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# FOREST MANAGEMENT

## Account Book

EB 360

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## Account Book



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# TABLE of CONTENTS

<b>Introduction</b> . . . . .	<b>1</b>
<b>Forest Management Accounting: Keeping Records</b> . . . . .	<b>2</b>
What Do I Record? . . . . .	2
How Long Must I Maintain the Records? . . . . .	2
How Do I Organize My Records . . . . .	2
Keeping a Tree Farm Journal. . . . .	2
Keeping a Tree Farm Journal by Accounts . . . . .	4
<b>Capital Assets</b> . . . . .	<b>4</b>
Establishing a 'Basis' for Timber, Land, and Other Capital Assets . . . . .	4
Timber . . . . .	6
Land . . . . .	6
Equipment. . . . .	6
Expenses Associated with the Purchase of Land and Timber . . . . .	6
Adjustments to the Basis for Land, Timber, and Equipment . . . . .	7
<b>Capital Expenditures</b> . . . . .	<b>7</b>
Depreciation and Depletion. . . . .	8
Expenses Associated with Reforestation . . . . .	8
Casualty Loss of Property. . . . .	8
<b>Capital Income</b> . . . . .	<b>9</b>
Ordinary Income Accounts . . . . .	11
Cost-Share Payments. . . . .	11
Capital Gains Treatment of a Timber Sale. . . . .	13
<b>Operating Expenses</b> . . . . .	<b>13</b>
<b>Types of Forestland Ownership: Personal Use, Investor, and Business</b> . . . . .	<b>13</b>
<b>More Information</b> . . . . .	<b>15</b>
<b>References</b> . . . . .	<b>15</b>



# TABLE of CONTENTS

<b>Forest Management Records</b> . . . . .	<b>17</b>
Resources . . . . .	18
Tree Farm Journal . . . . .	21
Land Account . . . . .	24
Equipment Account . . . . .	27
Original (Acquisition) Basis . . . . .	28
Merchantable Timber Account . . . . .	30
Pre-merchantable Timber Account . . . . .	33
Reforestation Expenses . . . . .	36
Harvest Record . . . . .	39
Casualty Loss of Timber . . . . .	42
Casualty Loss of Timber: Salvage . . . . .	45
Timber Stand Improvements . . . . .	47
<b>Reforestation and Timber Stand Improvement Tax Deduction (Maryland)</b> . . . . .	<b>49</b>
<b>Federal Tax Form T Information</b> . . . . .	<b>52</b>
<b>Federal Tax Form T</b> . . . . .	<b>56</b>

## Introduction

This manual is designed for you, the forest landowner, to provide a means of keeping up-to-date records of your forest management activities. It will help you

- maintain a historical record of your management activities;
- keep records of the costs and revenues associated with forest ownership;
- report and support your income tax decisions; and
- provide a current picture of your forest assets.

This account book is not intended for individuals whose primary occupation is managing, producing, or selling forest products and who require a sophisticated system of account ledgers. Rather, it is intended for private forest landowners who manage their forestlands for their own enjoyment or as a secondary source of income.

It is also not intended to substitute for the professional advice of an accountant, estate planner, or forester. Tax regulations are subject to revision and are often complicated to interpret and compute. Therefore, consultation with someone who is familiar with forest taxation is highly recommended.

The record sheets provided in this manual are designed to help you when reporting your forest management expenses and revenues for federal income tax purposes, which are usually reported on a Federal form "T" [a copy of the Internal Revenue Form T (Timber) Forest Activities Schedules is included at the end of this manual]. Keep in mind that documentation and the burden of proof fall on the landowner in the event the IRS audits you. Therefore, these records should be backed up by invoices, receipts, canceled checks, contracts, photographs, and other documents.

## Forest Management Accounting: Keeping Records

A good system of recordkeeping is essential when managing your forestlands. Recordkeeping is important for many reasons: good records will support your income tax decisions, show your current timber inventory and growth rates, provide a record to establish credit or for estate tax purposes, establish a basis for a casualty loss of timber, and allow you to anticipate future management costs and revenues. It will also provide you, and future owners, with a historical record of forest management activities and will be a good source of documentation in case of an IRS audit.

### What Do I Record?

All activities, costs, and revenues associated with the ownership and management of the forest should be recorded. Records can consist of invoices, receipts, contracts, canceled checks, tax statements, as well as records of work you or your family perform, records of consultation with natural resource professionals or financial advisors, records of attendance at forestry-related meetings, forest inventories, maps, surveys, aerial photographs, management plans, and any other documents related to the management of your property. It is also a good idea to make note of events such as fires, storms, and pest outbreaks, even if they do not result in a financial loss of property. You might also wish to keep a record of other events: any special recognition (for example, Tree Farm or Forest Stewardship certificates), use of the property by outside groups, any tours or workshops held on the property, or any discussion with realtors or others who express interest in the property or the timber.

### How Long Must I Maintain the Records?

Records of forest ownership should be kept at least as long as you own the property. If any forest management revenues or expenses have been reported to the IRS for income tax purposes, you should maintain the records for three to six years, or even longer in case of an audit. If you give the property to another person, you should give your records on timber values to the new owner, as they will need the information for tax purposes. The tax return, itself, should be kept forever.

### How Do I Organize My Records?

The system you use to organize your records is not as important as the consistency and thoroughness with which they are reported. You can use any system with which you feel most comfortable. Remember, the purpose of recordkeeping is to help you more effectively manage your forest, to provide a historic record of your activities, and to provide supporting documentation for tax purposes. In this publication we will present two recordkeeping formats: a tree farm journal, which is similar to a diary, and a tree farm journal by accounts.

In addition to the written journal, you should maintain all supporting documents including deeds, maps, bills, receipts, canceled checks, contracts, leases, tax forms, photographs, workshop receipts and agendas, and odometer readings for business-associated travel. Make sure all documents are clearly marked, dated, and stored in a safe place.

### *Keeping a Tree Farm Journal*

Landowners might find a tree farm journal the simplest and most desirable form of recordkeeping.

# RECORD FORMAT

## EXAMPLE 1. Tree Farm Journal

Landowners might find a tree farm journal simplest to use. Those who hold their property as an investment or business might wish to maintain a tree farm journal with specific accounts. Business owners should also record the number of hours spent on management activities.

### Tree Farm Journal

**Deed #** 09-654K      **Location:** Sycamore County, Rt. 564

DATE	ACTIVITY	REVENUE OR EXPENSES
04/02/01	Purchase 100 acres of land, including tractor and barn. The land contains 40 acres of merchantable hardwood timber with 12 MBF/acre (12 thousand board feet per acre) and 60 acres of young growing stock. There is a dirt road that enters the property and circles around the back.	\$70,760
04/02/01	Lawyers' fees, title fees, taxes, appraisal, and other closing costs.	\$3,500
07/07/01	Consulting forester's fee for timber inventory and management plan. Note: Most foresters here have a minimum charge of \$300-400.	\$400
10/04/01	Mark boundaries. Cost of supplies (compass, aerial photograph, boundary markers, flagging, stakes, machete): \$257. Time spent: 10 hours. Note: Landowners cannot deduct the value of their time. They are paid with the eventual profits.	\$257
09/02/02	Thin stand. Sold 100 cords pulpwood @\$8/cord.	\$800
09/11/04	Attend Forest Stewardship Seminar, Salisbury, MD. 84 miles round trip @ 37.5 cents/mile. Registration: \$12.	\$43.50

A tree farm journal is a chronological reporting of forest management activities similar in format to a diary. As activities occur, note the date, persons

involved, the purpose of the activity, the amount of time spent on the activity, and any expenses or revenues received from the activity (see Example 1).

## *Keeping a Tree Farm Journal by Accounts*

Landowners who manage their forestlands as an investment or business may consider maintaining specific accounts as well as a timber journal. In addition to simplifying tax reporting, a system by accounts facilitates cost and revenue analysis, which helps in the making of sound forest management decisions. Organizing records also helps in the event you are audited. Account ledgers can be set up in several ways: by management unit, by management activity, or by tax category. Tax category will be most helpful when it comes to tax reporting. When setting up accounts based on tax reporting, create separate sections for ordinary income, operating expenses, and capital assets (for example, setting up a merchantable timber account, a premerchantable timber or young growth account, a land account, and an equipment account).

## Capital Assets

Capital assets are those assets that have a useful life longer than one year. For forestry operations, this includes land, timber, and durable equipment (such as tractors, trucks, and planting equipment). The costs of acquiring and improving these assets are not deductible for income tax purposes until they are disposed of by sale, loss, or other means. That means the costs are carried over, or capitalized, as long as you own the property or, in the case of a depreciable asset, until it is worn out. Any profits from the sale of a capital asset are generally considered capital gains (with exceptions such as depreciable property). Capital gains will usually result in substantial federal income tax savings. Capital gains treatment also offers other advantages: proceeds from capital gains are not subject to self-employment (Social Security and Medicare) taxes [except for those

: capital gains not generated from active business,  
: which is subject to a 3.8-percent Medicare tax  
: starting in 2013 if the taxpayer's adjusted gross  
: income is in excess of \$200,000 (\$250,000 for  
: married filing jointly)]; and capital gains will not  
: reduce Social Security payments of retirees.  
: Capital gains will be taxed, depending on your  
: income bracket, as follows: for assets held one  
: year, the top rate is 15 percent, the lower rate is  
: 0 percent, through 2012. Congress has not yet  
: decided on rates beyond 2013. This compares with  
: ordinary income tax rates of 10, 15, 25, 28, 33, and  
: 35 percent in 2011/2012, respectively.

## Establishing a 'Basis' for Timber, Land, and Other Capital Assets

: If you purchased your forestland, you paid a single  
: price for the land, the timber, and any associated  
: buildings and equipment. In addition, you probably  
: had additional acquisition costs such as lawyers'  
: fees, title fees, survey costs, or real estate or timber  
: appraisal costs. These costs plus the purchase price  
: make up the total acquisition cost. In order to classify  
: these costs properly as capital assets, you must  
: establish a separate value for the land, the timber,  
: and other real assets such as buildings. This value  
: at the time of acquisition is called the original basis.  
: The basis is the single most important figure for you  
: to have in your records, because when you sell your  
: timber you are only taxed on the amount of money  
: you make above your basis. This could save you  
: hundreds or even thousands of dollars, so take the  
: time to establish the basis.

: In order to calculate the basis of purchased  
: property, you will need an estimate of the fair market  
: value of each asset. New purchase of timber or  
: subsequent land improvement (such as land leveling)  
: are identified as capital costs, and are added to the  
: original basis to compute an adjusted basis. Likewise,



# CAPITAL ASSETS

## EXAMPLE 2. Allocation of Basis

The purchase price of the property and expenses associated with the purchase or acquisition should be allocated to the appropriate capital asset. In this example, the landowner paid \$70,760 for 100 acres of forestland in 1980. The land contained both merchantable timber and young growth. The purchase also included a used tractor and a barn. The landowner incurred \$3,500 in legal costs and fees to have the property appraised by a professional forester. Therefore, the total cost of the sale was \$74,260. Based on the forester's report, the landowner allocated \$30,000 of the fair market value of the land, \$5,780 to improvements to the land (barn), \$26,860 (expressed in price per MBF, cords, or weight depending on the products to be sold) to the merchantable timber account, \$6,000 to the young growth (expressed in acres) and \$2,100 to equipment. The costs of the appraisal and the legal fees were allocated as shown.

	Appraised Fair Market Value	Percent of Total Fair Market Value	Allocation of Acquisition Cost of \$3,500 ( $\$70,760 + 3,500 = \$74,260$ )	Original Cost Basis
Land	\$30,000	42 (30,000 / 70,760)	(42% of 74,260)	\$31,189.20
Improvements to Land	\$5,780	8 (5,780 / 70,760)	(8% of 74,260)	\$5,940.80
Merchantable Timber	\$26,880	39 (26,860 / 70,760)	(39% of 74,260)	\$28,961.40
Young Growth	\$6,000	8 (6,000 / 70,760)	(8% of 74,260)	\$5,940.88
Tractor	\$2,100	3 (2,100 / 70,760)	(3% of 74,260)	\$2,227.80
<b>Total</b>	<b>\$70,760</b>			<b>\$74,260</b>

the basis may be reduced as timber is sold or as assets depreciate (see Example 2).

For landowners whose property was acquired by inheritance or gift, the original basis is determined by a different method. The basis for inherited property is the fair market value of the asset at the time of the decedent's death. You can have your land and your timber appraised after you

: inherit it to determine its basis, but the value will  
 : be established on the date of death. For property  
 : given to you, your land and timber basis will be  
 : the basis of the giver, plus gift taxes paid on the  
 : property. You need the original owner's records  
 : to determine your basis for land and timber in  
 : this case.  
 :  
 :

## *Timber*

The timber account includes subaccounts for merchantable timber, young growing stock (sometimes called premerchantable timber), and reforestation. Records should be kept separately for each. In the merchantable timber account, both the quantity and basis of the marketable timber on the property on the date it was acquired should be recorded. Merchantable timber should be expressed in standard units of measure (for example, board feet or cords). The Young Growth subaccount or Premerchantable subaccount includes trees that are too small to be currently marketed for forest products. The quantity shown in this account is number of acres and value. The Reforestation subaccount contains the costs from regenerating the forest, either by site preparation and planting or any natural regeneration costs. The timber volumes should be determined by an inventory conducted by a professional forester, and will depend on the species, size, quantity, and quality of timber on the site. Your original basis, plus any capital investment minus any depletion, determine the value (the adjusted basis) assigned to the timber. As the trees grow to merchantable size or as trees are harvested, the timber accounts should be adjusted accordingly.

The IRS rules allow forest landowners to keep all of their timber in one account or to divide the timber into blocks. Some examples of blocks: by tree species, products type, management units, logging unit, separate geographic units. Each block should be designated on a map and an individual schedule of management activities should be developed for each block.

## *Land*

Probably the best estimate of the land value alone is the sale price of recently cut-over

forestland in your area. However, it is often difficult to find a recent land sale of this type. Therefore, you will need an appraisal by a consulting forester and/or rural real estate appraiser who is familiar with forestland valuation. The fair market value of timberland is almost always lower than commercial/residential land. In some places it is lower than the value of agricultural land.

## *Equipment*

Equipment accounts include equipment that is expected to last longer than one year, such as tractors, skidders, trucks, winches, all-terrain vehicles, power saws, log splitters, and planting equipment. Each type of equipment is usually carried in separate accounts, so the equipment can be depreciated and deducted. Major repairs that extend the life of the equipment (for example, an engine overhaul) are considered capital improvements and should be recorded in this account. Normal repairs and maintenance are considered operating costs.

## *Expenses Associated with the Purchase of Land and Timber*

Expenses associated with the purchase of land and timber are considered part of the purchase price of the property and should be allocated to the appropriate capital asset account. Eligible expenses include broker's or realtor's fee (on mortgage), appraisal fees, interest payments, legal fees associated with securing a clear deed, recording fees, survey costs, title examination fee, transfer tax, purchase price of the property, and legal settlements.

If the original value of the land, timber, or equipment is not known, you might be able to estimate the original values. To find the fair market value of the land, compare neighboring land sale

values at the time of acquisition. You may get this information from a forester, real estate agent or appraiser, local banks, or advertisements in local newspapers. A forester should be able to calculate the original volume of the timber by using forest growth and yield models, and to determine the applicable timber prices using published price reports for the year the timber was purchased.

## Adjustments to the Basis for Land, Timber, and Equipment

During the years you own your woodland, you will incur a number of expenses related to forest ownership and management. Some may be considered ordinary operating expenses, but others must be capitalized because they are considered permanent improvements. These improvements must be added to the basis in the appropriate account. For timber, these improvements include site preparation and reforestation costs not recovered through cost-share programs or amortization. The basis must also be reduced as timber is damaged or sold. Depreciation deductions recover the basis in equipment as equipment is worn out. There are two parts to the timber basis, the original dollar value and the timber volume. The original cost does not go up so the cost per unit will go down through the years as the volume (growth) goes up.

## Capital Expenditures

Capital expenditures are expenditures that result in permanent improvements to land, timber, or major equipment (see sidebar). Some capital improvements, such as culverts, nonpermanent roads, and buildings, have a fixed life and are depreciable over the expected life of the improvement. Other expenses are considered nondepreciable expenses and are only recovered

### Capital expenditures may include:

**Land and Improvement:** Land leveling; construction of roads, firebreaks, and earthen impoundments; construction of bridges and culverts; installation of fences.

**Equipment:** Major parts and repairs that prolong the life of equipment.

**Timber:** Timber is a capital asset; in your timber account, you may capitalize carrying charges such as property taxes and interests. For investment property, you may capitalize forest management expenses upon election when these expenses are below the 2% AGI floor and therefore not currently deductible because of the income limitation.

**Carrying charges:** Instead of deducting carrying charges such as mortgage interest, property taxes, and other carrying charges, landowners may decide to capitalize them, an option available except in years when the property produces income. This decision is made on a year to year basis. Note: If you are going to capitalize expenses, notify the IRS by attaching the election to your return.

**Site preparation and reforestation expenses:** In general, these expenses must be capitalized. However, the IRS provides a limited exception to this rule by allowing an outright deduction of \$10,000 per year of qualifying reforestation expenses. IRS also allows you to amortize (deduct) any additional amount that exceeds \$10,000 during an 84-month period.

Cost-share payments are also eligible for a Section 126 exclusion from gross income. Examples of eligible cost-share programs are Conservation Reserve Program (CRP), Wetlands Reserve Program (WRP), Wildlife Habitat Incentives Program (WHIP), and Environmental Quality Incentives Program (EQIP).

# CAPITAL EXPENDITURES

when the property is sold. You capitalize expenses by recording them in the appropriate account so that you may recover them by the appropriate tax treatment—through depreciation deductions, depletion, or amortization.

## Depreciation and Depletion

Depreciation refers to the reduction in the value of an asset as it wears out or is used up, or becomes obsolete by reason of changing technology. Some capital improvements to land (such as bridges, fences, culverts, and gravel surfaces on roads) can be depreciated over a period of time considered to be the useful life of the improvement. Equipment and major rebuilds of equipment can also be depreciated. The IRS has a table that shows the number of years to depreciate specific items. To claim depreciation, you must use an approved method of depreciation such as the Modified Accelerated Cost Recovery System (MACRS), which assigns a depreciation recovery period for different types of assets. For example, pickup trucks, cars, and most logging equipment should be depreciated over 5 years; most farm equipment is depreciated over 5 years; and land improvements such as bridges and culverts are depreciated over 15 years. Details on depreciating and deducting such equipment may be found in IRS publication 946, “How to Depreciate Property,” available at [www.irs.gov](http://www.irs.gov) or on order from the IRS Hotline or found in the “Forest Landowners’ Guide to the Federal Income Tax” in the *USDA Forest Service Agriculture Handbook 718* (see More Information).

Depletion refers to the removal of trees or other natural resources from the property. The volume and value of timber in the merchantable timber account should be reduced (depleted) as trees are cut, damaged, or otherwise

disposed of. Depreciation or depletion should be established in each of the capital asset accounts (see Example 3).

## Expenses Associated with Reforestation

As a general rule, the cost incurred in planting or seeding must be capitalized and may only be recovered when the trees are sold or otherwise disposed of. Section 194 of the Internal Revenue Code provides a limited exception to this rule by allowing a forest owner to deduct outright up to \$10,000 per year of qualifying reforestation expenses, and to amortize (deduct) any additional amount over 8 tax years (see Example 4). This includes any costs associated with reforestation that establishes a new stand on cut-over, bare, or agricultural land. For example, the cost of preparing the site with herbicides, fire, or mechanical means; the cost of seeds or seedlings; or the cost of labor and equipment used in planning.

This provision is limited to sites of at least one acre located in the United States, which are designated for and capable of producing commercial timber. Both owned and leased property is eligible. This provision does not apply to Christmas tree plantations, ornamentals, or trees planted for shelterbelts or the production of nuts or similar products. These amortization deductions are subject to recapture if you dispose of the trees within 10 years of planting.

## Casualty Loss of Property

Land condemned for public use or timber destroyed or stolen may qualify for a loss deduction. A casualty loss of timber results from a “sudden, unusual, unexpected” event, such as



# CAPITAL EXPENDITURES–CAPITAL INCOME

## Example 3. Calculating the depletion allowance.

Depletion allows you to recover your basis. When you cut timber you subtract the appropriate depletion allowance (and your sales expenses) from your sales proceeds to determine the net taxable gain. Depletion is based on your basis in the timber. If you harvest all of your timber, you will deplete your entire timber account (i.e., zero your timber account) and subtract the entire timber basis from your sales proceeds. If you make a partial harvest, such as a thinning, you must figure out your per unit basis, such as \$/ton, \$/cord, or \$/MBF. Multiply your per unit basis by the number of units you harvested to determine your total depletion allowance. For example, a landowner paid \$67,000 in 1980 for 40 acres of forestland that contained 480 MBF of merchantable timber. The original basis of the 480 MBF timber was allocated to be \$26,880. In 1991 a forester surveyed the stand and measured 600 MBF growing on the land (the original 480 MBF plus 120 MBF of growth since 1980). The per unit cost basis was adjusted to include the new growth. This was calculated as

$$\frac{\text{original value}}{\text{current volume}} = \frac{\$26,880}{600 \text{ MBF}} = \text{depletion unit of } \$44.80 \text{ per MBF}$$

Later that year, the landowner conducted a timber sale on 25 acres and harvested 15 MBF/acre, for which she received \$70/MBF. (The timber account was decreased [depleted] by 25 acres x 15 MBF/acre = 375 MBF volume and the value of the current stand was reduced by the total depletion allowance of \$44.80/MBF x 375 MBF = \$16,800.)

The depletion allowance of \$44.80 (depletion unit) x 375 MBF (units harvested) = \$16,800 was subtracted from the sales proceeds to determine the net taxable gain.

fire, hurricane, severe wind, hail, or ice. Significant losses caused by disease, insects, or drought normally do not count as casualty losses, but may be considered business or capital losses. Minor losses that are routine, such as dry weather losses, normal disease losses, or expected mortality, are considered normal losses and are not deductible. In the event of a loss, the landowner is expected to make every attempt to salvage or sell the damaged timber. Keep records to demonstrate that you have made this effort. The casualty loss claimed is the lesser of the timber's adjusted basis or the fair market value loss. If you are able to salvage the timber and make a profit, you can use proceeds from the sale to "replace" the property

(for example, replant) and defer gains made from the salvage. Claiming losses can be quite complicated. For the specifics, refer to the "Forest Landowners' Guide to the Federal Income Tax" in the USDA Forest Service Agriculture Handbook 718 (see More Information).

## Capital Income

Capital gains may be received when standing timber, land, or equipment is sold. Expenses associated with the sale of capital assets can be deducted from the sale, along with the appropriate depletion allowance. These expenses may include costs of advertising, costs of inventory and

## EXAMPLE 4. Reforestation and Amortization Schedule.

Calculating the Amortization Deduction: A half-year convention applies to the amortization reforestation expenditures over 84 months. This means that only 1/14 of the eligible costs can be deducted the first tax year. One-seventh is deducted in tax-years 2 through 7, and the remaining 1/14 in the eighth tax year. Multiply the total qualified expenditures by 1/7 to determine the deduction for years 2 through 7. The amount you can elect to amortize is the amount of your qualified reforestation expenditure that exceeds \$10,000 in a given year. The following example, demonstrating this, assumes the expenditures are made in 2011.

### I. Expenses eligible for amortization

Costs of planting	
Site preparation costs	\$15,000
Planting costs (seedlings, labor)	10,000
Less first year deduction	10,000
<b>Total expenses eligible for amortization</b>	<b>\$15,000</b>

### II. Amortization

Amortization schedule:	
Year 1: \$15,000 x 1/14	\$1,071.42
Years 2-7: \$15,000 x 1/7	(at 2,142.86 per year) 12,857.16
Year 8: \$15,000 x 1/14	1,071.42
<b>Total</b>	<b>\$15,000.00</b>

No amortization is available for the cost share unless it is included in your income. Maryland provides further tax incentives to landowners to reforest and manage their lands by allowing owners or those who lease forestlands to deduct twice the costs of reforestation and the costs of timber stand improvements from their federal adjusted gross income for Maryland tax purposes. To be eligible for the Reforestation and Timber Stand Improvement Tax Deduction (COMAR 08.07.03), you must own or lease between 10 and 500 acres of forestland capable of growing more than 20 cubic feet of wood per acre per year. Reforestation must result in at least 400 healthy, well-spaced seedlings per acre, and must be certified by a Maryland registered professional forester. No more than 100 acres are eligible for the tax credit in any given year.

marking timber, fees for drawing up a sales contract : yourself, the costs of labor, trucking, scaling, gas,  
 and supervising the harvest, log scaling, legal : and other similar expenses are deductible. If you  
 fees, expenses paid to foresters and appraisers, : do harvest your timber yourself, the sale falls under  
 and state or local taxes. If you harvest the timber : the category of IRS Code Section 631(a), which

# CAPITAL INCOME—ORDINARY INCOME ACCOUNTS

## EXAMPLE 5. Adjustments to Basis.

Capital asset accounts should be adjusted as the volume of the stand increases, as land and timber are sold or damaged, or as similar events occur. In this example, the landowner purchased 100 acres of land in April 1980. Forty acres were recorded in the tree farm journal under the merchantable timber account. The following year the landowner thinned the stand and, 11 years later, harvested 25 acres.

MERCHANTABLE TIMBER ACCOUNT			
Purchase Date: 04/02/80		Acres: 40	Purchase Price: \$26,880
Date	Activity	Volume	Value
04/02/80	Purchase land with 40 acres of merchantable hardwood timber @12 MBF/acre (VALUE \$56/MBF)	480 MBF*	\$26,880
03/14/91	Timber cruise—adjust for growth (15 MBF/acre@\$65/MBF)	600 MBF	\$26,880
10/29/91	Timber Sale 25 acres@15 MBF/acre, \$70/MBF	375 MBF	\$16,800
12/31/91	Adjusted Basis (12 MBF/acre @ 6 MBF [15])	225 MBF	\$10,080

\*MBF = thousand board feet

has special rules for tax treatment of timber sales income. See the “Forest Landowners’ Guide to the Federal Income Tax” for details.

### Ordinary Income Accounts

Most income other than from the sale of standing timber or land is considered ordinary income. Examples of ordinary income are cost-share payments, recreational fees, hunting leases, camp rentals, firewood cutting permits, fees for permanent or temporary rights-of-way, and the sale

of products such as nuts, maple syrup, firewood, and pine straw. All ordinary income must be reported yearly and you must pay self-employment taxes (Social Security and Medicare) on this revenue (see Example 5).

### Cost-Share Payments

Cost-share payments, in many cases, may be excluded from gross income at the landowner’s option. Cost-share payments that have been ruled excludable by the IRS include those received

# ORDINARY INCOME ACCOUNTS

## EXAMPLE 6. Calculating the Excludable Amount for Cost-Share Payments.

Some cost-share payments [such as Water Quality Improvement Program (EQIP), Wetlands Reserve Program (WRP), Wildlife Habitat Improvement Program (WHIP), and Wetlands Reserve Program (WRP)] are excludable for federal income tax reporting if the payments are used for capital expenditures. To calculate the portion of the cost-share payment that may be excluded, consider this example. Last year you cut 100 acres of timber and made \$150,000 from the sale. This year, you received a \$10,000 qualified, excludable cost-share payment to site prepare and reforest your land.

1. Compute 10 percent of average income from the property during the last 3 years

$$\$150,000 / 3 = \$50,000$$

$$\$50,000 \times 0.10 = \$5,000$$

2. Compute \$2.50 times the affected acreage

$$\$2.50 \times 100 = \$250$$

3. Capitalize the largest of the two (here, this would be 10 percent of the average income from the property). We use a 5 percent rate of interest to capitalize.

$$\$5,000 / 0.05 = \$100,000$$

4. Compare the cost-share payment to the computed value

$$\$10,000 \text{ payment} < \$100,000$$

5. The entire cost-share payment can be excluded from taxable income.

Next, consider the situation where you decide to retire a pasture and convert it to forest. In this case, there was no income from the property during the last 3 years, but you received a

\$10,000 cost-share payment to site prepare and reforest the land. The exclusion is calculated as follows:

1. Compute 10 percent of average income from the property during the last 3 years

$$\$0 / 3 = \$0$$

$$\$0 \times 0.10 = \$0$$

2. Compute \$2.50 times the affected acreage

$$\$2.50 \times 100 = \$250$$

3. Capitalize the largest of the two (here, this would be \$2.50 times the affected acreage). We use a 5 percent rate of interest to capitalize.

$$\$250 / 0.05 = \$5,000$$

4. Compare the cost-share payment to the computed value

$$\$10,000 \text{ payment} > \$5,000$$

5. The excess (\$5,000) must be included in taxable income.

under the Conservation Reserve Program (CRP), Environmental Quality Incentives Program (EQIP), Wetlands Reserve Program (WRP), Wildlife Habitat Incentives Program (WHIP), Conservation Security Program (CSP), and Forest Health Management Cost Share. To be excludable, the cost share must : be used for capital expenditure. See Example 6 to : determine what portion of the cost-share payment : may be excluded. If you include the cost share in : your income, then the cost-share payments may : be recovered through the reforestation amortization : provision. If you opt to exclude qualified cost-



## Capital Gains Treatment of a Timber Sale

Your ownership category and how you sell the timber determines whether you are eligible for capital gains treatment of timber sales. Business owners are eligible for capital gains when they sell their standing timber on a per-unit basis or lump-sum basis. In a lump sum sale, the owner transfers ownership of the timber to the buyer when the contract is signed, and the same income is received regardless of what is actually cut. In a per-unit sale, the landowner owns the timber until it is cut. The income depends on how much timber is actually cut.

Investors and hobby owners are eligible for capital gains treatment on timber sales regardless of how their timber is sold—by lump sum or by the unit. Of course, for any capital gains sale the appropriate holding period must be observed, which depends on how you acquired the timber. Purchased timber has a holding period of more than one year. Gifted timber, in most cases, includes the holding periods of the donors. Inherited timber has no holding period requirement.

share payments from gross income, you must attach a statement to your federal income tax return that states specifically what cost-share payments you received and that you choose to exclude all or some of them, the date of receipt, and how you determined the excludable amount. You are not required to pay Social Security taxes on the excluded amount. However if the property is disposed of within 20 years, portions of the excluded cost-share payments are subject to recapture. Cost-share payments that are excluded do not qualify for reforestation deduction or amortization incentives.

## Operating Expenses

Operating expenses are expenses considered ordinary and necessary to manage, maintain, and improve the profitability of a forest. Depending on the complexity of your operation, you may wish to lump all operating expenses together or divide them into separate categories, such as fixed expenses (including taxes, interest, and insurance premiums), salaries and wages, timber management expenses, maintenance, and other expenses (including overnight travel and workshop fees). Expenditures made for personal enjoyment, for example, aesthetic and recreational improvements, are not tax deductible. Wildlife habitat expenses or recreational improvements may be deductible if they are profit related; for example, if you lease your property for hunting or recreational use. How you report operating expenses depends on whether you own your forest as a business, investment, or simply for personal enjoyment.

## Types of Forestland Ownership: Personal Use, Investor, and Business

According to the IRS, forest landowners are classified in one of three categories for federal income tax purposes: 1) personal use (hobby owner, though very few owners should consider themselves in this category because of limited opportunity for expense deductions), 2) investor, or 3) business. The category in which you are classified will be important when you report your forest management expenses and will determine if you receive capital gains on timber sales.

Timber property not used to produce income may be a personal property. Losses for personal

# TYPES OF OWNERSHIP

property generally are not tax deductible (except casualty loss from fire or storm damages).

The second category of landowner, the investor, is defined as a forest landowner who holds timber as part of an investment portfolio to produce income. These landowners expect to benefit financially from the venture; however, they are not involved frequently or substantially in its management. Landowners who hold their forestlands as an investment may deduct their management expenses as miscellaneous itemized deductions. However, expenses are eligible only to the extent that they exceed 2 percent of adjusted gross income. Landowners may also elect to capitalize these carrying charges. Although investors may fully deduct property and other taxes, they can deduct interest payments only up to net investment income. For investors, when the holding periods are met, the sale of timber would qualify as a long-term capital gain, whether sold as lump sum or per unit.

Forest landowners who own their lands as a business are subject to the Passive Loss Rules. There are two groups of business owners, those who actively participate in the management of that business and those who have a passive interest. Landowners who wish to claim their forestland as a business must prove that they manage their property with the intent of making a profit. The profit is being “banked on the stump” until the timber is sold. A business plan with projections of future value and demonstrated intent to harvest can document intent to manage the property for profit. Business owners deduct their operating expenses as business expenses or as farm expenses if the timber operation is part of a farm.

The IRS uses the following factors to determine business status: number and frequency of timber

• sales, the extent to which owners promote timber sales (rather than letting prospective buyers approach them), and any proof that timber sales contribute substantially to their livelihood. The investment and business classifications of ownership each have advantages and disadvantages. If you make very few timber sales and management activities are infrequent, you may be in the investor category. On the other hand, if the forest generates regular income, and you are involved continually in its management, you would most likely benefit by being classified as an active participant in a business. The primary advantage to this is you are able to deduct forest management expenses annually from any source of income, also called expensing. Individuals classified as passive participants in a business can deduct operating expenses only to the point that they do not exceed the total income from the passive business that year. If deductions exceed income for the tax year, the excess may be carried forward and used when a profit is realized.

• To be classified as an active participant, owners must show that they are materially participating in the business; that is, they are involved in the management of the forest on a regular, continuous, and substantial basis. The IRS uses the following tests to qualify a landowner as an active participant (you only have to qualify under one of these tests).

- 1) Landowners who participate more than 500 hours per year in the care and management of their woodland.
- 2) Landowners who participate more than 100 hours per year and whose participation was greater than any other person.
- 3) Landowners who participate more than the total hours spent by all others in managing the property. If you and your spouse both

# TYPES OF OWNERSHIP—MORE INFORMATION

participate in management, then you may total your hours of involvement to prove material participation.

- 4) Owner's participation constitutes all of the participation necessary to manage the asset properly.
- 5) Any landowner who has materially participated for 5 of the last 10 tax years may also be considered an active participant. Good records are essential to establish active material participation. Record all activities and business transactions related to forest management, including work performed, time spent in travel and bookkeeping, and activities such as attendance at forest landowner workshops and meetings, or reading forestry-related materials.
- 6) If all the facts and circumstances so indicate, then you materially participate (no rules have been issued).

Regardless of whether you are classified as a business, investor, or personal use owner, you must have adequate records. Good recordkeeping will help you or your accountant minimize your tax burden. Well-kept records will also help you determine the profitability of your forest management.

## More Information

**National Timber Tax Website.** [www.timbertax.org](http://www.timbertax.org). This website was developed by the USDA Forest Service and University of Georgia (Purdue University in the past) to be used by timberland owners. It also acts as a reference source for accountants, attorneys, consulting foresters, and other professionals who work with timberland owners, answering specific questions regarding the tax treatment of timber. IRS tax forms,

publications, and current tax information are all available on this website.

**“Forest Owners’ Guide to the Federal Income Tax.”** 2000. H.L. Haney Jr., W.L. Hoover, W.C. Siegel, and J.L. Greene. USDA Forest Service. *Agriculture Handbook 718*. Washington, DC. Download (at no charge) from websites: [www.timbertax.org](http://www.timbertax.org) and [www.fs.fed.us/spf/coop](http://www.fs.fed.us/spf/coop). To order a copy of the handbook for \$20, phone 301-953-7974 or access the U.S. Government Printing Office website at [www.bookstore.gpo.gov](http://www.bookstore.gpo.gov). (Enter 0-16-042794-0 at “Sales Product Catalog.”) **Note:** *Agriculture Handbook 718* has replaced the previous version, *Agriculture Handbook 708*.

**Estate Planning for Forest Landowners: What Will Become of Your Timberland?** 2009. W.C. Siegel, H.L. Haney Jr., and J.L. Greene. USDA Southern Forest Experiment Station General Technical Report SO-97. Download (at no charge) from website: [www.fs.fed.us/spf/coop/tax.htm](http://www.fs.fed.us/spf/coop/tax.htm). For a printed copy of the publication (cost: \$15), phone 706-546-2477.

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- Wang, L., and J.L. Greene. 2010. *Tax Tips for Landowners*. USDA Forest Service Bulletin R8-MB 81. Southern Region Management.
- Fazio, J.R. 1987. *The Woodland Steward: A Practical Guide to the Management of Small Private Forests*. The Woodland Press, Moscow, ID.
- McEvoy, T.J. 1998. *Legal Aspects of Owning and Managing Woodlands*. Island Press, Washington, DC.

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Patmos, M. 1984. *Woodland Account Book: A Record Keeping System for the Private Woodland Owner*. University of New Hampshire Cooperative Extension Service. Durham, NH.

**Note:** IRS Form T is included in this publication. This form has been updated and can be used as is.

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# FOREST MANAGEMENT Records



## Forest Management Records—Resources

**1. Location of deed:** \_\_\_\_\_

**2. Adjoining landowners:**

North \_\_\_\_\_

East \_\_\_\_\_

South \_\_\_\_\_

West \_\_\_\_\_

**3. Agency contacts:**

State Forest Service

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

Soil Conservation District

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

Extension Service

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

**4. Forester**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

## Forest Management Records—Resources (continued)

**5. Insurance policy number:** \_\_\_\_\_

**Insurance agent:** \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

### **6. Tax accountant**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

### **7. Legal advisor**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

### **8. Other resource people**

#### Wildlife

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

#### Timber

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

## Forest Management Records—Resources (continued)

### 8. Other resource people (continued)

#### Soil

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

#### Fire protection

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

#### Pest management

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_

#### Other

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_ Website \_\_\_\_\_











# Tree Farm Journal

## Land Account

Location of property: \_\_\_\_\_

Purchased from: \_\_\_\_\_

Date: \_\_\_\_\_

Lawyer: \_\_\_\_\_

Purchase price: \_\_\_\_\_

Location of deed: \_\_\_\_\_ Acres: \_\_\_\_\_

Description:

<b>Date</b>	<b>Activity</b>	<b>Costs/Revenue</b>

**Tree Farm Journal  
Land Account**

Location of property: \_\_\_\_\_

Purchased from: \_\_\_\_\_

Date: \_\_\_\_\_

Lawyer: \_\_\_\_\_

Purchase price: \_\_\_\_\_

Location of deed: \_\_\_\_\_ Acres: \_\_\_\_\_

Description:

<b>Date</b>	<b>Activity</b>	<b>Costs/Revenue</b>





## Timber—Original (Acquisition) Basis

Location of property: \_\_\_\_\_

Purchase date: \_\_\_\_\_ Acres: \_\_\_\_\_ Purchase price: \_\_\_\_\_

Who conducted inventory: \_\_\_\_\_ Date of inventory: \_\_\_\_\_

---

### Merchantable Timber

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stand: \_\_\_\_\_

Volume: \_\_\_\_\_

Value: \_\_\_\_\_

Description: \_\_\_\_\_

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stand: \_\_\_\_\_

Volume: \_\_\_\_\_

Value: \_\_\_\_\_

Description: \_\_\_\_\_

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stand: \_\_\_\_\_

Volume: \_\_\_\_\_

Value: \_\_\_\_\_

Description: \_\_\_\_\_

---

### Pre-merchantable Timber:

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Value: \_\_\_\_\_

Description: \_\_\_\_\_

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Value: \_\_\_\_\_

Description: \_\_\_\_\_

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Value: \_\_\_\_\_

Description: \_\_\_\_\_

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Value: \_\_\_\_\_

Description: \_\_\_\_\_

---

## Timber—Original (Acquisition) Basis

Location of property: \_\_\_\_\_

Purchase date: \_\_\_\_\_ Acres: \_\_\_\_\_ Purchase price: \_\_\_\_\_

Who conducted inventory: \_\_\_\_\_ Date of inventory: \_\_\_\_\_

---

### Merchantable Timber

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stand: \_\_\_\_\_

Volume: \_\_\_\_\_

Value: \_\_\_\_\_

Description:  
.....

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stand: \_\_\_\_\_

Volume: \_\_\_\_\_

Value: \_\_\_\_\_

Description:  
.....

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stand: \_\_\_\_\_

Volume: \_\_\_\_\_

Value: \_\_\_\_\_

Description:  
.....

---

### Pre-merchantable Timber:

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Value: \_\_\_\_\_

Description:  
.....

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Value: \_\_\_\_\_

Description:  
.....

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Value: \_\_\_\_\_

Description:  
.....

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Value: \_\_\_\_\_

Description:  
.....

---



**Tree Farm Journal**  
**Merchantable Timber Account**

Management units: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stands: \_\_\_\_\_

Location: \_\_\_\_\_

Date	Activity	Volume	Value



# Tree Farm Journal Merchantable Timber Account

Management units: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stands: \_\_\_\_\_

Location: \_\_\_\_\_

Date	Activity	Volume	Value

**Tree Farm Journal**  
**Pre-merchantable Timber Account**

Management units: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stands: \_\_\_\_\_

Location: \_\_\_\_\_

<b>Date</b>	<b>Activity</b>	<b>Volume</b>	<b>Value</b>

**Tree Farm Journal**  
**Pre-merchantable Timber Account**

Management units: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stands: \_\_\_\_\_

Location: \_\_\_\_\_

Date	Activity	Volume	Value

**Tree Farm Journal**  
**Pre-merchantable Timber Account**

Management units: \_\_\_\_\_ Acres: \_\_\_\_\_

Age of stands: \_\_\_\_\_

Location: \_\_\_\_\_

<b>Date</b>	<b>Activity</b>	<b>Volume</b>	<b>Value</b>

**Pre-merchantable Timber Account  
Reforestation Expenses**

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Harvest date: \_\_\_\_\_

Location: \_\_\_\_\_

Planting date: \_\_\_\_\_

Seed: \_\_\_\_\_

---

Seedlings

Number	Species	Cost
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____

Site preparation: \_\_\_\_\_

Pest control: \_\_\_\_\_

Labor: \_\_\_\_\_

Supplies: \_\_\_\_\_



## Pre-merchantable Timber Account Reforestation Expenses

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Harvest date: \_\_\_\_\_

Location: \_\_\_\_\_

Planting date: \_\_\_\_\_

Seed: \_\_\_\_\_

---

### Seedlings

Number	Species	Cost
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____

Site preparation: \_\_\_\_\_

Pest control: \_\_\_\_\_

Labor: \_\_\_\_\_

Supplies: \_\_\_\_\_

## Pre-merchantable Timber Account Reforestation Expenses

Management unit: \_\_\_\_\_ Acres: \_\_\_\_\_

Harvest date: \_\_\_\_\_

Location: \_\_\_\_\_

Planting date: \_\_\_\_\_

Seed: \_\_\_\_\_

---

### Seedlings

Number	Species	Cost
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____
_____ seedlings of _____	@ _____	each = _____

Site preparation: \_\_\_\_\_

Pest control: \_\_\_\_\_

Labor: \_\_\_\_\_

Supplies: \_\_\_\_\_

## Timber—Harvest Record

Management unit: \_\_\_\_\_

Date: \_\_\_\_\_

Acres involved: \_\_\_\_\_ Total revenues: \_\_\_\_\_

Total expenses: \_\_\_\_\_

Work done by: \_\_\_\_\_

Products removed and value:

Amount	Species	Price
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Firewood ___ cords of	_____	@ _____

Sale expenses:	Amount
_____	_____
_____	_____
_____	_____
_____	_____

Notes:

## Timber—Harvest Record

Management unit: \_\_\_\_\_

Date: \_\_\_\_\_

Acres involved: \_\_\_\_\_ Total revenues: \_\_\_\_\_

Total expenses: \_\_\_\_\_

Work done by: \_\_\_\_\_

Products removed and value:

Amount	Species	Price
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Firewood _____ cords of	_____	@ _____

Sale expenses:	Amount
_____	_____
_____	_____
_____	_____
_____	_____

Notes:

## Timber—Harvest Record

Management unit: \_\_\_\_\_

Date: \_\_\_\_\_

Acres involved: \_\_\_\_\_ Total revenues: \_\_\_\_\_

Total expenses: \_\_\_\_\_

Work done by: \_\_\_\_\_

Products removed and value:

Amount	Species	Price
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Firewood _____ cords of	_____	@ _____

Sale expenses:	Amount
_____	_____
_____	_____
_____	_____
_____	_____

Notes:

## Casualty Loss of Timber

Management unit: \_\_\_\_\_ Acres involved: \_\_\_\_\_ Date: \_\_\_\_\_

Description of damage:

Products affected and value:

Amount	Species	Price
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Firewood ___ cords of _____		@ _____

Assessment conducted by: \_\_\_\_\_ Date: \_\_\_\_\_

Insurance claims:

## Casualty Loss of Timber

Management unit: \_\_\_\_\_ Acres involved: \_\_\_\_\_ Date: \_\_\_\_\_

Description of damage: \_\_\_\_\_

Products affected and value:

Amount	Species	Price
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Sawtimber ___ board feet of _____	_____	@ _____
Pulpwood ___ cords of _____	_____	@ _____
Pulpwood ___ cords of _____	_____	@ _____
Pulpwood ___ cords of _____	_____	@ _____
Pulpwood ___ cords of _____	_____	@ _____
Pulpwood ___ cords of _____	_____	@ _____
Firewood ___ cords of _____	_____	@ _____

Assessment conducted by: \_\_\_\_\_ Date: \_\_\_\_\_

Insurance claims: \_\_\_\_\_

## Casualty Loss of Timber

Management unit: \_\_\_\_\_ Acres involved: \_\_\_\_\_ Date: \_\_\_\_\_

Description of damage:

Products affected and value:

Amount	Species	Price
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Sawtimber ___ board feet of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Pulpwood ___ cords of _____		@ _____
Firewood ___ cords of _____		@ _____

Assessment conducted by: \_\_\_\_\_ Date: \_\_\_\_\_

Insurance claims:



## Casualty Loss of Timber Salvage

Acres involved: \_\_\_\_\_ Total revenues: \_\_\_\_\_

Total expenses: \_\_\_\_\_

Work done by: \_\_\_\_\_

Products removed and value:

Amount	Species	Price
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Sawtimber ___ board feet of _____	@	_____
Pulpwood ___ cords of _____	@	_____
Pulpwood ___ cords of _____	@	_____
Pulpwood ___ cords of _____	@	_____
Pulpwood ___ cords of _____	@	_____
Pulpwood ___ cords of _____	@	_____
Firewood ___ cords of _____	@	_____

Sale expenses:	Amount
_____	_____
_____	_____
_____	_____
_____	_____

Notes:

## Casualty Loss of Timber Salvage

Acres involved: \_\_\_\_\_ Total revenues: \_\_\_\_\_

Total expenses: \_\_\_\_\_

Work done by: \_\_\_\_\_

Products removed and value:

Amount	Species	Price
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Sawtimber ___ board feet of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Pulpwood ___ cords of	_____	@ _____
Firewood ___ cords of	_____	@ _____

Sale expenses:	Amount
_____	_____
_____	_____
_____	_____
_____	_____

Notes:

## Timber Stand Improvements

Management unit: \_\_\_\_\_  
Acres: \_\_\_\_\_  
Date: \_\_\_\_\_  
Done by: \_\_\_\_\_  
Labor (hours): \_\_\_\_\_  
Cost: \_\_\_\_\_  
Activity:

Management unit: \_\_\_\_\_  
Acres: \_\_\_\_\_  
Date: \_\_\_\_\_  
Done by: \_\_\_\_\_  
Labor (hours): \_\_\_\_\_  
Cost: \_\_\_\_\_  
Activity:

Management unit: \_\_\_\_\_  
Acres: \_\_\_\_\_  
Date: \_\_\_\_\_  
Done by: \_\_\_\_\_  
Labor (hours): \_\_\_\_\_  
Cost: \_\_\_\_\_  
Activity:

Management unit: \_\_\_\_\_  
Acres: \_\_\_\_\_  
Date: \_\_\_\_\_  
Done by: \_\_\_\_\_  
Labor (hours): \_\_\_\_\_  
Cost: \_\_\_\_\_  
Activity:

Management unit: \_\_\_\_\_  
Acres: \_\_\_\_\_  
Date: \_\_\_\_\_  
Done by: \_\_\_\_\_  
Labor (hours): \_\_\_\_\_  
Cost: \_\_\_\_\_  
Activity:

## Timber Stand Improvements

Management unit: \_\_\_\_\_

Acres: \_\_\_\_\_

Date: \_\_\_\_\_

Done by: \_\_\_\_\_

Labor (hours): \_\_\_\_\_

Cost: \_\_\_\_\_

Activity:

Management unit: \_\_\_\_\_

Acres: \_\_\_\_\_

Date: \_\_\_\_\_

Done by: \_\_\_\_\_

Labor (hours): \_\_\_\_\_

Cost: \_\_\_\_\_

Activity:

Management unit: \_\_\_\_\_

Acres: \_\_\_\_\_

Date: \_\_\_\_\_

Done by: \_\_\_\_\_

Labor (hours): \_\_\_\_\_

Cost: \_\_\_\_\_

Activity:

Management unit: \_\_\_\_\_

Acres: \_\_\_\_\_

Date: \_\_\_\_\_

Done by: \_\_\_\_\_

Labor (hours): \_\_\_\_\_

Cost: \_\_\_\_\_

Activity:

Management unit: \_\_\_\_\_

Acres: \_\_\_\_\_

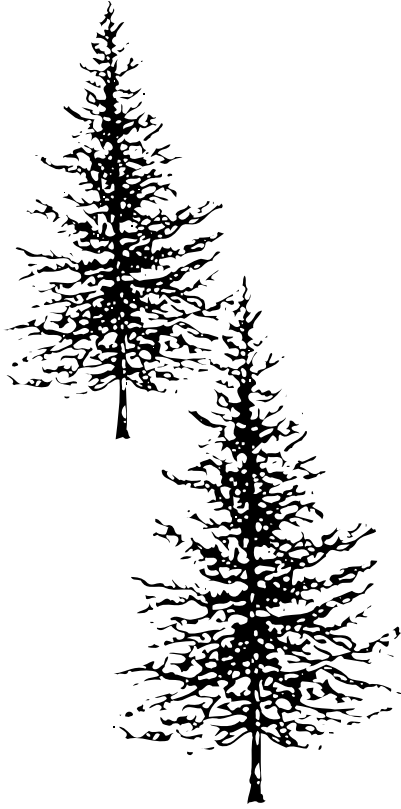
Date: \_\_\_\_\_

Done by: \_\_\_\_\_

Labor (hours): \_\_\_\_\_

Cost: \_\_\_\_\_

Activity:



## **Reforestation and Timber Stand Improvement TAX DEDUCTION**

**for forest landowners  
or lessees of 10-500 acres  
of commercial forest land.**

**COMAR, Title 08, Subtitle 07,  
08.07.03**

**If you have forest land,  
the State of Maryland  
will let you deduct dou-  
ble the cost of reforesta-  
tion and timber stand im-  
provement on the land  
you own or lease if you  
will manage it properly.**



### **What is the reforestation and timber stand improvement tax modification?**

Owners or lessees of forest land in Maryland may deduct *double* the cost of reforestation and timber stand improvement from their federal adjusted gross income for Maryland income tax purposes.

### **Why was this law passed?**

The area of forest available for timber production, watershed protection, outdoor recreation, and wildlife has decreased dramatically over the past two decades. The remaining forests are vital to the health and well-being of several industries in Maryland. They must be maintained in a vigorous condition to maintain the quality of life in our state. In Maryland, 87 percent of the forest land is owned by individuals. The average size of forest ownership is 24 acres.

Landowners must be encouraged to manage their forest land for the general benefit of all our citizens. To accomplish this, the Maryland General Assembly has established laws to protect our forests and to create an economic climate conducive to growing trees. Among the programs authorized by these laws are property and income tax incentives for private individuals. This income tax modification is one of those programs. Ask your forester about the others.

### **Who is eligible?**

To be eligible for the forestry income tax modification, you must own or lease between 10 and 500 acres of forest land capable of growing more than 20 cubic feet of wood per acre per year, which is available for the primary purpose of growing and harvesting forest trees. Christmas tree and ornamental tree operations are not eligible. Only forest management practices installed on 10 to 100 acres may receive the tax modification in any one year.

### **What activities qualify?**

Any reforestation or timber stand improvement practices on 10 to 100 acres certified by a Maryland Registered Professional Forester, as necessary for the production of forest trees are eligible for the tax program.

Some examples of reforestation are mechanical or chemical site preparation, the selection of sprout growth, the planting of seed or seedlings, seedling release, and animal control. Reforestation must result in at least 400 healthy, well-spaced seedlings or sprouts per acre.

Timber stand improvement includes thinning by mechanical or chemical means and pruning.

### **Which costs may be deducted?**

All direct costs associated with certified reforestation and timber stand improvement may be deducted. If federal cost share assistance is received, only the actual cost to the owner may be deducted, not the full cost of the practice. Direct costs include such items as the costs

of tools and machinery, including depreciation, labor, consultant fees, chemicals, seed, and seedlings. They do not include the taxpayer's own labor or the costs of fencing, road building, or unnecessary practices.

### **Steps you need to take**

1. Be sure your forestry work needs to be done and meets the standards established by the Maryland Department of Natural Resources. Don't forget to take advantage of cost-share programs.

2. Do the work or have it done by a contractor. Be sure to keep good records of your expenses.

3. Complete the *Taxpayer Information Forest Management Practices* and *Taxpayer Verification* sections of the *Income Tax Modification for Reforestation and Timber Stand Improvement* form, *DNR-393*, and send it to your forester or your local office of Maryland Forest, Park and Wildlife Service.

4. See that the forester certifies your work and leaves you two copies of this *Initial Certification*. One is for your records and one is for your Maryland state income tax return. The original will be kept on file at the Maryland Forest, Park and Wildlife Service main office in Annapolis. A copy will be sent to the Office of the Comptroller of the State of Maryland.

5. When you file your Maryland state income tax return you will find two sections on the form for modifications to your federal adjusted gross income. Your expenses for reforestation and timber stand improvement, less any cost share payments, are reported as subtractions from your federal adjusted gross income. You can subtract the costs once when you receive initial certification and again when you receive final certification. An example is provided for you to follow.

6. Within two years, a representative of the Maryland Forest, Park and Wildlife Service must file a *Final Certification* or give you an extension if you are to retain your original tax deduction. This should happen automatically but be sure that it's done on time. You will again receive two copies, one for your records and one for your Maryland income tax return. The original and one copy will be filed with the appropriate state agency as before.

### **Is there a catch?**

The only catch is that you have to successfully complete the work you planned to do.

For example, let's say that you have reforested your land and you have received your initial certification. Then we have a hot dry summer and you end up with less than 400 seedlings per acre. You need to replant if you are to meet the requirements for final certification. If you don't, you will have to repay the taxes saved from the year of initial certification.

The practice must stay in effect for 15 years. The Maryland Forest, Park and Wildlife Service is required to check periodically to verify this. If it is cleared for any reason, the tax savings from the planting must be repaid.

**HOW DOES IT WORK?**

*Let's look at a typical example of how the tax modification is calculated.*

Suppose that you have harvested 30 acres of pine by clearcutting. You have had the local forester prepare a reforestation plan. The plan calls for site preparation by drum chopping and burning and planting loblolly pine on a 9x9 spacing for 538 trees per acre. You contract with a tree planting company to plant the trees. To help pay for the work, you have applied for 60 percent federal cost-share payments and have received approval. Your costs look like this:

<b>Initial Practices</b>	<b>Acres</b>	<b>Cost/Acre</b>	<b>Total Cost</b>
Drum Chop	30	100	3,000
Burning	30	25	750
Seedlings (\$35/M= \$0.35 ea)	30	19	570
Planting	30	35	<u>1,050</u>
		<b>Total Initial Costs</b>	5,370
		<b>Less Cost-Share Assistance</b>	-3,222
		<b>Initial Cost Subject to Maryland Tax Modification</b>	2,148

In this example, you can subtract \$2,148 from your federal adjusted gross income on your Maryland tax return the year of your initial certification.

You are able to claim double the cost because you can deduct this same cost again the year of final certification plus any additional costs. So let's take a look at the next two years of your new plantation.

The first summer after you planted was hot and dry. On the higher ground, more than half of your seedlings died. The forester recommended a supplemental planting of about 15 acres with 100 to 200 seedlings per acre in bare spots. This totaled 2,000 seedlings. No cost sharing was available at the time, but you decided to go ahead and buy the trees and plant them yourself. You also decided to herbicide spray some red maple clumps while you were at it since the forester said it would be a good time to do it.

Once the work was completed and another growing season had passed, the forester certified the work as being satisfactory. Your final certification cost would look like this:

<b>Supplemental Practices</b>	<b>Acres</b>	<b>Cost/Acre</b>	<b>Total Cost</b>
Reinforcement Planting	15	4	60
Herbicide Spray – Spray gun	30	2	60
Chemical	30	30	<u>900</u>
		<b>Total Supplemental Costs</b>	1,020
		<b>Less Cost-Share Assistance</b>	—
		<b>Supplemental Costs Subject to Maryland Tax Modification</b>	1,020

**Final Cost Calculation:**

Initial Costs Subject to Maryland Tax Modification		2,148
Supplemental Costs Subject to Maryland Tax Modification	1,020 x 2 =	<u>2,040</u>
Final Costs Subject to Maryland Tax Modification		4,188

In this example, you can subtract \$4,188 from your federal adjusted gross income on your Maryland tax return the year of your final certification.

Since the program is designed to encourage our citizens to keep their forest land, if the land use is changed from forest, you have to return your tax savings. Here's how that would happen:

During his regular 5-year inspection, the forester finds that 5 acres of your pine plantation is occupied by a house, lawn and pasture. He learns that you gave those 5 acres to your daughter and her husband and they have built on it. Unfortunately, he has to decertify those 5 acres, which received a tax savings. This is how the calculations would look:

<b>Initial Practices</b>	<b>Acres</b>	<b>Cost/Acre</b>	<b>Total Cost</b>
Drum Chop	5	100	500
Burning	5	25	125
Seedlings	5	19	95
Planting	5	35	<u>175</u>
		<b>Total Initial Costs</b>	895
		<b>Less Cost Share Assistance</b>	-537
<b>Initial Cost Subject to Maryland Tax Modification</b>			358

<b>Supplemental Practices</b>	<b>Acres</b>	<b>Cost/Acre</b>	<b>Total Cost</b>
Reinforcement Planting	5	4	20
Herbicide Spray – Spray gun	5	2	10
Chemical	5	30	<u>150</u>
			180

**Final Cost Calculation:**

Initial Costs Subject to Maryland Tax Modification		358
Supplemental Costs Subject to Maryland Tax Modification	180 x 2 =	<u>360</u>
Final Costs Subject to Maryland Tax Modification		718

In this example, you would be required to add \$358 initial costs and \$718 final costs to your federal adjusted gross income on your Maryland income tax return.

# Instructions for Form T (Timber)

(Rev. December 2005)

## Forest Activities Schedule

Section references are to the Internal Revenue Code unless otherwise noted.



Department of the Treasury  
Internal Revenue Service

## What's New

• If you are required to file Form T (see *Who Must File* below), you can elect to deduct a limited amount of qualifying reforestation costs (up to \$10,000 per qualified timber property per year) by entering an amount on Part IV, line 4a. For more information, see the instructions on page 3 and section 194.

Even if you are not required to file Form T, you can elect to deduct on your tax return up to \$10,000 of qualifying reforestation costs per year for each qualifying timber property. Attach a statement to your return for the year in which reforestation costs were paid or incurred and provide the following information.

1. The Unique Stand Identifier;
2. The total number of acres reforested during the tax year;
3. The nature of the reforestation treatments; and
4. The total amounts of the qualified reforestation expenses eligible to be amortized under section 194(a) or deducted under section 194(b).

• Certain timber producers who hold not more than 500 acres of qualified timber property located in the Gulf Opportunity Zone for Hurricane Katrina, Rita, or Wilma are allowed an increased reforestation expense deduction. For more information, see Pub. 4492, *Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma*.

• If you previously elected for any tax year ending before October 23, 2004, to treat the cutting of timber as a sale or exchange under section 631(a), you may revoke this election without the consent of the IRS for any tax year ending after October 22, 2004. The prior election (and revocation) is disregarded for

purposes of making a subsequent election.

If you are required to file Form T, you may revoke this election by checking the "Yes" box in Part II, line 18b. If you are not required to file Form T, attach a statement to your return.

• Outright sales of timber by landowners will qualify for capital gains treatment after 2004. For more information, see the instructions for Part III.

## General Instructions

### Purpose of Form

Use Form T (Timber), Forest Activities Schedule, to provide information on timber accounts when a sale or deemed sale under sections 631(a), 631(b), or other exchange has occurred during the tax year.

For additional information regarding federal income tax rules for reporting forest-related activities, see the following publications:

- Pub. 225, *Farmer's Tax Guide*,
- Pub. 535, *Business Expenses*, and
- Pub. 544, *Sales and Other Dispositions of Assets*.

### Who Must File

Complete and attach Form T to your income tax return **only** if you:

- Claim a deduction for depletion of timber,
- Elect under section 631(a) to treat the cutting of timber as a sale or exchange, or
- Make an outright sale of timber under section 631(b).

Complete Form T in accordance with sections 194, 611, 631, and 1231, and the related regulations.

**Exceptions.** You are not required to file Form T if you only have an occasional sale of timber (one or two

sales every 3 or 4 years). However, you must maintain adequate records of these transactions and other timber-related activities during the year, as discussed in *Recordkeeping*, below. These transactions may be treated as an investment for tax purposes if your property is not held for use in a trade or business.



*If you are required to file Form T for the current tax year (as discussed above under Who Must File), complete all the parts of the form that apply. However, if you are not required to file Form T but have other forest-related activities (reportable in Part I (Acquisitions), Part IV (Reforestation and Timber Stand Activities), or Part V (Land Ownership), complete and attach the appropriate tax form (for example, Form 4562 to claim depreciation) or statement to your income tax return to report these activities. Also, maintain adequate records as discussed in Recordkeeping, below.*

## Recordkeeping

**Maps.** Do not attach maps of your timber properties to Form T to substantiate any claimed deduction for depletion of timber. Instead, you are required to retain records sufficient to substantiate your right to claim the deduction, including a map (where necessary) to show clearly the location(s) of timber and land acquired, timber cut, and timber and land sold for as long as their contents may become material in the administration of any Internal Revenue law.

**Other business records.** You must also keep business records to support other items reported on your tax return such as expenses incurred during the tax year for road construction and for building drainage structures.



**Note.** Maintain separate cost accounts for road construction and drainage structures, such as ditches and canals. For example, for roads constructed for logging timber or to conduct management activities on fee land or land held under long-term cutting contracts, maintain records showing the number of miles constructed and how the total expenditures were either (a) capitalized, (b) amortized, or (c) claimed as an ordinary expense.

Keep separate records for each unique stand identifier, depletion account, block, tract, or geographic area tributary to a mill or mill complex. Also, keep records that verify the basis in property for as long as they are needed to figure the basis of the original or replacement property.

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## Specific Instructions

### Part I. Acquisitions

Complete this part if you acquired timber, timber-cutting contracts, or forest land during the tax year, whether the acquisition was by purchase, exchange, gift, or inheritance.

#### How to Report Acquisitions

Report acquisitions during the tax year (whether taxable or not) of timber, timber-cutting contracts, or forest land. Report separately each acquisition of \$10,000 or more.

You may combine acquisitions of less than \$10,000 for each account and omit lines 2 and 3. For an acquisition by gift or inheritance, skip lines 4 through 7.

For an acquisition or lease of timber-cutting rights on a pay-as-cut basis, except for those under which all cutting is completed within the tax year, do not complete lines 4 through 8. Instead, list the provisions of the purchase or lease agreement, including the number of years from the effective date to the expiration date, annual minimum cut or payment, and the payment rates for different kinds of timber and forest products. Follow the format of lines 1 through 9 on additional sheets if necessary.

### What Is Included in Each Account

You must include your timber in one or more accounts. Generally, each account must include all your timber that is located in one "block." A block may be:

1. An operational unit that includes all timber that would logically go to a single point of manufacture,
2. A logging unit that includes all timber that would logically be removed by a single logging development, or
3. An area established by the geographical or political boundaries of logical management areas. Timber acquired under a cutting contract may not be included in part of a block, but should be kept in a separate account.

For exceptional cases, the timber in a given block may be divided into two or more accounts. See Regulations section 1.611-3(d) for more information.

### Part II. Timber Depletion

Complete this part for each timber account that has changed in quantity or dollar amount. A timber account may change in quantity or dollar amount as a result of acquisitions, dispositions, the cutting of timber, capitalized expenditures, casualty or theft losses, corrections, additions for growth, and transfers from other accounts. Use this part to figure depletion for timber cut or the basis for timber sold or lost during the tax year. A depletion schedule is required to be maintained for all types of timber ownership.

#### Lines 1 through 6

Provide data for each timber account separately. Account for any changes that have occurred during the tax year. Attach as many additional pages as needed. If you deplete on a block basis, combine new purchases with the opening balances and use the average depletion rate shown on line 8, column (b), for all timber cut or sold, regardless of how long held.

#### Line 14, column (b)

The casualty loss limitation is determined by the decrease in fair market value (FMV) of the Single Identifiable Property (block) before

and after the casualty event, not to exceed the basis in the affected block. Keep FMV appraisals in your records to support the claimed loss (see *Recordkeeping*, earlier).

#### Line 18a

If you are making the 631(a) election, or have made the election in a prior tax year, check the "Yes" box on line 18a.

**Note.** The 631(a) election cannot be made on an amended return. You must maintain the following records.

#### Adjusted basis for depletion.

Maintain records that show the adjusted basis for depletion, fair market value (FMV), and gain or loss for each sale or exchange of standing timber for which you have a section 631(a) election. The records must show the adjusted basis for depletion and the FMV of the timber as of the first day of the tax year in which timber was cut. The records must show these amounts by species and unit rates if these transactions are reported on a species basis. The gain or loss on standing timber is reported on Form 4797, Sales of Business Property.

**Date of acquisition.** The records must provide the date of acquisition of timber that was cut in the tax year, if acquired after March 1, 1913; the quantity of timber remaining (adjusted for growth, correction of estimates, changes in use, and any change in the log rule or other measure used); and the adjusted basis at the beginning of the tax year. The records must state the acreage cut, the amount of timber cut from the applicable block during the tax year, and the log rule or other method used to determine the quantity of timber cut. If depletion accounts are kept by separate tracts or purchases, give the information separately for each tract or timber purchase.

If an average depletion rate based on the average value or cost of a timber block was used in earlier years, the adjusted basis referred to in section 631(a) is the average basis shown on line 8, column (b), after adjustment.

**Characteristics of the timber.** The records must describe in detail the characteristics of the timber that

affect its value, such as total quantity, species, quality, quantity per acre, size of the average tree, logging conditions, and distance to markets.

**Valuation evidence.** The records must provide evidence in the form of actual sales of comparable timber as of the valuation date, along with other valuation evidence used. Include a computation showing the difference between the cost (excluding timber or stumpage cost) and value of the primary wood product (logs or other roundwood, chips, etc.) at the mill or plant. Give detailed evidence that permits a comparison with the timber on which you report a value.

**Additional information.** The records must include the following additional information:

1. Location of the sawmill, log market, or other point of delivery of the logs or wood to the user or buyer.

2. The total MBF, log scale, cords, or other units of timber cut, and the length and diameter of the average log or the average number of units per tree.

3. The percentage of rough lumber grades, by species, manufactured from the timber during the year, or, if cut timber is sold as logs, the percentage of log grades, by species.

**Timber owned or held under a contract right to cut.** Show the amount of timber owned, or held under a contract right to cut, for a period of more than 1 year. Show separately the quantity of timber cut that was held for less than 1 year. The scale of logs purchased during the year must be shown by species and quantity and excluded from the quantity shown as cut under section 631(a) in Part II, line 17. Also show the number, cost, and point of delivery of purchased logs by species and grade.

### Line 18b

If you are revoking your 631(a) election, check the "Yes" box.

If you made a section 631(a) election for any tax year ending before October 23, 2004, you can revoke that election without the consent of the IRS for any tax year ending after October 22, 2004. The prior election (and revocation) is

disregarded for purposes of making a subsequent election. Unless this special rule applies, or the election was made for a tax year beginning before 1987, you can only revoke a section 631(a) election with IRS consent.

## Part III. Profit or Loss From Land and Timber Sales

Complete this part to report all dispositions of timber, timber-cutting contracts, or forest land during the tax year (whether taxable or not). Do not report dispositions by gift or distributions made by an estate or to a beneficiary.

Report each sale involving total consideration of \$10,000 or more. You may combine sales of less than \$10,000 for each timber or land account and omit lines 2 and 3 for each combined small sale.

**Outright sales of timber after December 31, 2004.** New rules under section 631(b) allow the landowner to treat outright sales of timber after 2004 as capital gain. The new rules extending capital gains treatment to outright sales of timber are similar to certain disposals of timber under a contract with a retained economic interest. However, for outright sales, the date of disposal is not deemed to be the date timber is cut because the owner may elect to treat the payment date as the date of disposal. For more information, see section 631(b) and Pub. 544.

**Timber-cutting contract.** For a sale or lease of timber-cutting rights on a pay-as-cut basis, that will be paid for at intervals during the cutting period according to the number of units cut, complete lines 4, 7, and 8, only for accounts that must be reported on your current year income tax return.

Instead of completing lines 5a, 5b, and 6, briefly state the provisions of the sale or lease agreement, including the number of years from the effective date to the expiration date, annual minimum cut or payment, and the payment rates for the different kinds of timber and forest products. You may combine small sales or leases of timber-cutting rights on a pay-as-cut basis that were

completed within the tax year. Follow the format of lines 1 through 8 on additional sheets if necessary.

## Part IV. Reforestation and Timber Stand Activities

Summarize your expenditures for reforestation and timber stand activities during the tax year. Timber stand activities include all silvicultural prescriptions (such as burning, spraying, and thinning) applied to a timber stand regardless of age.

### Line 4a. Reforestation Expenses

By entering an amount on this line, you are indicating that you have elected to deduct qualifying reforestation expenses that were paid or incurred after October 22, 2004, for each qualified timber property under section 194(b). You must complete line 1 of Part IV listing the following:

- The account, block, tract, area or stand identification number for each qualified timber property (QTP);
- The kind of activity (burning, chopping, spraying, planting, seeding, thinning, pruning, fertilizing, etc.);
- The number of acres treated; and
- The total expenditures.

The aggregate amount of reforestation expenses which can be claimed on line 4a for any tax year cannot exceed \$10,000 (\$5,000 if your filing status is married filing separately) for each qualified timber property for any tax year. The remaining costs (line 4b) can be amortized over an 84-month period using the half-year convention under section 194(a). For more information on reforestation costs, see Pub. 535.

If you do not elect to deduct reforestation expenses under section 194(b), all reforestation expenses will be capitalized in a deferred timber depletion account.

Reforestation expenses are direct costs incurred for reforestation by planting or artificial or natural seeding. This includes costs for the preparation of the site, of seeds or seedlings, and for labor and tools, including depreciation of equipment such as tractors, trucks, tree planters,

and similar machines used in planting or seeding.

**Reimbursements under governmental reforestation cost-sharing programs.** If you have been reimbursed under any governmental reforestation cost-sharing program, you may not claim these expenses unless the amount reimbursed has been included in your income.

**Qualified timber property (QTP).** Any qualified timber property subject to section 194(b) may not be combined with any other qualified timber property account (depletion block) for which depletion is allowed or for casualty losses (that is, lines 13 and 14 of Part II) or other purposes. The qualified timber property account must be maintained until after the timber is disposed of through sale, harvest, or other transaction.

For each qualified timber property (QTP), keep detailed information to support reforestation costs, showing treatments and dates of application. Each qualified timber property is required to have a unique stand identifier. Retain this information for your records. Report expenses such as supplies, labor, overhead, transportation, tools, and depreciation on equipment.

**Site preparation.** Report all expenses incurred during the tax year for preparing the land for planting or seeding (including natural seeding). Include expenses for clearing the land of brush and culling trees by burning, disking, chopping, shearing and piling, spraying with herbicides, or other measures taken to aid successful site reforestation. Report this information separately for each unique stand identifier, depletion account, block, tract, or operating area tributary to a mill or mill

complex. Report contract work separately from your employees' work.

**Planting or seeding.** Report the expenses you incurred during the tax year for planting seedlings or sowing seed to reforest the land. Report this information separately for each unique stand identifier, depletion account, block, tract, or operating area tributary to a mill or mill complex. Report contract work separately from your employees' work.

**Other silvicultural activities.** Report all expenditures that must be capitalized and items that you elect to capitalize. Also, list on a separate attachment items that are treated as current deductions (including, but not limited to, weed control, pruning, fertilization, thinning, insect and disease control). Report this information separately for each unique stand identifier, depletion account, block, tract, or operating area tributary to a mill or mill complex. Report contract work separately from your employees' work.

For more information, see section 194 and Regulations section 1.194-3.

## Part V. Land Ownership

Complete this part to show all changes in your land account, including sales or exchanges, during the tax year. Attach as many additional sheets as needed, following the format of lines 1 through 6.

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### Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States.

You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Section 6109 requires return preparers to provide their identifying numbers on the return.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

<b>Recordkeeping</b> . . . . .	34 hr., 12 min.
<b>Learning about the law or the form</b> . . . . .	42 min.
<b>Preparing and sending the form to the IRS</b> . . . . .	1 hr., 17 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

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Name(s) as shown on return

Identifying number

**Part I Acquisitions**

**1** Name of block and title of account

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**2** Location of property (by legal subdivisions or map surveys)

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<b>3a</b> Name and address of seller or person from whom property was acquired	<b>b</b> Date acquired
<b>4</b> Amount paid: <b>a</b> In cash . . . . .	
<b>b</b> In interest-bearing notes . . . . .	
<b>c</b> In non-interest-bearing notes . . . . .	
<b>5a</b> Amount of other consideration . . . . .	
<b>b</b> Explain the nature of other consideration and how you determined the amount shown on line 5a. .....	
<b>6</b> Legal expenses . . . . .	
<b>7</b> Cruising, surveying, and other acquisition expenses . . . . .	
<b>8</b> Total cost or other basis of property. Add lines 4a through 7 . . . . .	

9 Allocation of total cost or other basis on books:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
<b>a</b> Forested land . . . . .	Acre			
<b>b</b> Other unimproved land . . . . .	Acre			
<b>c</b> Improved land (describe) ▶ .....	Acre			
<b>d</b> Merchantable timber. Estimate the quantity of merchantable timber present on the acquisition date (see Regulations section 1.611-3(e)). Details of the timber estimate, made for purposes of the acquisition, should be available if your return is examined. }				
<b>e</b> Premerchantable timber. Make an allocation here only if it is a factor in the total cost or value of the land. }				
<b>f</b> Improvements (list separately) ..... ..... ..... .....				
<b>g</b> Mineral rights . . . . .				
<b>h</b> Total cost or other basis (same amount as line 8). Add lines 9a through 9g . . . . .				

**Part II Timber Depletion** (see instructions)

**1** Name of block and title of account ▶ .....

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If you express timber quantity in thousand board feet (MBF), log scale, name the log rule used. If another unit of measure is used, provide details ▶ ..... ..... .....		
	(a) Quantity	(b) Cost or other basis
<b>2</b> Estimated quantity of timber and cost or other basis returnable through depletion at end of the preceding tax year . . . . .		
<b>3</b> Increase or decrease of quantity of timber required by way of correction . . . . .		
<b>4a</b> Addition for growth (number of years covered ▶ ..... ) . . . . .		
<b>b</b> Transfers from premerchantable timber account . . . . .		
<b>c</b> Transfers from deferred reforestation account . . . . .		
<b>5</b> Timber acquired during tax year . . . . .		
<b>6</b> Addition to capital during tax year . . . . .		
<b>7</b> Total at end of tax year, before depletion. Add lines 2 through 6 . . . . .		
<b>8</b> Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a) . . . . .		
<b>9</b> Quantity of timber cut during tax year . . . . .		
<b>10</b> Depletion for the current tax year. Multiply line 8 by line 9 . . . . .		
<b>11</b> Quantity of standing timber sold or otherwise disposed of during tax year. . . . .		
<b>12</b> Allowable as basis of sale. Multiply line 8 by line 11 . . . . .		
<b>13</b> Quantity of standing timber lost by fire or other cause during tax year . . . . .		
<b>14</b> Allowable basis of loss plus any excess amount where decrease in FMV (before and after the casualty) exceeds the standard depletion amount, but not the block basis (see instructions) . . . . .		
<b>15</b> Total reductions during tax year:		
<b>a</b> In column (a), add lines 9, 11, and 13 . . . . .		
<b>b</b> In column (b), add lines 10, 12, and 14 . . . . .		
<b>16</b> Net quantity and value at end of tax year. In column (a), subtract line 15a from line 7. In column (b), subtract line 15b from line 7 . . . . .		

**17** Quantity of cut timber that was sold as logs or other rough products . . . . .

**18 Section 631(a):**

- a** Are you electing, or have you made an election in a prior tax year that is in effect, to report gains or losses from the cutting of timber under section 631(a)? (see instructions) . . . . .  **Yes**  **No**
- b** Are you revoking your section 631(a) election (see instructions)? . . . . .  **Yes**  **No**

Effective date ▶

**Part III Profit or Loss From Land and Timber Sales** (see instructions)

**1** Name of block and title of account

**2** Location of property (by legal subdivisions or map surveys)

<b>3a</b> Purchaser's name and address	<b>b</b> Date of sale
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<b>4</b> Amount received: <b>a</b> In cash . . . . .	
<b>b</b> In interest-bearing notes . . . . .	
<b>c</b> In non-interest-bearing notes. . . . .	

<b>5a</b> Amount of other consideration . . . . .	
<b>b</b> Explain the nature of other consideration and how you determined the amount shown on line 5a: .....	

**6** Total amount received for property. Add lines 4a, 4b, 4c, and 5a. . . . .

7 Cost or other basis of property:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
<b>a</b> Forested land . . . . .	Acre			
<b>b</b> Nonforested land . . . . .	Acre			
<b>c</b> Improved land (describe) ▶ .....	Acre			
<b>d</b> Merchantable timber. Estimate in detail the quantity of merchantable timber on the date of sale or exchange. Include the quantity of timber in each species of timber by diameter at breast height (DBH) classes. State the log rule used if the unit of measure is thousand board feet (MBF), log scale. If another unit of measure is used, provide details. ▶ .....				
<b>e</b> Premerchantable timber. . . . .				
<b>f</b> Improvements (list separately) ..... ..... .....				
<b>g</b> Mineral rights . . . . .				
<b>h</b> Total cost or other basis. Add lines 7a through 7g . . . . .				
<b>i</b> Direct sale expenses (cruising, marking, selling). . . . .				
<b>8</b> Profit or loss. Subtract the sum of lines 7h and 7i from line 6 . . . . .				

**Part IV Reforestation and Timber Stand Activities (see instructions)**

Account, block, tract, area, or stand ID for each Qualified Timber Property (QTP)	Kind of activity (burning, chopping, spraying, planting, seeding, thinning, pruning, fertilizing, etc.)	Number of acres treated	Total expenditures
1			
2	Total . . . . .		
3	Total reforestation expenses . . . . .		
4a	Amount to be expensed under section 194(b). (See instructions for limitations) . . . . .		
b	Amount to be amortized under IRC 194(a), including remaining reforestation expenditures not expensed under section 194(b) . . . . .		

**Part V Land Ownership**

Show all changes in land accounts. Attach as many additional sheets as needed, following the format of lines 1 through 6.

1 Name of block and title of account ► ..... .....	Acres	Total cost or other basis. Give amount of March 1, 1913 appreciation, if included	Average rate per acre
2 Balance at beginning of year . . . . .			
3 Acquisitions during year. . . . .			
4 Sales during year . . . . .			
5 Other changes. . . . .			
6 Balance at end of year. Add lines 2 and 3, subtract line 4 and add or subtract line 5 . . . . .			

**Additional Information.**

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