

2008 Forest Tax Update

Establishing Timber Basis



Timber Basis *Why is it important?*

- Basis reduces timber sale proceeds
- Only the net amount is taxable

(Tax Code §1001(a))



Timber Loss

- Timber loss from hurricane, fire, theft, etc. are deductible **to the smaller of FMV loss or timber basis.**

(Treasury Regulation §1.165-7(b)(1))



Forest Planting Cost

- Planting costs (timber basis) may be **expensed and amortized**

(Tax Code §194)



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Properly Documenting Basis

- **Before you start, weigh the cost of documenting basis versus the benefit of tax saving**
 - Inherited property
 - Gifted property
 - Purchased property



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Timber Basis

If you inherited the property

- For inherited property, the initial timber basis is the **Fair Market Value** of timber *on the date of death*

(Tax Code §1014(a)(1))



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FMV of Property

When the property is timber

- The FMV of timber means:
 - Timber quantity
 - Timber priceon the date of death



An Example

- Joe inherited a timber tract in Louisburg 2 years ago.

What is his timber basis?



Answer to the Example

- **Timber quantity and price 2 years ago in Joe's land:**

– **Pine sawtimber** 100 tons x \$30/ton = \$3,000

– **Pine pulpwood** 200 tons x \$6/ton = \$1,200

– **Hardwood pulpwood** 300 tons x \$4/ton = \$1,200

\$5,400



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Land with Pre-Merchantable Timber

- **The FMV of timber generally means \$/acre**



Special Tips for Timber Basis

- Timber basis has **two parts**: timber quantity and \$ value

(Tax Regulation §1.611-3)



Special Tips for Timber Basis

- Basis must be allocated between **land** and **timber**

(Tax Regulation §1.611-3)



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Timber Basis

- For purchased property, timber basis is the purchase price plus acquisition costs



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Timber Basis

- For gifted property, if no gift tax is paid, the basis is:
 - (a) donor's adjusted basis (gain at disposal)
 - (b) the lower of the donor's adjusted basis or the FMV (loss at disposal) (§1015 and §1.1015)



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Timber Basis

- For gifted property, if gift tax is paid, the basis is the donor's adjusted basis plus all or a portion of the gift tax paid



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Timber Basis

- Timber basis generally **carry over to the new property** when acquired through:
 - non-taxable (or partially taxable) transaction
 - re-investment in connection to involuntary conversion



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Tax Resources

- **National Timber Tax Website:**
www.timbertax.org
 - Extensive: Income, estate and property law
 - Professional referencing
- Service and Publications by Extension,
State Agency and University



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Learn More

- Chapter 5, “**Forest Landowner’s Guide to the Federal Income Tax**”
- **National Timber Tax Website**

