

# Taxes for Working Forests and Tree Farms

**Rick Hamilton, Mark Megalos  
(Ret) Extension Forestry Specialist  
NCSU**

# This Talk:

**Income Taxes  
Estate Taxes  
Coming Tax Changes?  
Wrap-up**

# Income Tax Implications

1. **Timber Sales and Basis**
2. **Cost-Share Payments**
3. **Reforestation Tax Incentive**
4. **Expense Deductions**

## Timber Sales

<b>Gross Income</b>	<b>\$50000</b>
<b>Costs of Sale</b>	<b>(8500)</b>
<b>Basis</b>	<b><u>(21500)</u></b>
<b>Net Taxable Income</b>	<b>\$20000</b>

## Timber Sale (cont.)

**Net Taxable Income                      \$20000**

### **Long-Term Capital Gains (LTCG)**

**1 Year Holding Period**

**For Both Investors and Businesses**

**Report on Schedule D**

**Not Subject to Self-Employment Taxes**

## LTCG Rates

<u>Income*</u>	<u>Ordinary Rate</u>	<u>LTCG**</u>
\$0-16,050	10%	0%
\$16,051-65,100	15%	0%
\$65,100-131,450	25%	15%
\$131,451-200,300	28%	15%
\$200,301-357,700	33%	15%
\$357,701+++	35%	15%

**\*Married Filing Jointly, \*\*2008-2010**

## Reforestation New Law

1. **First \$10,000 is fully deductible**
2. **Write-off (84-months) of all amounts over \$10,000**
3. **Both deductions taken as “Adjustments to Income” (no need to itemize)**
4. **Equally available to small businesses and investors.**
5. **Elected on a property by property basis each tax year.**
6. **May not include cost-share amounts excluded from income (IRC 126)**

## Cost Share - To Wait or Not?

- Reforest Immediately -  
No Cost Share

\$75	Cost/Acre
<u>(\$18.75)</u>	Tax Deduction @25%
\$56.25	Net Cost



## Waiting for Cost Share

\$ 90	Site prep
\$ 75	Planting cost
\$165	Total Cost
(\$ 66)	Less 40% Cost share (excluded)
<u>(\$ 24.75)</u>	Less tax deduction @25%
\$ 74.25	Net Cost



## Cost Share or Not - Summary

### Not

**\$56.25 Net Cost**

### Wait

**\$74.25 Net Cost**  
**Loss of \$60-\$100**  
**annual gross income**

## Annual Expense Deductions

### **Business Expenses for Businesses but:**

- For “passive” business, expense deduction limited to passive income from all passive sources.
- For “active” business, all expenses fully deductible.

**Schedule: C, F, .....business forms.**

## Annual Expense Deductions for Investors

- Must be claimed as “Miscellaneous Itemized Deductions”
- Only amounts over 2% of AGI can be deducted.
- Many investors better off to “capitalize” (keep records and add to the basis).

## Fertilizer Expenses

- **Old Law—Fertilizer expense amortized over 5 years with amortization added to basis**
- **New Law—Fertilizer expense fully deductible in year incurred**



## Estate Exclusion

<u>YEAR</u>	<u>EXCLUSION</u>
<b>2004-05</b>	<b>\$1,500,000</b>
<b>2006-08</b>	<b>\$2,000,000</b>
<b>2009</b>	<b>\$3,500,000</b>
<b>2010</b>	<b>No Federal Estate Tax</b>
<b>2011</b>	<b>\$1,000,000</b>

## Maximum Estate and Gift Tax Rates

<u>Year</u>	<u>Maximum Tax Rates</u>
<b>2006</b>	<b>46%</b>
<b>2007-09</b>	<b>45%</b>
<b>2010</b>	<b>No Estate Tax/35% Gift</b>
<b>2011</b>	<b>Back to June 7, 2001-55% and \$1,000,000 Exclusion</b>

## Stepped Up Basis

- 2005-09**    **FMV Date of Death**
- 2010**        **Limited to \$1.3 million per decedent**  
**Additional \$3 million to assets**  
**transferred to spouse**  
**Required to file “return relating to**  
**large transfers”**
- 2011**        **Back to Unlimited Step-Up**



## Planning Considerations

- **Tools like Conservation Easements or Charitable Gifting give both income and estate tax benefits**
- **Estates can be valued at use-value—but requirements are stiff**
- **KEEP RECORDS!!!!**
- **[www.timbertax.org](http://www.timbertax.org)**

## Parting Advice

- **Hire a Registered Forester Consultant who understands timber taxes, especially basis.**
- **Add a CPA/Tax Attorney to your team.**
- **TALK with your family.**
- **Estate and tax planning will sustain your forest land and..... income.**

## Changes for 2009 & Beyond

- Endangered Species Recovery Deduction
- For Expenses Beginning 1/1/2009
- Implement site-specific measures in recovery plans in the Endangered Species Act
- Deduction limited to 25% of gross income from farming
- IRC 175 Farm Bill

## WILDLIFE PUV DETAILS

- Managed under a **written wildlife habitat conservation agreement**
- **Priority wildlife habitats:**
  - *longleaf pine forest*
  - *early successional habitat*
  - *small wetland community*
  - *stream and riparian zone*
  - *rock outcrop*
  - *bat cave*

## WILDLIFE PUV DETAILS

No more than 100 acres of an owner's land in a county may be classified under this section

Agreement and Management Plan must be in place by January 1 of enrollment year

Must:

- Protect an animal species that lives on the land which is on the NC protected animal list OR
- Conserve any priority animal wildlife habitats listed

## NEED MORE INFORMATION?

- **Mark Megalos**
- **Extension Forestry Specialist**
- **NCSU**
- **(919) 513-1202**
- **[mark.megalos@ncsu.edu](mailto:mark.megalos@ncsu.edu)**

**THANK  
YOU!**