



Timber Sales / Taxes (Part 3)

In Part 1 of this series an overview of timber appraisal and federal tax liability on income generated from timber was discussed. In Parts 2 & 3, we will highlight some practical suggestions for dealing with your tax situation. The major emphasis will be to take advantage of favorable federal tax regulations so that you don't pay more taxes than necessary. Please realize that tax computation is a complex subject and that you may require the services of an accountant, attorney, or forester for advice on your specific situation.

If you have owned your timberland more than 10 years the cost of doing an inventory and calculating a *timber cost basis* may exceed the potential tax savings on the proceeds of a timber sale. There may be an exception if you own very high quality timber. In that case you may want to contact a forester for advice.

Generally, do not cut timber from land you have owned for less than 12 months, unless you inherited it. Ownership of at least 12 months is one of the tests for qualification for *capital gains treatment*. Inherited timberland may be harvested sooner and still qualify. It is still very important to establish a current market value and volume of timber prior to the sale for calculation of *basis* and *depletion allowance* without regard to whether you purchased, inherited, or received it as a gift.

Keep good records of all your activities related to your timberland in your permanent tax files. Federal tax *Form T* provides a good example of the type and structure of records and information you need to include in your records. In fact, many of them can be recorded directly on the form. You can download the latest version of that form from the IRS website,

<http://www.irs.gov/formspubs/lists/0.,id=97>

[817.00.html](http://www.irs.gov/formspubs/lists/0.,id=97). Instructions for completing the form are available at the same site. Form T is included with annual tax returns only in those years when you have income from the timber, although you may be adding expense information yearly.

Reference information related to timber taxation is readily available from several sources. It is recommended that you obtain some of this material for general knowledge about the subject.

MU Agricultural Guide Sheet-Forestry. "Determining Timber Cost Basis" by Dr. John Dwyer, School of Natural Resources. It contains both methodology and examples of cost basis calculations. You may obtain a copy from University of Missouri Extension offices or download a copy from:

<http://extension.missouri.edu/explore/agguides/forestry/g05055.htm>

National Timber Tax website, Purdue University. This is a very comprehensive and easy to use website containing answers to almost any timber tax question, www.timbertax.org.

Forest Owners' Guide to Federal Income Tax Ag Handbook # 708. US Govt. Printing Office. Washington, D.C. \$20.00

In the third and final article of the subject of Timber Taxes we will continue to offer advice and suggestions for how timber owners can minimize tax liabilities.

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