



COMPASS

perspectives & tools to benefit southern forest resources

fall 2005

Forests Under Siege: *Fragmentation accelerates in the South*

Sometimes a Great Notion: Visualizing Forest Fragmentation...page 1
Rapid Changes In Forest Ownership Increase Fragmentation...page 8
Effects On The Two-legged Creatures: Where Will We Recreate?...page 15

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INSIDE... the science

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Science You Can Use!

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- 1** Sometimes a Great Notion: Visualizing Forest Fragmentation
- 5** How Far is the Nearest Road?
- 8** Rapid Changes In Forest Ownership Increase Fragmentation
- 9** Loss Of Interior Forest In The Southeast Tied To Economic Development
- 11** Edge Effects
- 15** Effects On The Two-legged Creatures: Where Will We Recreate?
- 16** Snapshot from the Field: Greenberg Strikes a Balance Between Family and Research

Compass is a quarterly publication of the USDA Forest Service Southern Research Station (SRS). As part of the Nation's largest forestry research organization—USDA Forest Service Research and Development—SRS serves 13 Southern States and beyond. The Station's 130 scientists work at more than 20 units located across the region at Federal laboratories, universities, and experimental forests.

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On the Cover: Example of land cover classification of the area around the Research Triangle Park airport. (*Kurt Riitters*)

Inside Cover Photo: A diverse landscape occurs naturally in the Southern Appalachians. (*Rodney Kindlund*)

DEPARTMENTS

- 19** Landowner's TOOLBOX
- 20** Recommended Reading
- 22** Experimental Forests
- 24** Around The Station...
- 26** New Products From the Southern Research Station



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TAX BENEFITS FOR FOREST LANDOWNERS

by John Greene

The American Jobs Creation Act of 2004 includes four provisions specifically for forest landowners. Two are broad in focus and affect many owners.

Tax Treatment of Reforestation Costs

Previously, owners could take a 10 percent reforestation tax credit on and amortize (write off over 8 tax years) up to \$10,000 per year of their out-of-pocket costs to establish timber. The 2004 law allows owners to deduct outright up to \$10,000 per year of these costs and amortize any additional amount, again over 8 tax years. The reforestation tax credit was repealed. Although the reforestation tax incentives changed, the rules about which costs qualify remain the same.

Deduction of Management Expenses

The American Jobs Creation Act of 2004 removed filing-status restrictions on owners who qualify as active participants in their timber-growing enterprise and who sell timber. The law allows these owners to deduct their management expenses most fully. To ensure that timber income is taxed as a capital gain rather than ordinary income, owners must dispose of timber under the provisions of IRS code section 631. Under the 2004 law, an outright sale of stumpage—as with a lump-sum sale—also qualifies as a section 631 disposal. For tax purposes, the “date of disposal” for a disposal with an economic interest retained remains the date the volume of cut timber is first definitely determined; for an outright sale, the “date of

disposal” is when ownership of the timber changes hands.

Two other provisions which affect forest landowners have a more narrow focus. One allows owners to revoke an election under section 631(a) of the IRS code one time without IRS consent. The second changes the tax treatment of the sale of certain real assets by real estate investment trusts (REITs) that own land.

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John Greene interpreted the forest landowner benefits of the American Jobs Creation Act of 2004. He is a research forester with the Evaluation of Legal, Tax, and Economic Influences on Forest Resource Management unit in New Orleans. Claire Payne contributed to this article.

The USDA Forest Service has published two documents related to the filing of Federal income taxes and timber sales for the year 2005. The first, co-authored by John Greene and Larry Bishop, taxation specialist with Region 8, addresses frequently asked questions, and the second provides tips for forest landowners. Both documents were updated December 1, 2005.

FAQs: <http://www.fs.fed.us/cooperativeforestry/library/timbertax.pdf>

Tax Tips: http://sref.info/news_items/newsitem_12.15.2005 🌲

Landowner's

TOOLBOX