



# NEWS FROM WISCONSIN'S WOODS



A partnership of the Wisconsin Tree Farm Committee and Wisconsin Woodland Owners Association

Volume 4, Issue 2 • November 2009

## 2009 Tax Tips for Forest Landowners

The U.S. Forest Service published its annual tax update as of October 1, 2009 to aid woodland owners with tax preparation. The complete publication, *Tax Tips for Forest Landowners for the 2009 Tax Year* by Linda Wang and John L. Green, can be found at [www.timbertax.org](http://www.timbertax.org). Contact WWOA at 715-346-4798 if you don't have computer access and would like a copy.

Below is a sample of the information found in the publication however, this should not be construed as legal or accounting advice; consult your legal and tax professionals for advice on your particular tax situation.

Additional topics with examples covered online are: Timber Management Expenses, Reforestation Tax Provisions, Depreciation and the Section 179 Deduction, Cost-share Payments, Timber Casualty Losses and Timber Depletion.

### IRS Property Categories

Standing timber may be held as personal use property, investment property, or business property. The tax provisions differ for each category. If you hold timber to produce income but do not actively manage it, you may be an investor. If you actively manage your timber for the regular production of income, you likely hold it for use in a business. It is not difficult to qualify for business use; the characteristics are regularity of activity and production of income (under the passive loss rules, participation in a business may be active or passive; not all of the provisions summarized here apply to passive participants). Holding timber or forest property for personal use—without a profit motive—is a disadvantage tax-wise, because of the limits on deductions. One of the best ways to document that you have a profit motive is in a written management plan.

### Selling Timber

Effective after May 28, 2009, purchasers of timber in a lump-sum sale must report the sale on a Form 1099-S (or equivalent). Pay-as-cut timber sales already were subject to this requirement. In most cases your gain from a sale or disposal of *standing* timber can qualify as a capital gain, under IRC sec. 1221 (timber held as an investment) or sec. 631(b) (timber held for use in a business).

### Installment Sales

An installment sale involves receiving one or more payments after the year of sale. Installment sales permit the seller to defer taxes or spread gains and taxes over 2 or more years. Timber proceeds remain a capital gain, but real or imputed interest on deferred payments is ordinary income.

### Timber Basis

You may establish your timber basis retroactively if you did not do so at the time of acquisition. A professional forester usually can estimate the value and volume of the timber at the time you acquired it. Your basis in purchased timber is the purchase price, plus related expenditures (legal fees and survey costs, for example), separate from the basis of the associated land. For inherited timber, however, your basis is the fair market value of the timber on the donor's date of death, and for timber received as a gift, it is the donor's basis (or the value of the timber if that is less).

Consider bookmarking this website for future reference regarding tax questions. Remember to share this information and website with your accountant since many accountants are not familiar with the tax codes for forest lands.