forest Green purchased his 60 acres for $87,000 and paid $3,000 for legal fees and surveying costs. His total acquisition cost was $90,000. Land and timber each made up 50 percent of the fair market value of the property. His land basis is $45,000 and his timber basis is $45,000.

Hilton Glade's basis is the same as the donor's (Leif's) basis. His land basis is $6,000 (one-third of Leif's original $18,000 acquisition cost). Hilton has no timber basis because there were no capital costs involved in establishing or maintaining the current forest.

Scarlet Oakman inherited the property at her father's death. At that time, the property was valued at $800 per acre for land and $55,000 for timber. Her land basis is $48,000, and her timber basis is $55,000.

Each new owner has a different basis because of the way the property was acquired.

Equipment and Other Depreciable Costs

Equipment is a capital asset with an expected useful life of more than 1 year. These costs are recovered by depreciating them over a specified period of years according to standard accounting rules such as the Modified Accelerated Cost Recovery System (MACRS) and IRS regulations. For example, the expected useful life of a light truck or automobile is 5 years. Bridges and culverts are expected to last for 15 years. The IRS allows the cost of equipment to be recovered by depreciation over the estimated useful life of the asset. Business owners may choose to deduct certain depreciable costs under IRS Section 179, or under the Bonus Depreciation provisions, which speeds up the depreciation/deduction process. Temporary land improvements like gates, bridges, and temporary logging roads are depreciated over the expected useful life of the asset or according to a units-of-production method. An excellent guide for up-to-date property depreciation rules is IRS Publication 946: How to Depreciate Property, available at ***www.irs.gov***.

Site Preparation and Reforestation Expenses

The cost of establishing a new forest, either by planting or by natural regeneration, is a capital expense. These costs include site preparation, planting, seeding, or other expenses necessary to establish the new forest. The American Jobs Creation Act of 2004 set new rules for recovering these costs.[1] The first $10,000 in expenses incurred each year per qualified timber property (QTP) is deductible. Any costs over these amounts are amortized over 84 months according to the schedule. Both of these deductions are taken as business or farm expenses, or for investors as adjustments to gross income. They are never taken as miscellaneous itemized deductions. These deductions are not automatic. Taxpayers must elect to use these incentives by using Form T, Part IV Reforestation and Timber Stand Activities or a "3-p form" (plain piece of paper).

For states with "piggyback" tax systems, the deductions for the federal return are generally deducted in the same way on the state tax return. Taxpayers should check with their state tax agency to see how to deduct these expenses on their state return.

Some states have state tax incentives for reforestation. Mississippi taxpayers establishing new forests on Mississippi lands are eligible for the Mississippi Reforestation Tax Credit in addition to the federal tax incentives. This is a lifetime tax credit of up to $75,000 on Mississippi income taxes owed. The tax credit is 50 percent of the total cost, up to limits set yearly by the Mississippi Forestry Commission. See Extension Publication 2420 *Paying for a New Forest without Cost-Share Funding*.

Cost-Share Payments for Reforestation/Afforestation

There are a variety of cost-share programs you can use to cover part of the costs of forest management, including the Forest Land Enhancement Program (FLEP), the Conservation Reserve Program (CRP), and the Wetlands Reserve Program (WRP). Many states, including Mississippi, have their own forestry cost-share programs. Forest landowners can exclude

Example: Southfork Tree Farm Reforestation Account

James and Dorothy Brown are planting 320 acres of bare land with a total cost in 2015 of $20,000. They are using the special tax treatment for reforestation costs for federal taxes, as shown below in their Timber Reforestation Account. They take the first $10,000 deduction in 2015. The amount over $10,000 is amortized and deducted over 8 tax years. The first and eighth years' deductions should be for 6 months, or $714. The final deduction is $712 rather than $714 due to rounding of costs over the 8 years.

Southfork Tree Farm Reforestation Account

Date	Activity	Cost	Federal Credit/ Amortization Deduction	Adjusted Basis
12/29/15	Plant improved loblolly—600 trees/ac	$ 20,000		$ 20,000
1/31/16	Initial deduction on 2015 return		$ 10,000	10,000
1/31/16	Amortization/deduction for year 1 (2015 tax return)			
1/31/17	Amortization/deduction for year 2		1,429	7,857
1/31/18	Amortization/deduction for year 3		1,429	6,428
1/31/19	Amortization/deduction for year 4		1,429	4,999
1/31/20	Amortization/deduction for year 5		1,429	3,570
1/31/21	Amortization/deduction for year 6		1,429	2,141
1/31/22	Amortization/deduction for year 7		1,429	712
1/31/23	Amortization/deduction for year 8		712	0

[1]Prior to October 23, 2004, $10,000 per year could be recovered by the use of a 10 percent federal reforestation tax credit and amortization over 8 years. Any expenses in excess of $10,000 had to be capitalized.

cost-share payments for reforestation and site preparation from taxable income if IRS requirements are met. Exceptions include cost-share payments from CRP and cost-share payments for practices that are deductible as ordinary operating expenses. If cost-share payments are excluded from income taxation, then they are also excluded from the amount used to figure the reforestation tax deduction and amortization. The state of Mississippi excludes all forestry cost-share programs from taxation.

Tax Treatment of Forest Income

Timber Sales Income

Income from the sale of standing timber is eligible for long-term capital gains treatment if held for more than 1 year. There are two exceptions: (1) Inherited property is immediately eligible; (2) With gifted property, the time the donor owned the property is transferred to the new owner. Timber held for fewer than 12 months may be treated as a short-term capital gain. Capital gains are reported on Schedule D of IRS Form 1040. For those "in the business," sale income is reported as the sale of business property on IRS form 4797. For investors, the sale is reported on IRS form 8949. For both cases, values are transferred to IRS form 1040 Schedule D, Capital Gains and Losses. Estimated taxes on timber sales income should be paid following the same rules as other types of income. Taxes are paid on the net taxable gain, not the total sales proceeds. To determine net taxable gain, subtract timber sales expenses and the appropriate timber basis from the total sales proceeds.

Other Forest Income

Entrepreneurial landowners may produce a variety of "other" products from forestlands. The income produced from grapevine wreaths, pine straw, mushrooms, ginseng, or other products is considered ordinary income. Selling firewood or pulpwood bolts directly to customers is also considered ordinary income, although the stumpage value of these products may be considered as a capital gain under IRS Section 631(a). Ordinary income is subject to the ordinary tax rates and Social Security and Medicare taxes.

Hunting leases, annual CRP payments, grazing leases, or other recreational leases may be considered **rental income**. Rental income is taxed as income under the ordinary income rates, but is not subject to self-employment taxes.

Timber Sales Income Example

Forest Green purchased 60 acres for $87,000 and paid $3,000 for legal fees and surveying costs. His total acquisition cost was $90,000. The land and the timber each made up 50 percent of the value of the property. His land basis is $45,000 and his timber basis is $45,000.

He allows his timber to grow for 5 years. At that time, he hires a consultant to sell his timber on a lump-sum basis and agrees to pay him 10 percent of the timber sales proceeds. The sale price for the timber is $65,000. What is his net taxable gain?

$ 65,000	sales price
- 45,000	timber basis
- 6,500	consultant's fee
$ 14,500	

He is eligible for long-term capital gains treatment. At the 15 percent capital gains rate, his tax is $2,175. He will also owe state taxes on his timber sales income. In Mississippi, there is no special capital gains rate, and the timber sales proceeds are taxed at the same rates as other income.

Losses

Forest landowners are often shocked to find how little can be deducted when timber is destroyed or damaged due to a casualty or other involuntary conversion. The reportable deduction for any type loss is limited to the loss in fair market value or the timber basis—whichever is less. If there is no basis, the reportable loss is zero. The rules for claiming losses are tricky, so take care when determining the type of loss, and have supporting documentation, such as a forester's statement of loss, to back up the claim. There are different types of losses, some deductible and some not. Here is a general list of types of losses and involuntary conversions:

- Normal losses are not deductible. Losses from poor planting practices, expected mortality, or low levels of insect or disease are considered part of the risk of growing timber. Practice good management to reduce these losses.
- Casualty losses are losses from sudden, unexpected, or unusual events. Examples include tornadoes, hurricanes, and wildfires. Usually disease or insect infestations are not casualty losses. IRS Form 4684 Casualties and Thefts is used to report these losses.

- Noncasualty business losses result from an abnormal event. Like a casualty loss, it is an unusual or unexpected loss. Unlike casualty losses, it is not sudden. Sometimes the death of seedlings from an extended, unusual drought or epidemic losses from southern pine beetles may be a noncasualty business loss. These are reported on IRS Form 4797.
- Thefts and condemnations may result in deductible losses. Like other losses, the actual loss is reduced by any compensation received. Use IRS Form 4684 Casualties and Thefts to report these losses.

Forest owners are expected to try to salvage timber following a loss or involuntary conversion. When the salvage income is greater than the basis, there is a taxable gain. Forest owners may be able to postpone paying taxes on such a gain if they reinvest in qualified replacement property (buy more timberland, reforest, or buy standing timber) within a specified period of time. The time allowed for purchase of replacement property varies according to the type of loss or involuntary conversion. Tax treatment of losses is very complicated, so it's a good idea to check with a qualified tax professional on handling specific losses. See Extension Publication 2619 *Frequently Asked Questions about Timber Casualty Losses* for detailed information.

Timber Tax Information Sources

There are many sources of information on timber taxation. The chief resource is Agriculture Handbook 731 Forest Landowner's Guide to the Federal Income Tax, which was referenced for each topic in this publication. Every aspect of timber taxation is covered in this handbook, with plenty of detailed examples. Unfortunately, this publication is not updated every year. The copy available in 2013 is out of date. A copy may be downloaded from ***www.timbertax.org*** or ***www.fs.fed.us/spf/coop/***. Agriculture Handbook 731 and other Extension tax publications also can be obtained from a local MSU Extension office or the MSU Extension Forestry office at (662) 325-3150.

Extensive tax information can be found on the Internet, starting with the National Timber Tax website at ***www.timbertax.org***. Forest landowners should consider using IRS Form T, Forest Activities Schedule as a guide for setting up their timber accounts. The forestry section of the MSU Extension Service website has timber tax publications available for downloading at ***www.msucares.com***. The IRS has an excellent website at ***www.irs.gov*** containing all current forms (including Form T) and publications for downloading. IRS tax forms also can be requested from 1-800-TAX-FORM (1-800-829-3676). The Forest Landowners Tax Council maintains a website with information about current legislation on timber taxation at ***www.fltc.org***.

Forestry magazines are a good source of up-to-date information on timber taxation. *Forest Landowner*, *Tree Farmer*, and *National Woodlands Owner* magazines all have regular columns on forestry and taxation written by nationally recognized experts.

Extension Forestry in the MSU Department of Forestry teaches an Income Taxes and the Family Forest short course at a variety of locations throughout Mississippi. A schedule of Extension Forestry short courses may be viewed at ***www.msucares.com*** under the forestry heading. Contact the nearest MSU Extension Service office for more information on local classes.

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