

# Federal Tax Treatment of Timber Income & Expenses

QUICK REFERENCE FOR 2017 TAX YEAR

This quick reference guide is intended to help non-corporate users identify how timber income and expenses are commonly classified and the associated federal income tax forms to fill out based on likely scenarios.

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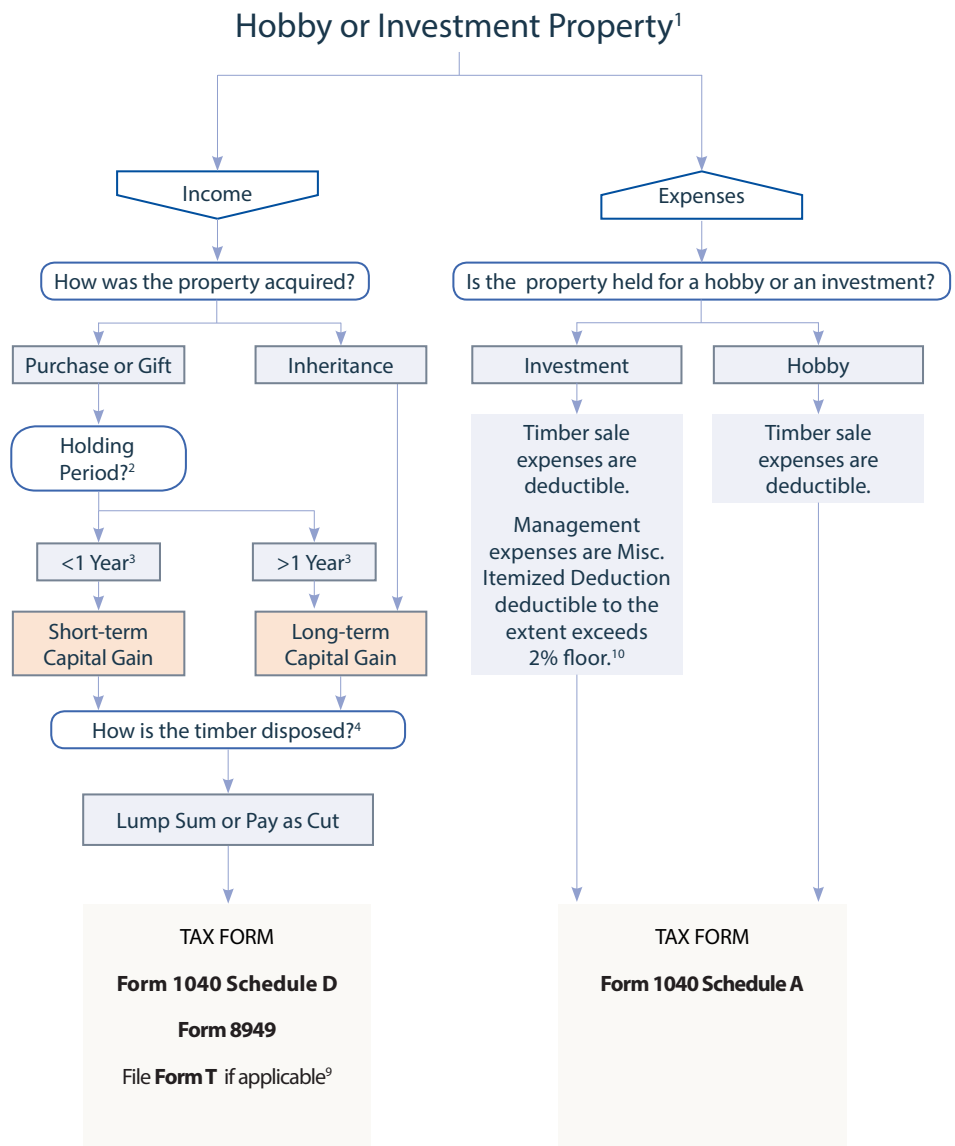
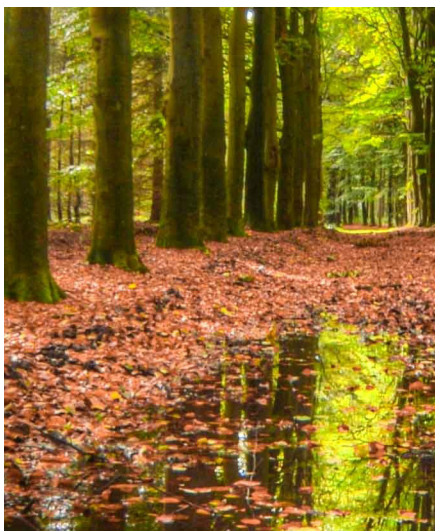


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## Quick Reference

Ownership structure (hobby, investment, business), ownership participation and motive and how products are sold, among other variables, greatly impact how timber income and expenses are classified and reported to the Internal Revenue Service (IRS).

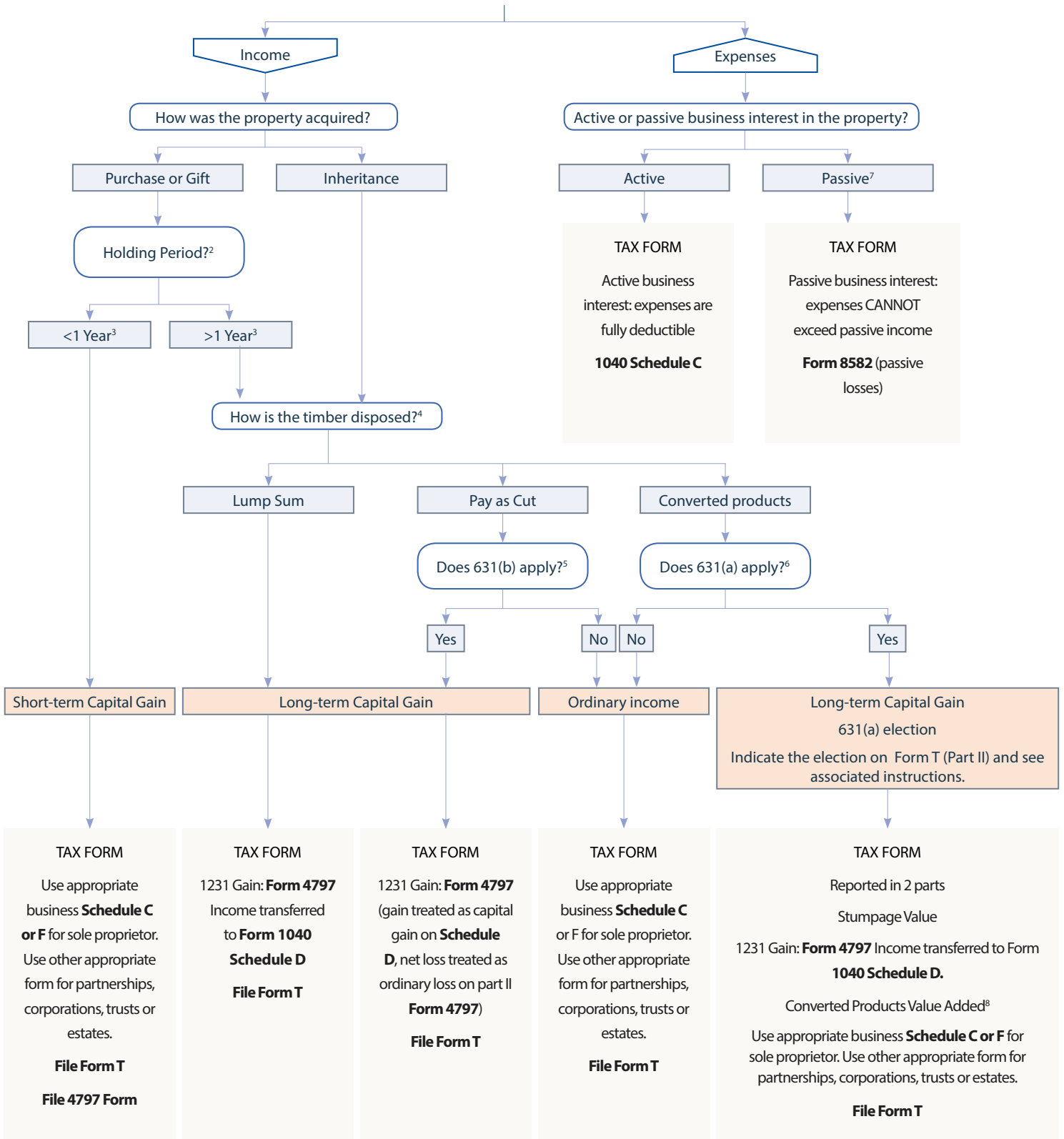
This quick reference guide is intended to help **non-corporate users** identify how timber income and expenses are commonly classified and the associated federal income tax forms to fill out based on likely scenarios. Users can use the binary decision diagram associated with this guide to answer income classification questions. By answering questions at each level of the diagram, and following the associated pathway, a user will be able to identify how timber income and expenses are commonly treated and the associated forms to fill out.



## Notes

- <sup>1</sup> Details on types of forest ownership and operation may be found in *Forest Landowners' Guide to the Federal Income Tax*, p.7.
- <sup>2</sup> Holding period refers to the duration of time an asset is owned, i.e. the date of acquisition to the date of disposal.
- <sup>3</sup> For gifted property, both donor's and donee's period of ownership may be counted.
- <sup>4</sup> Timber may be disposed, i.e. sold, as stumpage, pay-as-cut (economic interest retained) or as cut products. Income considerations related to each method are covered in *Forest Landowners' Guide to the Federal Income Tax* starting on p.31.
- <sup>5</sup> 631(b) elections are covered in *Forest Landowners' Guide to the Federal Income Tax* starting on p.38.
- <sup>6</sup> 631(a) elections are covered in *Forest Landowners' Guide to the Federal Income Tax* starting on p.41.
- <sup>7</sup> Passive loss rules and who they apply to are covered in *Forest Landowners' Guide to the Federal Income Tax*, p.26.
- <sup>8</sup> Converted products value added is the income minus the timber (stumpage) and cost of conversion
- <sup>9</sup> Forest landowners who only have occasional timber sales ("one or two sales every 3 or 4 years") are not required to file a Form T (Timber); details on who must file are included in the Form T instructions. <https://www.irs.gov/pub/irs-pdf/it.pdf>.
- <sup>10</sup> This changed with the new Tax Cuts and Jobs Act (TCJA) and is not applicable for tax year 2018 and beyond.

# Business Property<sup>1</sup>



## References

- Greene, J.L. 2009. "Timber Sale Income." *Federal Timber Income Taxes* - 17 November 2009. Durham, NH: University of New Hampshire Cooperative Extension. [https://extension.unh.edu/resources/resource/1323/Federal\\_Timber\\_Income\\_Taxes\\_-\\_November\\_17,\\_2009](https://extension.unh.edu/resources/resource/1323/Federal_Timber_Income_Taxes_-_November_17,_2009).
- Greene, J.L.; Siegel, W.C.; Hoover, W.L.; Koontz, M. 2012. *Forest Landowners' Guide to the Federal Income Tax*. Agriculture Handbook 731. Washington, DC: U.S. Department of Agriculture., <http://bit.ly/forest-tax-guide>.
- Internal Revenue Service. 2013. *Instructions for Form T*. Washington DC: U.S. Department of Treasury. <https://timbertax.org/developments/FormT2013Instructions.pdf>.



## Legal Disclaimer

This publication is intended to assist forest landowners, tax professionals and natural resources professionals with the federal tax treatment of timber income and expenses. The information contained herein represents the authors' good faith effort to present accurate information (as of 12/15/2017) and make complex timber tax law accessible to users. It is ultimately up to the user to ensure information submitted to the IRS is consistent with current law, and readers are strongly encouraged to consult their own professional tax, accounting and legal advisors on individual tax matters. The authors of this publication are not responsible for the information or advice provided herein as it may affect the specific tax consequences to an individual taxpayer, which depends on many other facts and circumstances.

## Additional Considerations & Resources

There may be additional cost considerations related to depreciation, amortization, deduction or other tax incentives. Tax preparers, accountants, foresters, loggers and business owners can consult additional resources to determine how these other considerations relate to the target ownership. Some recommended resources include:

Forest Landowner's Guide to the Federal Income Tax: <https://bit.ly/forest-tax-guide>

Timber Basis Decision Tool: <https://extension.unh.edu/timber-basis>

Overview: <https://bit.ly/tax-tool-info>

Supporting Documentation: <https://bit.ly/tax-document>

National Timber Tax Website: <https://timbertax.org>



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