

HOME OF
PLANETARY CITY

PARTS WORLD

Quality Master Distributors of Replacement Parts for Skidders, Backhoes, Knucklebooms, Crawlers & Other Off-Road Equipment.

NOW!!!
B-Series Cummins Engine Parts & Long Blocks

Forestry & Construction Inc.
800-809-4848
Ph: 540-586-6874 • Fax: 540-586-6496
www.forestryconstruction.com

FreeInfo! 144 *

NEW Booth # X40 & 41

1 1/2-2 Cords/Hour

New 18SCP-D

20" Titanium Bar • 404 Chain
Hyd. Log Lift • Live Deck Option
4-Way Standard-6 & 8-Way Wedge Available

We've taken the Model 18SCP and made it even better!

Add a 33 1/2 HP Kubota Diesel to the 18SCP and you have a high performance processor at a low cost; the 18SCP-D

BUILT-RITE MFG
Ludlow, VT 05149
800-757-2520 • www.built-rite.com

FreeInfo! 105 *

WE'VE GOT YOU & BOTH ENDS COVERED!

UTILIZE YOUR TRACTOR, SKID-STEER OR LOADER WITH IMPLEMENTS TO MAKE THE JOB EASIER

- Tractor Grapples & Brush Grapple/Rakes
- Brown Tree Cutters
- Tractor Guard Packages - Canopies to Bellypans (Our new tractor cabs meet S.A.E. forestry specifications)

Custom Welding / Fabrication / Prototypes

603-435-9970
ADDINGTON EQUIPMENT, INC.
7 Healy Pasture Road • Chichester, NH 03258
www.addingtonequipment.com

FreeInfo! 167 *

An Eye to the Tax Man

Do forest owners understand tax provisions?

by Tom Straka and John Greene

In the March 2004 issue of *Forest Products Equipment*, Thom J. McEvoy noted that, "stumpage buyers who are able to brief prospective clients on the tax implications of a pending sale are often far more likely to win a client's business than even buyers who offer higher stumpage rates." This is because woodland owners know that it is after-tax profit that is important. Tax savings can easily make a bid more competitive.

Taxes are a major cost of forest ownership and management. McEvoy noted that "tax laws are confusing, especially as they apply to timber, and they are always changing. However, timber buyers who know the laws well enough to explain them to prospective clients are consistently more successful procurement agents than their counterparts."

How well do forest owners really understand the tax laws? Researchers from the Clemson University Department of Forestry and Natural Resources and the USDA Forest Service Southern Research Station recently surveyed nonindustrial,

private forest landowners in South Carolina to find out whether they knew about seven beneficial federal income tax provisions, whether they used the provisions they knew about and, if not, why not.

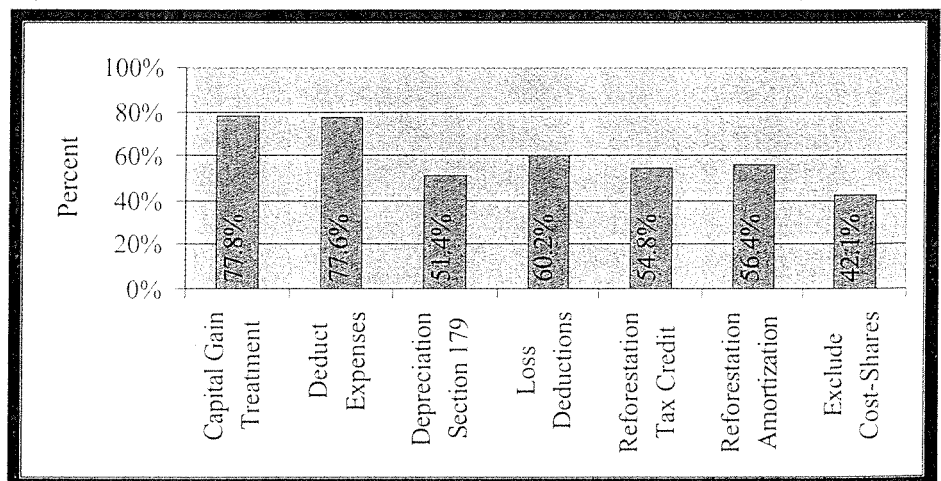
Most of the owners surveyed had a strong forestry background. For example, well over two-thirds had a written forest management plan. Yet, only a quarter were aware of all seven tax provisions, and 13 percent were not aware of any.

The federal income tax provisions

Four of the seven federal income tax provisions surveyed are available to taxpayers in general. The first is long-term capital gain treatment for the sale or disposal of an asset—standing timber, for example—that the owner holds as an investment or as part of a trade or business, and which they have owned for more than 12 months. Among other benefits, capital gains are taxed at a lower rate than ordinary income.

The second provision is the ability to deduct operating expenses and carrying charges—"ordinary and necessary" costs for timber management, consulting foresters, hired labor and insect and disease control—each year as they occur.

Figure 1. Percent of forest owners who were aware of each beneficial income tax provision.



The extent to which owners can deduct these costs depends on their level of participation in management of the forest. Owners who qualify as "material participants" can fully deduct the costs against income from any source. Owners who qualify as investors or who cannot meet the tests for material participation face a number of restrictions.

The third provision is depreciation and the section 179 deduction for income-producing property. Depreciation allows owners to deduct over a specified recovery period the cost of equipment—machinery, buildings, fences—that they use to produce income from their forest. Under section 179, an owner can deduct outright up to \$102,000 per year (for 2004) of the cost of equipment or machinery they acquire to produce income instead of depreciating it. All owners who hold their forest to produce income, whether as an investment or as part of a trade or business, can take depreciation deductions, but only owners who hold their forest as part of a trade or business qualify for the section 179 deduction.

The fourth provision is a deduction for casualty losses or other involuntary conversions. Under it, forest owners whose timber is damaged or destroyed by a natural or man-made disaster, stolen, condemned or killed by a severe insect or disease attack, can take a deduction equal to their basis (investment) in the timber that was lost.

The remaining provisions are available only to forest owners. The fifth is the reforestation tax credit, a 10 percent investment tax credit on up to \$10,000 per year spent by a forest owner to establish or reestablish timber on property they control. The credit is a dollar-for-dollar reduction in the amount of tax the owner owes, up to the

\$1,000 maximum.

The sixth provision, amortization of qualifying reforestation expenses, permits forest owners to amortize (write off) over eight years up to \$10,000 per year of their expenses to establish or reestablish trees. This provision and the reforestation tax credit are linked; owners who use the reforestation tax credit must decrease the amount they amortize by half of the tax credit taken.

The seventh provision permits owners to exclude from their gross income a calculated part of qualifying government cost-share payments they received for practices to establish or reestablish trees. It is likely that the full amount of the cost-share payments will be excludable for owners who recently harvested timber from the area.

Study findings

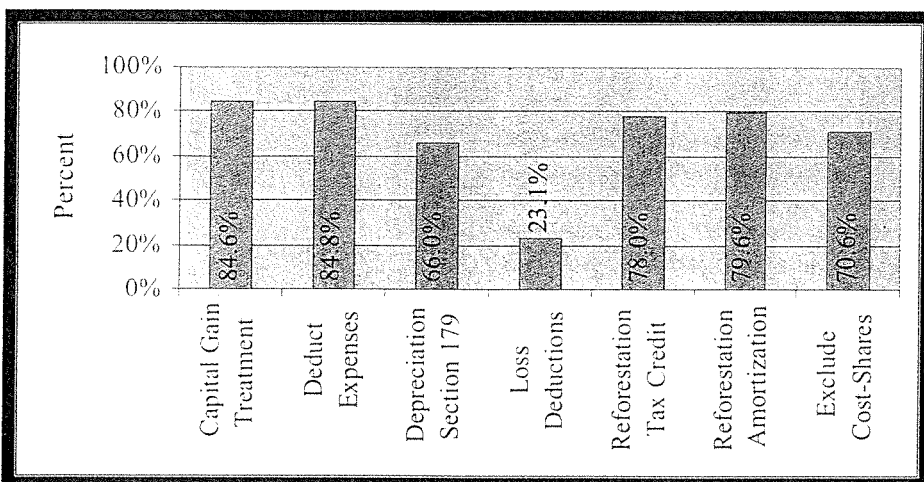
Some 87 percent of the forest owners who responded to the survey were aware of at least one of the seven federal income tax provisions examined. Eight percent were aware of only one provision, but awareness generally increased with number of provisions, so that 25 percent of the owners were aware of all seven provisions.

At just under 80 percent, owner awareness was highest for two of the provisions available to taxpayers in general—treatment of qualifying income as a long-term capital gain and annual deduction of management expenses. Among owners who were aware of these provisions, use also was high at roughly 85 percent (Figure 2).

Owner awareness of the other provisions available to taxpayers in general—depreciation and the section 179 deduction and

Continued on page 36

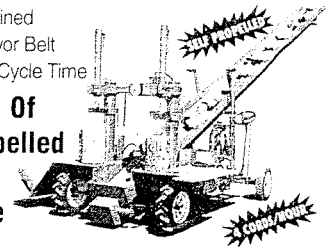
Figure 2. Percent of forest owners who had used beneficial income tax provisions they were aware of.



Why bring the wood to the splitter?
Start bringing the splitter to the wood!!!

- Log Lift
- Self Contained
- 25' Conveyor Belt
- 5 Second Cycle Time

Full Line Of
Self-Propelled
Splitters
Available



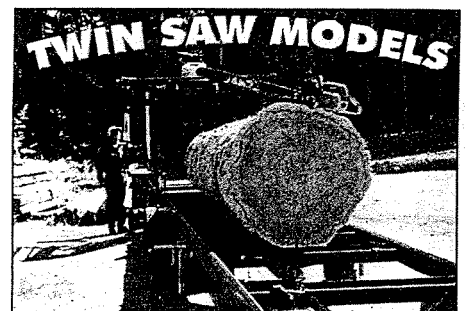
1 Face cord (4'x 8'x 16")
processed in 3 min. 29 sec.

Power
Split

TOLL FREE:
1-888-414-2261

International INC.
www.powersplit.com

FreeInfo! 168



TWIN SAW MODELS

The T.S. 300 handles logs up to 30" diameter to 21 ft. standard. Extra track sections are available. These are the highest production mills in our line up. A cutting rate of up to 2 ft per second gives good production in even the smallest of dimension cutting. With the built-in edger there is no log turning and with the edger saw trailing, the head saw exits the cut 1st so the edger saw releases the tension in the log after the head saw passes. This saw combination also extracts more lumber from the log with the edger saw trailing the head saw.

D & L Double Cut Sawmills

Box 327, Lac La Hache, BC Canada, V0K 1T0
Telephone: (250)396-4607 FAX: (250)396-4609
www.doublecut.com • E-mail: doublecut@bcinternet.net

FreeInfo! 154

Wrap Your Firewood...
Increase Your Profits!

Now in our 12th Year!

Self-Banded Firewood to
Convenience Stores, Campgrounds
and Gift Shops
Seven Bundle Sizes Available —
Electric or Gas
Wrap a Cord of Bundles Per Hour
That Used to Take 5-6
Hours!

Twister Industries

Phone/Fax: 320-679-9835 Cell: 612-350-9620
www.twisterind.com • E-mail: chuck@twisterind.com
2266 Hwy. 65 • Mora, MN 55051

FreeInfo! 123

FREEROLL USA, INC.
 18650 Parkland Drive, Shaker Heights, OH 44122
 216-995-9420 • Fax 216-751-8085
 CGORDON827@aol.com

Sample Sizes

SIZE: THICK X WIDE X HIGH X LONG	
2x5x48x48	2.5x6x60 CL IV
2x6x48x96	3x7x48x60
2.25x6x48x48	3x8x48x72
2.5x6x48x96	3.5x7x48x96
2.5x8x48x96	3.5x8x36x60

Many Other Sizes In Stock!!

FORKS

- * U.S. Stocking Distributor
- * Tubes & Hooks Mounted per your specs
- * Fork Carriages Available
- * Full Taper Forks
- * Bucket Teeth
- * Attachments for wheel loaders & excavators

FreeInfo! 155 *

FAHR ROADCRUSHER™



YOUR TOTAL FOREST ROAD RESURFACING SOLUTION!
 Stop Grading Rocks - CRUSH Them

www.fahrindustries.com
 1-888-983-7333
 fahr@lava.net



"The unique self-powered mobile road crusher"

FreeInfo! 169 *

"Back Saver Package" **Made in USA**
 Increases Productivity of
Timberwolf TW-6 Log Splitter

Timberwolf's TW6 is the company's most powerful wood splitter, delivering 28 tons of force with an 8-second cycle time. Timberwolf now offers a "back saver" package for the TW6, designed to reduce strain and increase productivity. The option package includes:

- Hydraulic log lift - easily raises logs up to 500 lbs on to the cradle
- 6-way wedge to further reduce splitting time
- Table grate for collecting wood at splitter height for back-saving sorting and stacking



TIMBERWOLF
 Peter Hincks, Sales Manager
 1-800-340-4386 • www.timberwolfcorp.com

FreeInfo! 174 *

	Number	Percent
Not aware of any provisions	59	12.6
Aware of one provision	38	8.1
Aware of two provisions	35	7.5
Aware of three provisions	54	11.5
Aware of four provisions	39	8.3
Aware of five provisions	59	12.6
Aware of six provisions	68	14.5
Aware of all seven provisions	117	24.9

Table 1. Number of beneficial federal income tax provisions forest owners were aware of.

An Eye to the Tax Man

Continued from page 35

deductions for involuntary conversions—was much lower at 50 to 60 percent. About 66 percent of owners who were aware of depreciation and the section 179 deduction used them, but only 23 percent of owners who were aware of the deduction provision for involuntary conversion had used it.

Only about 50 percent of forest owners were aware of the three tax provisions intended specifically for them—the reforestation tax credit and amortization provisions and the ability to exclude qualifying reforestation cost-share payments from gross income. Approximately 80 percent of owners who knew about reforestation tax credit and amortization, though, had used the provisions.

Among the owners surveyed, those who knew about any of the beneficial income tax provisions were more likely to belong to a forest owner organization, have a written forest management plan, and have a higher total household income than those who did not. In most cases, owners who knew about a provision also were likely to own more acres of land overall, more acres of forest and to have more formal education than those who did not.

In contrast, there was little difference between owners who used the tax provisions they knew about and those who did not. Owners who chose not to use a provision they were aware of usually believed the

benefit was too small to bother with or the provision didn't apply to their situation.

Conclusions

The study findings sound a clear call for additional efforts to improve forest owner awareness of beneficial federal income tax provisions, especially the provisions designed specifically for them. The traditional approaches using tax handbooks, short courses, magazine articles and Extension workshops have yielded the results we have to date, and certainly need to be continued. However, additional approaches aimed at informing owners of the tax implications of other forest uses—nontraditional products, recreation, stewardship, etc.—offer an approach that would appeal to the interests of additional owners.

McEvoy has identified an opportunity for stumpage buyers. If they can provide basic information on the income tax provisions that affect forestry, they are likely to add something that will add value to forest owners' timber sales. This presents an outstanding opportunity to enhance procurement opportunities and to increase forest owners' knowledge of basic forestry income tax provisions.

FPE

Thomas J. Straka is a professor with Clemson University, Department of Forestry and Natural Resources, Clemson, S.C. John L. Greene is Research Forester with USDA Forest Service Southern Research Station, New Orleans, La. This study was funded by the USDA Forest Service Southern Research Station.