Tax Treatment of Timber Sale Income, Reforestation Expenses
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It's that time of year again! Tax time! Some of us think about taxes year round, but for most of us, we turn our attention to taxes near the end of January when we start receiving 1099s and W-2 forms. For those of you that had a timber sale in 2019, you will need to report that income on your 2019 tax return. While a full discussion of the tax code is beyond my word count here, there are some key items to consider if you harvested.

First off, it is important that you know your basis in the timber that was harvested. Basis is the amount of your investment in the timber. If you bought land with timber, the purchase price should have been allocated to land and some to timber (as well as to any other assets such as barns, houses, etc., on the property). If you planted the trees, your basis is what you paid out to get the trees in the ground (not including your own personal labor). If you received the property through an inheritance, gift or exchange, you would need to allocate the total value of the inheritance/gift/exchange among the land and timber assets.

If you planted the trees, your basis is what you paid out to get the trees in the ground.

Once you know your basis you are ready to determine your taxable gain. If you had the timber for more than one year, that income may qualify as capital gains income. Now, would that matter? First off, you get a much better tax rate if the income is classified as capital gains. For 2019, the maximum capital gains tax rate is 20%, while the ordinary income rate is a maximum of 37 percent! In addition, income that is classified as capital will not be subject to the self-employment tax. That is an additional tax of 15.3 percent for 2019! Do I have your attention yet? The key here is to make sure you have held the timber for one year. If you received the property as a gift, the holding period is the total time that the donor and donee held the property. If the property was inherited, the holding period is considered met automatically.

Another important consideration for qualifying for capital gains treatment is the method of sale. If you sold the timber on the stump (and the holding period is met), you qualify for capital gains treatment. To calculate the gain from the sale: Revenues from sale – basis – expenses of sale. The basis amount that is removed is done proportionate to the amount of volume that was sold. If you removed one-third of the volume, then you would use one-third of the basis that was allocated to that stand. The resulting gain is then multiplied by the appropriate tax rate.

What if you hired someone to log and then sold the logs at the gate? In this case, you will most likely need to handle the situation as a transaction in which part is capital and part is ordinary income. This process will involve determining the fair market value of the timber at the beginning of the year of harvest. The transaction is then split into two pieces to determine the gain from growing the trees and the gain from selling the logs. A great resource for a detailed read on this process is the Forest Landowners’ Guide to Federal Income Tax (AG Handbook 731) which is available online for free.

Once you’ve cleared the land and are ready to replant, there is a provision in the Internal Revenue Code that allows a deduction

Forest Health Highlights for 2019

The following is a summary of information from an article by Chandler Barton, Division Forester & Forest Health Specialist, Arkansas Department of Agriculture - Forestry Division. To see the full article, go to tinyurl.com/2019ForestHealthHighlights.

The Arkansas Department of Agriculture - Forestry Division recently released its 2019 summary of forest insect and disease issues in Arkansas. The Forestry Division assists nonindustrial private landowners with forest management decisions, and field personnel make forest health recommendations and can respond to reports of tree mortality caused by forest disturbances, such as insects and diseases.
Tax Treatment, cont.

of up to $10,000 in reforestation-related expenses. In addition, expenses above that amount in a tax year may then be expensed over the next seven tax years. This results in complete recovery of the reforestation expenditures in the early years of the stand (which also means there is nothing to offset timber sale income in the future, but that is material for another article).

There are lots of nuances around these code provisions that should be discussed with a tax preparer or someone knowledgeable in these matters. Don’t panic if you made this mistake last year’s return. You can go back and amend your return up to three years later. If you find a mistake (like you forgot to deduct your expenses or you forgot to subtract your basis) you can amend your return within three years.

For more information on the planning of your income and the reforestation deduction and amortization see https://www.youtube.com/watch?v=b2Q7it1hI9A or https://www.youtube.com/watch?v=OsB3YmnpdJt&v=4555. You can also find tips for filing for 2019 at https://www.timberty.com/publications/fs/taxtips/TaxTip2019%20%010%20.2019.pdf

November through March to reduce heavy fuel loads. Timing your fire to reduce these fuels in your initial burn will allow you to safely burn your timber stand during other times of the year when you have low queens burns. Once you remove the heavy fuels with your first prescribed fire, your “burn window” opens considerably. In most of our timberlands, prescribed fire can be conducted in any season and under the right conditions after the initial burn. Burning during different seasons produces different vegetation responses, including oak or pine regeneration, promotion of grasses, or promotion of forbs and wildflowers.

If you are constantly battling roof sprouts of undesirable species such as sweetgum in southern Arkansas or maple in northern Arkansas, multiple prescribed fires can help to reduce and potentially eliminate the undesirable species. Carrying out repeated burns is more effective at reducing these in your stand than single burns, as consistent disturbance progressively knocks them back and their new sprouts.

A local wildlife biologist or forester can help you determine what type of burn regimen is most appropriate for your property and your objectives. If you are looking to protect your timber investment, promote regeneration of desirable species, and control undesirable species, then the better question is, “Why not burn?”

Why Burn?

Forest landowners and managers are often faced with the question of how to most effectively keep the land healthy and productive. Prescribed burning can be one of the most efficient tools available. Burning is a land management practice that dates back to its historic use by Native Americans, and most of our forests throughout the state are naturally adapted to fire on the landscape. Many of our ecosystems require fire to maintain diversity and productivity. Through careful planning and implementation, prescribed fire can be the answer to many of your objectives, such as stand protection and productivity, promotion of desirable species, and control of less desirable species.

A major exception is the reforestation deduction. The deduction for reforestation may not be taken on an amended return.

Taxes are always an exciting discussion. Hopefully, some of this discussion will help demystify your process for reporting your timber sale income. Your 2019 tax return is due April 15th.

Forested areas are in great need in Arkansas and the Ozarks. The forest department plays a crucial role in protecting these areas. The department provides a service to the public by maintaining healthy forests, protecting against wildfires, and providing education on sustainable forestry.

Many of our ecosystems require fire to maintain diversity and productivity.

Prescribed fire can protect your timber investment from unexpected wildfires. It reduces the amount of fuels on the ground such as pine needles and fallen limbs, which pose a fire hazard during unsafe burning conditions if left unchecked. When planning a burn regimen on your property, the first burn is usually conducted during March.

CALENDAR OF EVENTS

March 3
10 a.m. - Program Committee Meeting AFA Office Little Rock

March 12-13
10 a.m. - TCT: Prescribed Fire for Educators Workshop Ozark Natural Science Center Huntsville

March 17
10 a.m. - Government Affairs Committee Meeting AFA Office Little Rock

March 21
7:45 a.m. - Texarkana LAL Sporting ClayS Tournament & Trap Shoot Rocky Creek Outdoors Texarkana

April 2
10 a.m. - Executive Committee Meeting AFA Office Little Rock

April 3
8:30 a.m. - Women Owning Woodlands: Bees, Butterflies and Pollinator Habitat Workshop Can Creek State Park Star City

May 7-8
AFA Spring Board Meeting Fairfield Bay Conference Center Fairfield Bay

Please Note:
For meetings that are held at the AFA Office, please park on the street or in one of the areas – do not park in the Ozarks Chamber of Commerce parking lot.

Forest Health Lights 2019, cont.

The most abundant hardwood species in the list, black oak, have spread in order of greatest volume, are white oak, sweetgum, post oak, northern red oak, black oak, and southern red oak.

Arkansas’s forests cover 15 million acres, which is more than 56% of the state’s land area.

Common Walkingstick
Severe defoliation caused by the common walkingstick, Diapheromera femorata, was reported in the Ozark and Ouachita National Forests, having increased in scale for a third consecutive year. Generally, high elevation forests were affected, but the most severe defoliation occurred in the area northeast of White Rock Mountain in the Ozark National Forest and Starkey Red River in the Ouachita National Forest. This walkingstick has a body length of four to five inches and has one generation per year. Conditions over the past several years have been beneficial for the walkingstick life cycle, thus we are now witnessing a population outbreak of amazing abundance. Moisture is especially important during the winter and spring months for the egg and immature stages. If an extended period of dry weather occurs near the egg hatching time, the nymphs will not successfully exit the eggs. Populations of walkingsticks are normally managed by biological agents. Native predators include a cuckoo wasp genus, Amisega (Chrysididae), are capable of paralyzing walkingstick eggs and they can significantly lower their population.

Jumping Oak Gall of White Oak
During late-spring and summer months, Arkansas across the state reported white oaks (Queens albus) with unusually appearances. Jumping oak gall was determined responsible for the condition of these trees in the northwestern and north-central counties of Arkansas. Hundreds of galls can be made on each leaf and, subsequently, leaves curl upward. The galls are expected to kill the affected white oaks, but the extreme stress could push some trees toward death. The galls fully develop in May and drop to the ground to overwinter in the fall layer.

Loblolly Pine Sawfly
This sawfly (Neodiprion aeneatus), which feeds primarily on loblolly pine, annually occurs in southeastern Arkansas. Ashley, Drew, and Bradley Counties are affected every year between March and May. In 2019, severe defoliation was observable outside of the normal counties, and it was particularly apparent in the Dallas County. Since the defoliation occurs on the prior year’s leaves, the tree quickly grows new leaves to replace those lost. This sawfly does not cause tree mortality.

Southern Pine Beetle (SBP) Survey Update
An outbreak of SBP has not occurred in Arkansas or the states west of the Mississippi for nearly two decades. In Arkansas, spring trap catches submitted around 2005 and now traps rarely have a positive catch. The Forestry Division uses pheromone traps to detect increases in SBP population. Eight traps were set annually. Back in 2018, 26 were captured in Ashley County and one was captured in Columbia County. In 2019, zero SBP were captured.

Southern Pine Beetle Prevention Program
The Southern Pine Beetle Prevention Program continues to offer monetary incentives to landowners who thin overly dense pine forests. Landowners can apply for the program through local Forestry Division Offices. The program currently offers incentives for first commercial thinnings, non-commercial thinnings, prescribed burns, and in-woods chipping. Logger incentives are also available for thinning harvests on tracts less than 40 acres.

Ips Pine Engraver Beetles
In 2019, Ips beetles contributed to minimal losses of pine timber statewide. Unlike SBP, Ips beetles (Ipis calligraphus, Ipis grandis, and Ips americanus) considered secondary invaders that target injured or stressed trees. Frequent rainfall limited the occurrence of drought-stressed pine trees in Arkansas. Despite the good weather, sporadic infestations were still reported during the late fall months. In pine plantations of the South Central Plains, small and short lived infestations (less than 20 trees) were observed. The number of Ips beetle-related losses occurred in the southern portion of the Missippia Alluvial Plain where mature pine, predisposed by extremes of wet and dry weather, suffered rapid decline.

Emerald Ash Borer (EAB) Update
No new counties were confirmed in 2019. However, this does not mean the insect has slowed its expansion. Ash mortality is easily observed in the South Central Plains; it is possible to spot ash killed by EAB along interstate 30 between Arkadelphia and Hope. White APHIS-PPQ are responsible for quarantine regulation, multiple agencies assist with the detection and monitoring of EAB expansion. Arkansas has 23 EAB confirmed counties.

Redbay Ambrosia Beetle and Laurel wilt Disease
Laurel wilt disease, caused by a fungus (Rafalescas lauricis), was discovered in Arkansas in December of 2015 on symptomatic sassafras trees. The tiny beetle that transmits the fungus, redbay ambrosia beetle (Xylosandrus climacophagus), was also identified at that time. Redbay beetles are rare in Arkansas, but it is a suitable host for the invasive disease and beetle. Sassafras is infrequent in southern Arkansas; however, it is common in the Ozark Mountains of northern Arkansas and Missouri. According to Forest Inventory and Analysis estimates, seedling and sapling size sassafras is more abundant in the Ozark highlands than anywhere else in the United States. The Forestry Division participated in a laurel wilt monitoring study led by the US Forest Service. Three permanent plots were established to measure disease progression and beetle presence. The disease has been confirmed in six Arkansas counties so far.

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