TAXATION

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This magazine is a benefit of membership in your family forestry association.
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Taxes from timber harvesting provide revenues that are used to support local counties, schools, and other government services.

Photo courtesy of Bernhard Kreutz, Washington Department of Revenue

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Other than general editing, the articles appearing in this publication have not been peer reviewed for technical accuracy. The individual authors are primarily responsible for the content and opinions expressed herein.
Minimizing the Pain of Taxation

axes are a part of life...and death. Fortunately for us timber-owning Oregonians, we are eligible for special tax considerations. Before you assume that we came by these concessions just because we (check all that apply):

- provide clean water and air for citizens
- protect and enhance habitat for fish, birds, and four-footed wildlife
- provide scenic recreation areas for residents and tourists
- grow more board-footage than we harvest

...the answer is “no.” OSWA actively participated in the formation of these benefits. Here’s another incidence of your membership dollars directly benefitting you.

Tax Benefit #1...while we’re alive

The Small Tract Forestland (STF) program is designed for us—and to a certain extent, by us. Certain OSWA members (Clint Bentz, for one) worked hard to craft and then persuade legislators to pass STF in 2003. If you own between 10 and 5,000 acres and opt into this program, you pay 20 percent of the “special assessment value” of your land. This “value” is determined by the typical price paid for timberland. When you harvest timber under the STF program, you essentially make up the difference in the deferred tax by paying a severance tax.

In 2004 OSWA and OSU Extension cooperated in sponsoring meetings around the state to inform woodland owners of this option. (County assessors cooperated by printing notices in each county as to when and where these meetings would be held.) We could choose either to opt in to the STF program or remain in the forestland program and pay yearly taxes at the regular special assessed value.

In 2013 this STF program will be reviewed by the Oregon Department of Revenue (ODR) and the Oregon legislature. ODR contends that the cost of collecting the tax is higher than the actual tax collected—a negative bottom line. ODR must, by law, review eligibility and validate that a landowner doesn’t have more than 5,000 acres. They are looking for ways to minimize the cost of implementation. One solution already making the rounds suggests that a landowner sign a declaration when the property in question changes hands. OSWA will be engaged on this issue with the 2013 legislature. Be thinking about your testimony now.

Tax Benefit #2...when we die

Just out this year and probably not fully understood! The 2011 legislative session changed the Inheritance Tax exemption for ALL Oregonians. Now you are allowed a one-million-dollar pass on your death taxes. Your net worth must be reported, but the tax starts on the first dollar after that one million. Prior to 2011, once you passed the one-million mark the tax went back in reverse to the very first dollar. Again, we can thank Clint Bentz and Roger Beyer for helping legislators with this bill.

Also new this year is a revised Natural Resource Tax Credit, available to those whose assets at death are at least 50 percent in natural resources—tree farming, fishing, mining, farming. If your heirs agree to maintain those resources for five years, they will effectively not pay any Oregon estate taxes on those assets.

OSWA is working hard to defer taxes on all fronts so we can continue to contribute to Oregon’s economy.
I'm one of those people that have always done my own tax return (1040). The one thing to keep in mind is that the tax code changes every time the U.S. Congress is in session. As always, do not rely on what you read here. I can only convey my past experience.

My first experience with taxes and forestry was about 1980. I took a credit and amortized the cost of reforestation, which led to an audit. I had documentation in hand and did prevail. I relied on a publication, The New Reforestation Tax Incentives provided by the Forest Industries Committee on Timber Valuation and Taxation. In 1980 the president signed public law 96-451 allowing for up to $10,000 reforestation cost to be eligible for a 10 percent tax credit and a seven-year amortization of the full reforestation cost. In addition we did a cost share and those monies did not have to be included as income. The IRS auditor offered that those monies could also be included in the amortization. Prior law required that reforestation costs could only be offset against a harvest gain.

Capital gains has been one of the more unpredictable taxes for some time. Long-term capital gains that apply to assets held more than one year (which includes your timber harvest) are taxed at a lower rate. In 2003, this rate was reduced to 15 percent and to five percent for individuals in the lowest two income tax brackets. The reduced 15 percent tax rate on qualified dividends and long-term capital gains, previously scheduled to expire in 2008, was extended through 2010 as a result of the Tax Reconciliation Act signed into law by President George W. Bush on May 17, 2006. This was extended through 2012 by President Barack Obama on Dec. 17, 2010. As a result: In 2008-2012, the tax rate on qualified dividends and long-term capital gains is 0 percent for those in the 10 percent and 15 percent tax brackets. After 2012, the long-term capital gains tax rate will be 20 percent (10 percent for taxpayers in the 15 percent bracket). And qualified five-year 18 percent capital gains rate (8 percent for taxpayers in the 15 percent tax bracket) will be reinstated.

Years ago there was a 50 percent exclusion on capital gains and the remainder was taxed at the taxpayer’s ordinary rates. This was pretty simple and straightforward. Currently the computation forms in the 1040 for capital gains is so complex that I had a CPA tell me she was surprised I was able to use it. I had her run the numbers through her computer program to ensure I was correct. Hopefully Congress will not fiddle with capital gains before 2012. Preferential treatment of capital gains is intended to provide incentives for investors to make capital investments and compensate for the effect of inflation.

Last year we sold a piece of property in Alaska and took advantage of the zero capital gains tax situation and will hopefully be able to pay a reduced tax on a harvest we did this year. I’m not sure if the “Alternative Minimum Tax” may kick in. As always, hope for the best and expect the worst. ■
Revision is Needed to Idaho Forestland Taxes

Idaho’s forestland tax system is complex. Like many government programs and systems, the concept looks good on paper, but problems arise when applying the standards and measures to the ground—it doesn’t work well in Idaho’s case. I am a proponent for replacing the Idaho tax system with a simpler system: one that will still raise revenue for the government, will be more applicable and equitable to the forest, and better understood by landowners and government personnel.

The problem, in my opinion, with the current tax system is the lack of good information on which the system is based. The taxing concept is good: the higher the forest productivity, the higher the tax. But determining forest productivity objectively is difficult in the Inland region.

Idaho forests, in general, have poor site index data and substantially lack growth information (volume yields by species by site). We aren’t like the West Coast or Southeast U.S. where even-age rotation yields by species are well documented. With extreme variability in Idaho forest stands (elevation, soil types, precipitation, aspect, slope, etc.), it is near impossible to encapsulate the multiple combinations driving site index and forest growth. Most landowners, large and small, have no relevant data as to the growth potential of their land. Using site trees and habitat types in my experience doesn’t work well, and once again there exists no actual rotational or harvest data on which to base the final assumption.

I am aware of only one large Idaho landowner that has done substantial work on determining and mapping site index on their lands. How can we use a measure of forest productivity (site index or MAI) to drive our forestland tax formula when the basic species-specific data (yields, rotation length, desirable stocking levels, desirable species) does not exist? We can continue to guess, assume, estimate, correlate, and use USFS growth curves from the 1930s—as is current practice.

There are also other problems with Idaho tax statutes that add to the complexity and confusion of our tax system. There is not room in this article to address them but they deal with outdat ed statutes, conflicting statute terminology, and land use classification based on vague, outdated definitions.

My solution to our dilemma would be this: Keep it simple and objective. Devise a tax on forestlands that is based on three quantifiable, growth-related, geographical features (let’s say for this discussion elevation, aspect, and soil depth). A “per acre” tax is set on a matrix combining these attributes. For example, low elevation (2,000’), deep soil, north aspect equates to $5.00 per acre, while high elevation (6,000’), shallow soil, south aspect equates to $1.00 per acre. Each ownership parcel would be partitioned into forest stands (homogeneous attributes) and a “per acre” tax is applied to each stand based on the forest tax matrix. A system like this is quantifiable, applicable, easy to understand, and does reflect the productivity of the land. Can I use “tax” and “simple” in the same sentence? It’s probably not legal to do so.
Begin Pruning Projects
- Plan and perform pruning to meet your management goals.
- Avoid cutting too close and damaging branch collars, or too long leaving “coat hanger” branch stubs.

Inspect Roads
- Roads are the largest source of stream sediments from managed forest properties, and according to a recent federal court decision, a source of water pollution. Clean your water bars and culverts before the fall storms begin, and walk your roads on stormy days with a shovel to make sure your drainage system is working.

New Year’s Resolutions
- Renew your membership in your local woodlands association.
- Attend your woodland association’s annual meeting with your family.
- Invite a member of your woodland association to attend a woodland activity and offer to pick them up. This could be your newest member or a mostly inactive member.
- Get to know your forest neighbors.
- Make time for your children and grandchildren.
- Develop a safety plan for working on your property (more on this later).

Planting Season
- Optimal planting time for bare root seedlings on westside is January through March. On the eastside and at higher elevations it is when the snow leaves.
- Arrange with nursery for seedling delivery date and schedule tree planting day(s).
- Plan for seedling transport and cold storage if needed. It’s vital to protect seedlings from sun and drying during transport and on site. Use “space blankets” and coated tree planting bags to minimize temperature gain and moisture loss. If you don’t get all your seedlings planted in a day or two, arrange for storage at temperatures just above freezing to keep them dormant and healthy.
- Research shows that seedlings handled gently do better. Don’t throw or drop bags of trees and don’t sit on bags of trees. Seedlings outside the ground are a fish out of water.
- Plant your tree right the first time: Why replant a sec-
ond time? Supervise hired planters for quality con-
trol. Plant to same depth as in nursery with stem ver-
tical to flat ground. No air pockets around roots and
keep plant debris out of planting holes. Make a hole
big and deep enough so roots hang down naturally.
Gently firm soil around roots. Look for good planting
spots: north sides of stumps, not on humps of soil,
not in skid or deer trails, not next to animal burrows.
“Keep the green part up.”

❑ Match your spacing to your future management plans
and expected survival; monitor to make sure you
achieve your spacing.

❑ Plant the right tree by making sure the species you
plant fits the site.

❑ Plant a few trees with family members so you can
watch them grow. For you do-it-yourselfers, plant a
lot of seedlings.

Avoid Being a Nominee for the Darwin Awards—
Develop a Safety Plan for Working on Your Property.

❑ Haven’t heard of the Darwin Awards? The Darwin
Awards are named in honor of Charles Darwin who
observed that each generation descends from those
who survive. The Darwin Awards are a chronicle of
enterprising demises honoring those who improve
the human species by accidentally removing them-
selves from the gene pool. Go to www.darwin
awards.com to see if you are a viable candidate.

❑ The following personal account would not get me a
Darwin Award, but did make my spouse really anxious,
and a more aggressive partner might have met me at
the door with her rolling pin. I frequently work in the
woods by myself. When I am out of the woods and
reach cell phone coverage, I am to call my spouse. One
afternoon earlier this summer, I quit harvesting timber
and got out of the woods. When I reached cell cover-
age I made a business call in route to an after-work
appointment and forgot to call my wife. I emerged
from my appointment several hours later, turned on
my cell phone and went oops when my missed call
log jumped up. I had five calls from you know who,
who was thinking I should have checked in by now.
Here are some thoughts on safety plan elements:

▪ Identify Your Location. Someone needs to know
where you plan to be and when you plan to be done.
This information should also be written. Maybe on a
calendar or a day planner you keep in a spot known
to your partner and for this purpose only.

▪ Dress for safety. For example:
  – Wear a hardhat in the woods.
  – Wear ear plugs when operating motorized
equipment.
  – Wear chaps and eye protection when operating
a cutting tool (chain saw, machete, weed
whacker, etc.).
  – Wear gloves.
  – Wear sturdy boots with lug or spiked soles if you
are on slick or steep terrain.

▪ Operate safe equipment. For example:
  – Chain brake works on your chain saw.
  – Tractor has a roll bar.

▪ Operate equipment safely. For example:
  – Wear the seat belt on your tractor.
  – Set the brake, drop the blade or bucket, and put
the transmission in park before you get off your
tractor.
  – Wear the appropriate safety clothing.

▪ Safety Rules Apply to Everyone. Remember
when wearing a bicycle helmet or maybe a seatbelt
was only required if you were not an adult? Set a
good example with your behavior.

Know Your Woods Words

❑ Yoder. I know you are thinking Star Wars…offspring
of Yoda possibly. Actually, Yoder is logger-ease for a
mobile yarder loader. So we are talking about a big
shovel (backhoe) with a couple of drums for yarding
like a tower. It makes a good thinning machine in
small timber as the shovel is heavy enough to yard
without guy lines, doesn’t need much of a tail hold
out in the brush, can sit in a road and swing the
boom and drop the turn of logs in the road, and
doesn’t take much time to move to the next setting
and get back to yarding logs.

❑ Flitch. 1) Side of a hog, a flitch of bacon. 2) A steak
from a halibut. 3) Carpentry. a) A piece, as a board,
forming part of a flitch beam. b) A thin piece of
wood, as a veneer. c) A bundle of veneers, arranged
as knife cut from a log or cant.

❑ Bookmatch. This term refers to boards or veneers
cut consecutively out of a log and kept in order. For
example, if you were to just cut a log in half long
wise the two halves would be bookmatched with the
exact grain features on each sawn face. The same
would apply to boards or veneers cut in consecutive
order having a matching face with the previous or
next piece.
Tax Tips for Forest Landowners for the 2011 Tax Year

By LINDA WANG AND JOHN L. GREENE

This article summarizes federal income tax provisions related to woodland property for use by woodland owners in preparing their 2011 individual tax return. It is current as of September 15, 2011, and supersedes Management Bulletin R8-MB 136. It is for educational use only. Consult your tax advisor for more information.

Personal use, investment, or business property

The tax rules vary depending on whether your woodland is personal use, investment, or business property. You must make this determination each tax year. If you do not have a clear profit motive, your woodland may be personal use property, which provides limited opportunities for deductions. But profit motive includes the expectation of future profit from appreciation in value due to growth and enhanced quality, as with timber. If you have a profit motive, your woodland may be investment property, or it may be business property if your management activity is more regular and intensive than required for an investment. A written forest management plan is an excellent place to document a profit motive. You must determine whether you materially participate in the management of woodland held for business use in order to establish whether you face restrictions (called the passive loss rules) on the deduction of business costs. Investment property is not subject to the passive loss rules.

Example 1: You grow timber for profit from appreciation in value but do not conduct it as a business. Your woodland is investment property.

Timber basis and depletion

Timber basis. Your basis in purchased property is the total amount you paid for it (purchase price, survey, legal fees, etc.). Your basis in inherited property generally is its fair market value (FMV) on the donor’s date of death, but your basis in gifted property is the lower of its FMV or the donor’s basis. Your basis in land and timber acquired together should be divided in proportion to their FMV and posted to separate accounts. If you didn’t allocate basis when you acquired your woodland, a professional forester can determine it retroactively, but you should weigh the cost of establishing the basis against the potential tax savings.

Example 2: You bought forest property for a total cost of $30,000. The FMV of the bare land is 64 percent of total FMV and the FMV of timber (300 thousand board feet (MBF)) is 36 percent. Your basis in the timber is $10,800 (36% x $30,000).

Timber depletion. This is a deduction against timber sale proceeds (see below). It is calculated by dividing your timber basis by the total volume of timber (the depletion unit), then multiplying by the units of timber sold.

Example 3: Continuing with Example 2, say you sold 200 MBF of the timber. Your depletion unit is $36/MBF ($10,800 ÷ 300 MBF) and your depletion deduction is $7,200 ($36/MBF x 200 MBF).

Timber sales

Sale of standing timber. Only the net sale amount, after deducting timber depletion and expenses of the sale, is taxed. You may need to report the sale of timber held as an investment (sec. 1221) on the new Form 8949 as well as Schedule D (final versions and instructions for these forms were not available as of this writing). Use Part II of each form to report a long-term capital gain from timber held over one year. Report the sale of timber held for business use (sec. 631(b)) on Form 4797 and Schedule D, whether you sold it outright (lump sum) or pay-as-cut. Use Part I of Form 4797 to report a long-term capital gain. If you sell timber outright under sec. 631(b) you also must file Form T, Part II.

Example 4: You sold standing timber held as investment for over one year for $8,000, incurring $800 in sale expenses. Assuming your basis in the timber is zero, your net long-term capital gain is $7,200 ($8,000 – $800). You may need to report the sale on Form 8949 and Schedule D. Use Part II of each form.

Sale of cut timber. If you cut your own timber or have it cut by a contractor working at your direction, either for sale or for use in your business (sec. 631(a)), the income is taxed in two parts. If you make an election on Form T, Part II, the difference between the FMV of the standing timber on the first day of your tax year and its basis is taxed as a capital gain. The difference between the proceeds from sale of the wood products and the sum of the FMV of the standing timber and the costs of converting it into products for sale (cutting, hauling, etc.) is ordinary income.

Example 5: You paid a contractor $2,000 to cut standing timber held for business use for over one year into logs and sold the cut logs to a mill for $30,000. The FMV of the standing timber was $23,000 on January 1 and your basis in it was $1,000. If you make the sec. 631(a) election on Form T, Part II, you may report a long-term capital gain of $22,000 ($23,000 – $1,000) on Form 4797 and Schedule D, and $5,000 ($30,000 – $23,000 – $2,000) in ordi-
nary income on Schedule C. If you fail to make the sec. 631(a) election, all $27,000 is ordinary income.

For 2011, the maximum rate for long-term capital gains is 15 percent (0 percent for amounts which, if added to your ordinary income, fit under the ceiling for the 15 percent tax bracket: $34,500 for single taxpayers, $69,000 for married taxpayers filing jointly).

Installment sales

An installment sale involves receiving one or more payments after the year of sale. Interest is charged on deferred payments. The advantage of an installment sale is that it allows you to defer tax by spreading your gain over two or more years.

Example 6: You sold timber for $10,000 ($8,000 after deducting timber depletion and sale expenses) in 2011. The buyer paid you $5,000 in 2011 and $5,000 plus interest in 2012. Your gross profit percentage is 80% ($8,000 ÷ $10,000). Report a $4,000 gain for 2011 ($5,000 x 80%), using Form 6252.

Timber management expenses

If you hold your woodland for profit you can deduct ordinary and necessary timber management expenses, such as the cost to protect the woodland from insects, disease or fire, control brush, do a precommercial thinning or mid-rotation fertilization, maintain firebreaks, etc. Expenses for woodland held as an investment are subject to a two percent of adjusted gross income reduction on Schedule A, but in years the property produces no income, you may elect to add expenses subject to the two percent reduction to your timber basis and recover them when you sell timber. Deduct expenses for woodland held for business use on Schedule C.

Reforestation costs

You may take a tax deduction for reforesting after a harvest or afforesting open land (sec. 194). Costs for both artificial and natural regeneration qualify. You may deduct the first $10,000 ($5,000 for married couples filing separately) per year of such expenses per qualified timber property. Any additional amount may be deducted over 84 months (amortized).

Example 7: You spent $17,000 to reforest after a harvest. Deduct $10,000, plus 1/14th of the remaining $7,000 ($500) on your 2011 tax return. Deduct 1/7th of the $7,000 ($1,000) on your returns for 2012–2017 and the last 1/14th ($500) on your 2018 return. Elect to amortize on Form 4562, Part VI. If you hold your woodland as an investment, take the deduction as an adjustment to gross income on the front of Form 1040; if you hold your woodland as a business, take it on Form 1040, Schedule C (or F if you qualify as a farmer).

Depreciation, bonus depreciation, and sec. 179 expensing

Capital expenditures, such as for logging equipment, bridges, culverts, fences, temporary roads, or the surfaces of permanent roads, may be deducted (depreciated) over a set number of years. For example, light-duty trucks and logging equipment are depreciated over five years. You also may take bonus depreciation equal to 100 percent of the cost of qualified property placed in service in 2011. If you hold your woodland for business use, you can expense up to $500,000 in qualifying property (generally tangible personal property, but not improvements to land, buildings, or components of buildings) placed in service in 2011, subject to a $2 million phase-out and business taxable income limitations (sec. 179 expensing).

Cost-share payments

If you receive a cost-share payment from an approved program, you may exclude all or part of the payment from your income (sec. 126). Approved

---Continued on page 31---
By LINDA WANG

Your woodland property may be taxed under one of the three classifications: personal property, investment (income-producing) property, or business property.

What determines the woodland property’s classification?

Whether your woodland property is a personal, investment, or business property depends on your purpose of owning the property and your use and activities in it.

Property not used to produce income is classified as being held for personal use. For example, your primary purpose for owning the property is personal enjoyment such as hunting and fishing. You do not intend to sell timber for profits.

Timber owned primarily for making profits may be classified as either an investment or business property. Profit motives are required for both classifications.

What distinguishes an investment property from a business property?

Both an investment and business property classification for your timber requires a clear demonstration of “for-profits” motives from growing, cultivating, and selling timber and/or timberland. The determination between investment and business property is based on specific fact and circumstances of your property. In general, a business engages activities in timber production on a more regular basis than in the case of an investment.

Business or hobby?

A business status may be denied and reclassified as “hobby” if it fails the for-profits requirement. Losses that are deductible for a business may be denied for a hobby activity. To determine whether an activity is engaged to make profits, the IRS lists the following factors for taxpayers to consider:

- Does the time and effort put into the activity indicate an intention to make a profit?
- Does the taxpayer depend on income from the activity?
- If there are losses, are they due to circumstances beyond the taxpayer’s control or did they occur in the start-up phase of the business?
- Has the taxpayer changed methods of operation to improve profitability?

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What is Your Woodland’s Tax Classification?

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Members of the Washington
Farm Forestry Association

We count trees, not beans.
• Does the taxpayer or his/her advisors have the knowledge needed to carry on the activity as a successful business?
• Has the taxpayer made a profit in similar activities in the past?
• Does the activity make a profit in some years?
• Can the taxpayer expect to make a profit in the future from the appreciation of assets used in the activity?

What is the IRS presumption of a for-profit activity?

The IRS presumes that an activity is carried on for profit if there is a profit during at least three of the last five tax years, including the current year. Because of the long production cycle and only periodic income from a timber property, failure to meet this presumption does not mean an automatic disqualification. One factor of the for-profit considerations concerns “the expectation to make a profit in the future from the appreciation of asset.” This is particularly relevant to woodland property as timber generally appreciates over time (from physical growth and enhanced quality).

What is a passive activity?

A passive activity only applies to a business classification. If your timber is considered an investment property, the passive activity rules does not apply to you.

If your timber is a business and you do not “materially participate” in the business, your timber is a “passive” business. A passive loss cannot offset income from regular (non-passive) activity.

What is material participation?

You may deduct ordinary and necessary business expenses in full if you materially participate in your timber business. To be considered materially participating in your business, your involvement must be “regular, continuous, and substantial.” If you meet at least one of the following six tests, you will meet the material participation rule:

1. You and your spouse participate in the management and operation of the activity for more than 500 hours during the tax year;
2. You and your spouse’s participation in the management and operation of the activity constitutes substantially all of the participation in the activity during the tax year;
3. You and your spouse participate for more than 100 hours in the management and operation of the activity during the tax year, and no other individual participates more;
4. You and your spouse’s participation in all of your “significant participation” businesses, including timber, exceeds 500 hours during the tax year. A significant participation activity is defined as a trade or business in which you participate for more than 100 hours;
5. You and your spouse materially participate in the management and operation of your timber activity for at least five of the preceding 10 tax years; or
6. All the facts and circumstances of the situation indicate that you and your spouse materially participate.

How is personal, investment or business property taxed?

Losses from personal property are generally not tax deductible (except casualty loss from fire or storm damages). Ordinary and necessary business expenses are deductible in full if you materially participate in your timber business; otherwise losses can only offset passive income. Expenses for investment property may be deductible but are generally subject to a reduction of two percent of your adjusted gross income for the year. Also, you must take itemize deductions to deduct expenses for investment property.

Which classification applies to your timber?

Consider whether making profits from timber production are your main goal for owning your timber property (secondary purpose such as hunting or recreation does not jeopardize “profit” definition). Next consider whether your activity is regular, rising to the level of a business. Maintain consistent tax records and tax reporting unless the nature of your timber activity changes.

Linda Wang is a National Timber Taxation specialist for the USDA Forest Service in Washington, D.C. She can be reached at 404-272-4791 or lwang@fs.fed.us.

SUPPORT RESPONSIBLE FORESTRY.

When you consider that only 10% of the world’s forests are certified, we have a long way to go. The good news is that there are a number of credible forest certification programs. And each one, including SFI, encourages responsible forestry. For more on forest certification and what you can do, visit www.sfiprogram.org.

SUSTAINABLE FORESTRY INITIATIVE
Good for you. Good for our forests.
Income Tax Deduction for Timber Casualty Loss

By LINDA WANG

Timber damaged by hurricane, fire, earthquake, ice, hail, tornado, high wind, and other storms are “casualty losses” that may allow timberland owners to claim a deduction on their federal income tax returns. But in many cases the specific requirements on loss calculation set by the tax law and rules may actually result in low or no deductions.

Tip: It is important to weigh the cost of hiring professional forestry and/or appraisal services to establish the required tax records against the potential tax savings before proceeding.

Determining the amount of casualty loss

Deductible casualty loss for timber held for business or investment purpose is the smaller of the adjusted basis of timber and the difference of the fair market value immediately before and after the casualty. Salvage sale is reported separately.

An example

A wind storm damaged your woodland tract. Before the wind storm, the fair market value (FMV) of the timber was $10,000. But after the storm, the timber is worth only $1,000. So the FMV loss of your timber is $9,000 ($10,000 - $1,000). Assuming your timber basis is $5,000, the amount of casualty loss deduction is only $5,000, not $9,000.

Calculating the adjusted basis

The key for most cases is to figure out the “adjusted basis” of the timber. Generally, the cost of a property (standing timber here) is termed “basis” in tax. The “adjusted basis” is the original basis reduced or added by adjustments over the term of ownership (e.g., new purchase or timber sale).

The original basis for:
• Purchased timber property is the purchase price and related costs (such as legal fee and timber cruises);
• Gifted timber property is the donor’s adjusted basis in most instances;
• Inherited timber property is the fair market value (or alternative value if so elected) on the date of death (or alternative valuation date).

If you have not determined the basis of your timber at the time of acquisition, you may use the current volume, growth over the years, and timber price at the time of acquisition to establish it retroactively (IRS Timber Casualty Loss Audit Technique Guide). Use Form T to document your timber basis.

What you need from your forester

To establish the timber basis and appraise the fair market value loss of the timber immediately before and after the casualty, you may need to consult a professional forester to determine the relevant timber volume in thousand board feet, cords or tons, and timber prices.

Single identifiable property as the measure

Treasury regulations require that casualty loss is determined with respect to the “single identifiable property.” This can be the “timber block” (even if only a portion of it is actually damaged) if you keep the timber tax records (account) together for the block. For example, you own a tract with 100 MBF of pine saw-

Recommended Readings

1. USDA Forest Service Publication: Forest Landowners’ Guide to the Federal Income Tax, Chapter 5 (Cost Considerations), Chapter 6 (Income Considerations), and Chapter 8 (Casualties, Thefts and Condemnations), available free online by key words search using the book’s title.

2. National Timber Tax Website: www.timbertax.org/getstarted/casualty


5. IRS Publication 547: Casualties, Disasters, and Thefts

6. IRS Publication 584: Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)

7. IRS Publication 584B: Business Casualty, Disaster, and Theft Loss Workbook

8. Tax preparation software can be an effective tool for casualty loss calculation and form selection, saving you time.

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timber ($4,000 basis) kept in one account. A fire destroyed 20 MBF. The adjusted basis for the casualty loss determination is $4,000, not just $800 ($4,000 x 20 MBF ÷ 100 MBF). However, the loss valuation must also be appraised for the entire tract/block, which can cost more.

**Where to report the casualty loss**

Casualty losses are claimed first on Form 4684. For timber investment property, the loss is then entered into Schedule A of Form 1040. For timber business property, the loss is entered on Form 4797. Form T should also be prepared, although you may or may not be required to file it (see filing instruction on Form T).

**What if a net gain is realized?**

You have a taxable gain when the salvage sale exceeds the adjusted basis of the timber and the sales expenses. But you may elect to postpone paying taxes on the gain if the proceeds are re-invested in timber such as planting trees, and purchase of timberland and stock (at least 80 percent) of the timber corporations.

**Tax Pointers**

**Appraisal fee and the cost of photos**

- Appraisal fees and the cost of taking photos are not part of the casualty loss deduction. They are deductible expenses claimed as miscellaneous itemized deductions (subject to the two percent adjusted gross income reduction).
- Any cleanup costs after the casualty are not casualty loss.

**When to claim the loss**

- In general, you can deduct a casualty loss only in the tax year in which the casualty occurred.
- However, for federally declared disaster area, you may elect to apply the casualty loss in your prior year’s tax return. Compare your current year and last year’s tax bracket and any expenses in amending the prior year’s tax return.

**Special rules for damage to your house and landscape trees**

- The initial casualty loss deduction, first calculated as the smaller of the fair market value loss and the adjusted basis, is then reduced by $100 per casualty event and 10 percent adjusted gross income to arrive at the allowable amount of loss.
- Insurance, reimbursement, and salvage value must be subtracted from the casualty loss.
- Report such casualty loss as an itemized deduction (Line 20, Schedule A of Form 1040, for 2010).
- If you don’t take itemized deduction, a casualty loss on personal-use property such as your house and landscape trees is lost.
- Note: Combine the house and the landscape trees as one property for calculating the loss (Reg. §1.165-7).

**Tips on tax records for proof**

- Gather information about the casualty (time, nature of the event, and the area affected).
- Take photos as quickly as possible after the casualty.
- Document the federal or state assistance or payment received.
- Gather legal, insurance, and accounting papers, if necessary, from the court, title company, the bank, or the insurance company to establish ownership and possible insurance claims if any.
- Forest management records such as management plan.
- Carefully document the appraisals from the hired services by professional foresters and/or appraisers.

**LINDA WANG is a National Timber Taxation specialist for the USDA Forest Service in Washington, D.C.**

She can be reached at 404-272-4791 or lwang@fs.fed.us.

Bonus Article Available on Websites

Do you need to file Form 1099-S when reporting a timber sale? This is a significant issue to know before a timber sale is made. In an additional article available to readers on your state organization’s website (members only section), tax specialist Linda Wang describes the fine details of Form 1099 reporting.
What is Basis?

By SUSIE GREGORY

Basis. What is it and how is original basis determined? The basis of property you purchase is the amount you pay for it. The basis of property you inherit is the value established for estate tax or probate purposes. This is usually the fair market value of the property on the date of death.

The basis of property you receive as a gift is the lesser of the fair market value of the property on the date of the gift or the donor’s adjusted basis. The amount of the gift tax paid is also a factor in determining basis depending on the date of the gift.

What is adjusted basis?

The adjusted basis of your property is the original basis less any deductions taken for depreciation, depletion, amortization, and losses claimed, plus the cost of any capital improvements, carrying charges, and other additions.

Why is basis important and what is it used for?

Basis is important because we use it to figure deductions and gain or loss on the sale or exchange of the property.

There are three ways to deduct basis:

1. The basis is deducted from the sales proceeds when property is sold;
2. A depreciation deduction can be taken as the property is used up; or
3. A depletion deduction can be used on a natural resource as it is exhausted.

Allocation of basis

Generally, when we acquire our timber property, whether we purchase the property or acquire it as a gift or inheritance, we receive a group of assets. Before we can take any deductions for depletion, depreciation, or losses, we need to allocate a portion of the original basis to each asset involved. This allocation is figured by taking the separate fair market value of each asset and dividing it by the fair market value of the

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total property to get a percentage factor. The original basis is then multiplied by this percentage to arrive at the basis of a particular asset.

**When should I make this allocation?**

The most optimum time to make the allocation is as soon as possible after acquisition.

**What happens if upon acquisition of your forestry property you failed to make the allocation of your original basis?** You weren’t even aware that such a calculation was necessary, but now 15 years later, you sold some of your timber.

Now you must “turn back the hands of time” and retroactively calculate the allocation basis as if it were 15 years ago. A retroactive basis calculation requires that we know the volume, prices and values for the assets at the time of acquisition. To do this you will need an appraiser or Realtor that can look up values and comparable sales of real estate to value those assets.

You will also need a cruiser or consulting forester that can measure the rate of growth to predict what the original timber volume would have been and what it would have sold for. Once you have the figures for all the assets involved you would calculate the allocation in the same way as in the normal manner. ■

**Susie Gregory** is an enrolled agent whose practice is located in Roseburg, Ore. She can be reached at srgea@msn.com. This article was updated and reprinted from the Fall 1991 issue of Northwest Woodlands.

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**Example**

Mr. and Mrs. Jackson purchased a 120-acre tract of rural land. The pasture, barn and house are rented to a local farmer and the woodlands include prime stands of hardwoods. They paid $150,000 for the property. Other costs associated with the purchase and costs necessary for the allocation are title insurance—$500; a surveyor to verify boundaries—$1,400; a consulting forester to cruise the timber for timber valuations—$1,000; and the Realtor estimated the values of the house, barn, fences, homestead, and pasture land. The allocation would be determined as follows:

<table>
<thead>
<tr>
<th>ASSET</th>
<th>FMV</th>
<th>% of FMV</th>
<th>BASIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. House</td>
<td>$15,000</td>
<td>7.63</td>
<td>$11,666</td>
</tr>
<tr>
<td>2. Barn</td>
<td>10,000</td>
<td>5.08</td>
<td>7,767</td>
</tr>
<tr>
<td>3. Fences</td>
<td>2,500</td>
<td>1.27</td>
<td>1,942</td>
</tr>
<tr>
<td>4. Timberland: 90 acres</td>
<td>13,500</td>
<td>6.86</td>
<td>10,489</td>
</tr>
<tr>
<td>5. Pastureland: 29 acres</td>
<td>29,000</td>
<td>14.74</td>
<td>22,537</td>
</tr>
<tr>
<td>6. Homestead: 1 acre</td>
<td>2,500</td>
<td>1.27</td>
<td>1,942</td>
</tr>
<tr>
<td>7. Timber: Merchantable</td>
<td>118,800</td>
<td></td>
<td>92,352</td>
</tr>
<tr>
<td>8. Timber: Young Growth</td>
<td>5,400</td>
<td>2.75</td>
<td>4,205</td>
</tr>
</tbody>
</table>

(c) TOTAL $196,700 100.00% $152,900

Let’s follow this example through with #7, the merchantable timber.

Step 1: FMV of the timber ÷ total FMV or (b) ÷ (c) = allocation factor $152,900 ÷ 196,700 = 0.6040%

Step 2: Original basis (a) x allocation factor = basis of asset $152,900 x 0.6040% = $92,352

The Jackson’s “original basis” in the merchantable timber is $92,352. If they were to sell all the merchantable timber for $120,000, they would deduct the basis of $92,352 to arrive at a gain of $27,648 ($120,000 - $92,352 = $27,648). The $27,648 gain is added to other income on their tax return.
Woodland Record Keeping: What, Why and How

By NORMAN E. ELWOOD

Most woodland owners agree that record keeping is an important part of managing any forest property. Although it’s often seen as a thankless task, record keeping’s rewards can be counted in better decisions—and time and money saved. Without question, good records will help you manage your woodland better by providing:
- a historical record of management activities;
- evidence of buying and selling; and
- information you’ll need for tax filing.

Record keeping is one of those tasks that you can make as complicated or as simple as you want. The key is to collect and record only the vital information needed using the simplest possible system that still allows for easy data retrieval.

In this article, the following questions about record keeping will be answered:
- What records should I keep?
- What is a record?
- What kind of record book(s) should I use?
- How long should I keep the records?
- How should I store my records?

What records should I keep?

The easy answer is—keep everything. But since the accumulation will soon cause storage problems, let’s be more precise. Most folks immediately think of keeping things that document activities involving revenues and expenses. This is correct, and a great start. For woodland management, typical revenue items would include records of harvesting, cost-sharing payments, land sale, lease and permit income, sale of non-timber products, and miscellaneous income.

Typical expense items include property purchase, taxes, access and transportation, equipment purchase and maintenance, pre-harvest stand management expenses, production expenses for the non-timber woodland producer, and that long list of “other” expenses including such things as legal, banking, insurance and dues.

What is a record?

A “record” is anything that describes a situation, thing or event. We usually think of receipts, canceled checks, invoices, scaling tickets and other similar papers. But there are several other important types of records like letters, emails, maps, photos, checkbook registers or online banking statements, calendars, diaries and notes of conversations. These can all be useful in preserving needed information.

Beyond just defining a record is the issue of what constitutes a “good” record. Every record should have four elements: Date, Detail, Dollars, and Directions—the “4-D” system of record keeping.

Always remember to note the date; too often, important records are left

—Continued on page 25—

Activities to Record

- Periodic, on-the-ground inspections of the property.
- Reviewing property tax assessments for accuracy.
- Establishing and maintaining boundary lines.
- Protecting the property from fire, theft, and trespass, and establishing and maintaining access roads and firebreaks.
- Taking measures to control insects and disease.
- Developing and following a timber management plan, even a simple one.
- Actively soliciting the periodic sale of timber products.
- Owning or arranging for the use of vehicles, machinery, tools, and equipment for fire protection, logging and management activities.
- Tree planting or direct seeding.
- Using silvicultural practices to promote natural regeneration.
- Conducting timber stand improvement activities.
- Complying with state forest practices law requirements or with voluntary forestry best management practices, as applicable.
- Belonging to the state woodland association or similar groups.
- Working with or participating in programs developed by state forestry offices.
- Enrolling the timberland in the American Tree Farm System and like organizations.
- Attending short courses, field trips and demonstrations dealing with forest management.
- Maintaining activity and expense records for the property.
- Hiring a consulting forester for advice on the management of the property.

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Taxes on Forestland and Timber in Oregon

By NORM MILLER

Taxes on timber and forestland in Oregon can be complex. Knowing how to navigate the tax system takes a combination of general knowledge about the tax programs as well as the resources available to provide more detail on how particular tax laws impact your ownership situation. Some situations even call for the services of a tax professional. Here are some of my observations on how land and timber are taxed in Oregon.

**Taxes on Land**

Oregon’s property tax system is generally based on the market value of a piece of property. A tax rate is applied to the land value to arrive at the tax. Forestlands found in large tracts in the more remote areas of the state typically are valued lower than those lands producing forests around cities and towns of the state. Thus the tax paid on a per-acre basis increases as you get closer to urban areas.

The law makes a provision for landowners that choose to manage their land located near cities and towns as forestland by making available a special tax assessment. This assessment allows the lower value of remote forestlands to be used when a landowner in a more populated area makes a commitment to continue to manage the land as forestland. This provision is frequently referred to as the Forestland Deferral Program.

An option to this program, the Small Tract Forestland Option, was developed to recognize the long-term nature of owning and managing timber by allowing a portion (80 percent) of the annual property tax to be deferred until timber on the land is harvested. When a harvest occurs, a severance tax is paid based on the volume of the harvest. The money paid goes toward severance tax administration costs and county property taxes. Both of these tax programs contain provisions for removing the special assessment on lands not managed as forestland. This removal may include additional taxes owed.

The best way to help yourself understand your property taxes is to know the tax programs involved with your land. The County Tax Assessor’s office holds this information. Talk with a farm forest appraiser (not the counter person) in the office for the best technical advice on how your property is taxed and what tax programs might apply to your property to reduce your tax. As an example, in eastern Oregon farm land and forestland exist together on many properties. Farm land is typically valued less than forestland. Can the tax burden on your property be reduced by being taxed at farm values? In western Oregon, you can best serve yourself by knowing if your forestland is taxed at the forestland special assessment value. If not, what needs to be done to make this happen?

Know where to go to find help. As mentioned, the County Assessor’s Office is the keeper of property tax records and property tax program information. The state Department of Revenue Timber Tax Program provides oversight to the counties on the property tax programs and administer the taxes paid when you harvest timber. Information on the tax programs they administer can be found at www.oregon.gov/dor/timber/index.shtml. Oregon State University’s Forestry Extension Service, available through county offices, is a very knowledgeable source of forest management information. One publication, *Taxes and Assessments on Oregon Forestland and Timber* (2006, N. Elwood, N. Miller, C. Landgren), is available through OSU to help provide some of the detail needed to understand tax programs in Oregon. Master Woodland Managers are private forestland owners that have received training in many aspects of...
forest management and have committed themselves to helping others manage their lands. These folks may be reached through the County Extension Service.

**Taxes on timber**

Timber harvested in Oregon typically triggers the possibility of a couple of taxes. Federal and state income taxes apply to any money generated from the sale of timber. Additionally, the state requires that a tax, the Forest Products Harvest Tax, be paid on harvested timber.

The Forest Products Harvest Tax (FPHT) was developed to pay for a portion of the cost of administering the state's Forest Practices Act, a program designed to improve the potential impact of forest operations on the land. The FPHT also collects money to pay a portion of the costs for protecting private forestlands from wildfires. The tax is based on a rate determined by the state legislature multiplied by the volume of timber harvested.

The subject of income taxes as they apply to timber harvest earnings is very complex. Specialized knowledge is required to differentiate how tax laws apply to the many intentions landowners have for their forestland. The tax situation for a landowner with 10 acres of land that was purchased for the land's aesthetic appeal would be very different than the situation encountered by a person that owns 500 acres and is trying to manage those acres as a small business.

What I have learned is that it can be difficult to find knowledgeable resources to guide you through income tax situations. Most of the people providing assistance with income taxes through both state and federal government tax help systems do not have the specialized knowledge to deal with income tax on timber harvests, and people within these organizations that do have the specialized knowledge are difficult to contact. Written sources do exist through the OSU Extension Publications and Multimedia Catalog (http://extension.oregonstate.edu/catalog/) when you search on “forest income taxes.” One good source is *Federal Income Taxation for Woodland Owners: An Overview*, (2007, N. Elwood, S. Gregory, C. Landgren). Another web source for federal information is the National Timber Tax website, www.timbertax.org.

But, the most successful approach may be to find a knowledgeable professional that can address your specific needs. The best method for finding such a professional is through networking with other forest landowners and county Extension specialists. Ask them who they use and how knowledgeable their “expert” is. When you talk with a professional ask questions about their experience with your type of situation.

**Oregon Tax Credit to Sunset in 2011**

The Underproductive Forestland Conversion Tax Credit is coming to an end. Landowners need to get their applications approved by the end of the calendar year; applications for new projects will not be accepted after December 31, 2011. To meet the December 31, 2011, deadline, applications for preliminary tax credits must be mailed by November 1, 2011, with the $400 fee per the application instructions.

Applications for the final credit will continue to be accepted after December 31, 2011.

To determine if a new project is eligible for the tax credit, contact your local Oregon Department of Forestry stewardship forester before starting work and before mailing an application form.

For more information and to get a copy of the application form, contact Linda Price at the Department of Forestry’s Salem office at 503-945-7368, or lprice@odf.state.or.us, or visit the website at http://egov.oregon.gov/odf/privateforests/IncentivesTax.shtml.

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**NORM MILLER** is program director, Partnership Development Program, Oregon Department of Forestry in Salem. He can be reached at 503-945-7419 or norm.a.miller@state.or.us.
Imagine owning productive forestland where your property taxes were assessed on the highest and best use, say residential homes. What incentives would you have to maintain your land in forest? How long could you afford to hold on to your forest? Now imagine that your forestland’s property taxes are assessed on current use values, and that when you harvest your trees, you receive money to pay taxes to support local counties, schools, and other local government services. Which scenario sounds like the best method to retain productive forestland to you?

**Designated forestland or open space**

Since 1971, forested lands of 20 or more contiguous acres in Washington state that are primarily devoted to growing and harvesting timber can qualify for designated forestland classification. Designated forestland, also known as DFL, is a current use program with property taxes based on the bare land values for growing and harvesting timber based on soil productivity and operability. DFL means the land only and does not include a residential home site. Annual tax rates for DFL are generally 1.3 percent of the assessed value. Landowners with smaller parcels of forestland primarily devoted to the growing and harvesting of timber with five or more contiguous acres may qualify for Open Space Timberland current use designation. For more information, landowners should contact their local county assessor’s office or check the DOR webpage located at www.dor.wa.gov. Each county’s current use programs are administered slightly differently, so there may be required application fees and management plan requirements.

**Timber excise tax**

When private timber is harvested in Washington state, it is the “timber owner” aka the “timber harvester” that is responsible for paying a timber excise tax of five percent of the stumpage value each quarter during the life of the harvest. Timber is considered harvested at the time the timber volume is first determined, usually by scaling or weighing. Please note...
that a person hired under contract for labor or mechanical services (such as a contract logger) is not liable for the timber tax. If you are unsure who is responsible for paying the timber excise tax, contact the Forest Tax Section at 800-548-8829.

What forms to use?
Harvesters of two million board feet or more in a calendar year must report their timber excise tax using the “Standard Harvester” return. Standard harvesters calculate their taxable stumpage values using Department of Revenue-produced stumpage value tables. Standard harvesters may be eligible to reduce their taxable stumpage values used to compute their timber excise tax with certain adjustments for volume per acre, logging conditions, thinning, and damaged timber.

For those that harvest less than two million board feet in a calendar year, the harvester has the choice of using either the standard return or a “Small Harvester” return where the taxable stumpage value harvested is calculated by subtracting their actual harvesting and marketing costs from gross mill receipts. In order to deduct harvesting and marketing costs, harvesters must use documented costs associated only with the timber harvest, such as contract logging, consulting forester fees, and/or permit costs. The use of your own labor to harvest trees or the cost of building a permanent road is not an allowable cost eligible for deduction on the small harvester return.

A tax credit, called the Enhanced Aquatic Resource Requirement or “EARR” credit is available to harvesters whose forest practices applications meet Washington Department of Natural Resources requirements. The EARR credit reduces the timber excise tax rate from 5 percent of the stumpage value to 4.2 percent.

B&O Tax—you might also owe this
Washington state does not have a state income tax, but timber harvesting is considered a business activity and is subject to the Washington Business and Occupation tax known as the B&O. The B&O for timber harvesting is based on the “gross” receipts received from extracting and wholesaling your timber. The gross is total mill payments without deducting harvesting and marketing costs. Currently, if you gross $225,000/year or more in timber receipts you will owe B&O tax. Harvesters that harvest less than two million board feet in a calendar year do qualify for a small harvester deduction of $100,000 from their gross receipts. The current B&O rate for timber extraction and wholesaling is .03414 of the gross value and includes a surcharge to help support Washington DNR forest and fish research efforts. Depending on your business activity, you may need to file B&O tax return electronically, either monthly, quarterly or annually, and if you harvest more than two million board feet/calendar year, you will need to complete an annual online Department of Revenue Incentive Survey by March 31 of each year.

Where to get help
The Department of Revenue’s Forest Tax Section offers both assistance with filing timber excise tax and/or B&O taxes. You can visit our webpage at www.foresstax.dor.wa.gov for necessary forms or to take a step-by-step small harvester return tutorial. A staff professional can be contacted by calling 1-800-548-8829 Monday-Friday from 8 a.m. to 5 p.m. from anywhere in Washington state, Idaho or Oregon. For those who live outside of these states, call 360-534-1324.

Where does the timber tax go?
Eighty to 92 percent of the timber excise tax is distributed back to the county where the timber was harvested. Timber excise tax proceeds help fund voter-approved capital bonds, school maintenance and operations, county roads, libraries, and fire districts/EMT. The remaining timber tax goes to the state general fund. When timber values are good and harvesting is active, timber tax collections are in the range of $40+ million annually, but with the lower values and harvesting levels over the past few years, approximately $20-$25 million/year was collected. Increasing timber values and demand in 2011 and hopefully beyond help not only timber harvesters to reap benefits—it also helps your local county and schools pay their bills too.

John Walkowiak is a Forest Tax and Audit manager for the Washington Department of Revenue. He is a graduate professional forester and past president of the Washington State Society of American Foresters. He can be reached at 360-534-1303 or email johnwa@dor.wa.gov.
Brief History of Property Taxation of Private Forests in Idaho

By ROD BREVIG

Idaho, like many other states, has tried different forest taxation methodologies in adopting a system that meets the needs of its forest landowners. Forestland became taxable in Idaho in 1913. As in most other states at the time, an ad valorem system was put in place. In 1965, HR 713 was passed in an effort to implement a yield tax system. Some of the concerns that were set forth in 1965 provided the stage for the passage of HR 648, a current use valuation system, several years later.

HR 713 read in part:

“The significant area of privately owned forests in Idaho assure the citizens of this state and future generations benefits which forest areas provide in enhancing water supply and control, in minimizing soil erosion, in providing wild game habitat, in providing scenic and recreational spaces, to its citizens and raw materials for products needed by a state-wide, nation-wide, and even world-wide society. It is this state’s policy to encourage the continuation and development of private forestry to attain these benefits.

The private forests of this state represent a capital intensive productive endeavor that enjoys the same rights of protection and service from local governments as other private properties and shares with them the responsibility to support and finance those governments through taxation.

The existing ad valorem property tax system taxes property on the basis of capital intensity. Forests which require capital accumulation over long periods of time carry extreme burdens of taxation. The existing system of taxation is unsatisfactory for taxation of forestlands and forest products. It is an expensive mechanism for tax collection and unless limited by preferential assessment works to significantly frustrate, to an increasing degree over time, the production and enjoyment of those benefits enumerated above.

For these reasons it is desirable, in order to promote the general welfare that:

(1) Their private forest product asset be exempt from taxation under the ad valorem system of taxation;

(2) Taxation of that forest product asset be replaced by a system under which forest products will be taxed on the basis of gross stumpage value at time of harvest; and

(3) Forestland will remain under the ad valorem taxation system but be taxed only as provided in this chapter.”

HR 713 was repealed in 1966 and the state went back to the previous ad valorem system because a statewide sales tax was passed that required all the attentions of administrative bodies in the state. In 1982, HR 648 was passed setting forth the primary method of forest taxation that Idaho has followed to the present.

Some of the concerns expressed in HR 713 have been echoed by forest landowners about the taxation systems used for their land. At one time, forests were over-assessed relative to properties of higher value (such as urban real estate), a problem known as “parcel bias.” Also, the annual taxation of properties that produce only periodic income encouraged unsustainable forest management practices, a problem known as “time bias.” Concerns of time bias can be addressed by the use of a yield taxation system that exempts timber from taxation until it is harvested.

During the Great Depression of the 1930s, a total of 543,000 acres (about 25 percent of the total acres now designated as private forestland in Idaho) was returned to public ownership; 313,000 acres were donated to the federal government, and 230,000 acres were exchanged for cutting rights to federal timber. Although forestland is actively exchanged between the federal government and private landowners today, private landowners are maintaining their land base in Idaho and increasing it if possible. One of the reasons landowners are maintaining their forest ownership is because they are confident that they will be treated fairly in regard to timber taxation.

Idaho has transitioned to valuation systems that better reflect changes that have occurred in ownership, utilization standards, and man-
The Montana Legislature passed the Forestlands Tax Act in 1991. This law requires the Department of Revenue to value forestland based on land productivity. The legislature defined the productivity formula and each component of that formula. It also provided for specific forest valuation zones, with each zone designated to recognize the uniqueness of marketing areas, timber types, growth rates, access, operability, and other factors important to the valuation of the forestland in that geographic area.

The potential productivity system was supported by the forest products industry, the Montana Forest Owners Association (MFOA), and other forest landowners.

Forested land must be at least 15 contiguous acres or larger in size and in the same ownership to be classified as commercial forestland. Forested land less than 15 contiguous acres in size is classified as non-commercial forestland. Potential forest growth is estimated for each acre of forested land, including "clearcuts." That growth is measured in cubic feet per acre per year. The estimated potential forest growth is placed in one of four productivity classes. Forested land that does not meet the minimum growth requirement is classified as non-commercial forestland. This minimum growth requirement is 25 cubic feet per acre per year at the peak biological age of a stand (the technical forestry term for peak biological age is "culmination of mean annual increment"). Non-commercial forestland is not valued as forestland for property tax purposes. Non-forest and noncommercial forestland may be valued as tract land, agricultural land, or "non-qualifying" agricultural land.

Standing timber is exempt from property taxation. Only the land, not the standing timber, is eligible for property taxation. If a landowner deeds his timber to another party, the landowner, not the timber owner, is responsible for the forestland property tax.

On any given commercial forestland site, a clearcut would receive the same value as an old-growth stand (standing timber is not taxed). Forest management practices will not influence the forest assessment. Knowledgeable forest landowners will realize that they can practice intensive forest management to optimize wood production and enhance other non-timber elements without the penalty of higher forestland property taxes.

Agricultural and forestlands are often intertwined. Both types of land are valued under the "productivity" concept.

The formula for forestland productivity can be described as: 

$$ V = I/R $$

where:

- \( V \) = per acre forest and other agricultural productivity value
- \( I \) = per acre net income of forestlands
- \( R \) = capitalization formula

The forest productivity formula can be further defined as:

$$ V = ((M \times SV) + AI - C) / R $$

Where:

- \( M \) = mean annual net wood production
- \( SV \) = stumpage value
- \( AI \) = per acre agricultural-related income
- \( C \) = per unit cost of the forest product and the agricultural product

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Rod Brevig is Forest Tax administrator, Idaho State Tax Commission, Property Tax Division, in Boise. He can be reached at 208-334-7737 or rbrevig@tax.idaho.gov.

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Many people are instrumental in compiling the valuation information. The Montana Department of Revenue hires a nationally recognized forest economist at the University of Montana, School of Forestry, to develop the forestland valuation zones and the average stumpage value in each valuation zone. The Department of Revenue compiles the forest costs and the capitalization rate. Representatives from the forest products industry and MFOA review the data and provide their input.

The forest and agricultural land appraisal system uses valuation schedules to apply a single value to each productivity grade. Agricultural land appraisal uses a single, statewide valuation schedule. Forestland appraisal uses five valuation schedules in the state. The forestland classification system contains four productivity grades. Therefore, there are 20 different per acre forestland values in the state. Each value in a schedule represents a range of productivity, income, costs, and interest rates. Income and expense data represent averages for a base period of time. The forestland schedules that were implemented in 1997 use data compiled from 1991-1995. The values associated with the new schedules were phased-in in accordance with SB184. The next appraisal cycle will be implemented in 2015.

The legislature assigns all taxable property to individual tax classes. There are currently 12 property tax classes. Forestland is in Property Tax Class 10. The legislature specifies the tax class percentages that are applied against the value of the property within each tax class to calculate the taxable value. A parcel of land may have several classes of property. The most common property classes for rural land are forestland, agricultural land, “non-qualifying” agricultural land, and a one-acre home site. Each property class has a different tax class percentage.

The department is responsible for administering statute as determined by the legislature including the valuation of all property in the state. Without the Department of Revenue, not a single dollar of property taxes would be collected.

An individual taxpayer's property tax is calculated using two variables—taxable value and the millage rates. The taxable value is determined by applying legislative policy to the assessed market value of the property. The millage rates are based on the level of goods and services provided by local governments—their budget. They are calculated so that local governments generate enough revenue to meet their budgets. In Montana, millage rates are usually discussed in terms of numbers called mills. One mill will generate $1.00 for each $1,000 in taxable value.

Local taxing jurisdictions set their budgets to provide the same level of services as the previous year. Once the level of service is determined and the budget is set, the taxing jurisdiction uses the total value of the taxing jurisdiction's tax base to determine the mills. For this reason, millage rates (and mills) are simply a function of local taxing jurisdiction budgeting decisions. The local budgets determine the level of taxes and the mills are simply a function of the budget and the tax base. The tax base is the taxable value of all of the properties within a taxing jurisdiction. Local taxing jurisdictions are allowed to levy mills to fund the services that they provide. Schools, cities and towns, counties, miscellaneous districts, and the state all generate revenue from the property tax system by levying mills against property within that jurisdiction. Each taxing jurisdiction's mills are added together to determine the total mills that apply to a property. All properties that are a part of the same combination of taxing jurisdictions make up a taxing district. By definition, each property in a taxing district will have the same amount of mills applied to its taxable values.

The state's portion of property taxes is fixed and is made up of 95 mills for school equalizations, six mills for the university system, and in some counties, 1.5 mills for vocational and technical schools. These mills generate revenue for the general fund that is then used by the legislature to fund schools, universities, and technical schools. 

This article was prepared by the Montana Department of Revenue for Northwest Woodlands using information from http://revenue.mt.gov/content/publications/biennial_reports/2008-2010/Biennial_Report-PropTax.pdf and http://revenue.mt.gov/individuals_taxes_license/permits/Property_Taxes/Classes_of_Property/property_class10.mcpx.
Woodland Record Keeping
continued from page 16

undated. Every good record will supply detail describing the thing, event, activity, transaction, etc. More is generally better than less. Later, you can always ignore what proves to be irrelevant. If dollars are involved, be sure to note the amount and whether it’s income or cost. Finally, since record keeping systems often consist of several items—checkbook, ledger, calendar and file folders—elements of the same record may be contained in several places. Do yourself (and your accountant) a favor and leave some directions to where other parts of the records are. In other words, do some cross referencing. Make some notes somewhere about where other parts of the related records are located.

What kind of record book(s) should I use?

Here, we’re beginning to focus on what kind of record keeping “system” to use. The answer is “use the simplest one that works for you, yet still meets your accounting and management needs.” The Internal Revenue Service (IRS) does not require that you use any special kind of book. The IRS’ only requirement is that during an audit your records be available and that they contain everything needed to substantiate the income, deductions, credits, and other items on your tax return.

One of the things that you should be sure your system will record conveniently is the time that you spend managing your operation. The Tax Reform Act of 1986 introduced Passive Loss Rules to guide the IRS’ acceptance (or rejection) of many tax deductions. With these rules came a six-step test to determine your classification as an investor, passive participant, or active participant in a trade or business. Each category permits different types and levels of deductions. Although you must only meet one criteria in the six-step test to qualify as an active participant (often the most advantageous category), three of the criteria require proof of your number of hours invested in the operation. The sidebar on page 16 lists common activities that woodland owners engage in. Any time spent on these activities should be recorded.

Thus, use whatever system is most convenient for you, that does not “get in the way” of actually recording the information, that makes retrieving data easy, and that provides you and your professional advisors (lawyer, banker, accountant, tax person, forester, etc.) with the information needed to manage your operation. It can be as formal or informal as you wish. Handwritten records in notebooks or ledgerbooks will work for many. Others with larger and/or more complex operations may need the power of a personal computer and accounting software. Regardless of what you use, keep it organized and follow the 4-D system.

How long should I keep the records?

Not all records have to be kept for the same length of time. The IRS’ general requirement is that your records must be kept as long as they might be needed to administer any Internal Revenue law. Keep income and expense records for a minimum of three years after paying your tax. If you pay other people to work for you, as either contractors or employees, keep these records a minimum of four years after paying your tax. Records that establish your property basis should be kept forever, or at least until three years after you have disposed of the property. Finally, old tax returns contain valuable information. Since the IRS may, under normal circumstances, audit returns for up to six years, keep copies for at least that long. How should I store my records?

This question has elements of both how and where. How is defined by the type of system you’re using. Some will use a checkbook and container for receipts (envelope, shoe box, paper bag). Others will add file folders and boxes, ledgers and other accounting books, and home safes or bank safety deposit boxes. Still others will add personal computers.

Where to keep the records is a compromise between security and accessibility. You’ll want them in the safest place possible that still makes them easy to use. Also involved is how often they’ll be used. Many strategies exist for balancing security and accessibility.

Keep extremely valuable, and possibly irreplaceable, records in a bank safety deposit box. If you want these records on hand, make photocopies. These might include things like bills of sale, deeds, legal agreements, titles, and original wills. Other, perhaps more easily replaced records can be kept at home, preferably in a fireproof file box. Examples include past income and property tax records, receipts for major purchases, warranties, financial records, and back-up computer disks.

There are many record-keeping systems available. Using the most sophisticated, computerized system is not always the answer. The important thing is that the system meets your needs and that you use it regularly. Like the more visible activities on your woodland, good record keeping will contribute to the operation’s profitability and help assure achievement of your ownership objectives.

This article was reprinted from the fall 1991 issue of Northwest Woodlands and has been updated. At the time of the original writing, NORMAN E. ELWOOD was a forest management Extension specialist for Oregon State University in Corvallis. He is now retired. Record Keeping: A How-to-do-it Guide for Small Woodland Owners, written by Norman Elwood and Susie Gregory, enrolled agent, Roseburg, is available for free download at http://library.oregonstate.edu/xmlui/bitstream/handle/1957/18897.

This document is part of The Woodland Workbook series produced by OSU Extension, and was updated in March 2007.
Reforestation Expenditure:
Answers to Your Tax Questions

BY LINDA WANG

Is reforestation cost tax deductible?

After October 22, 2004, qualified reforestation costs are currently deductible up to the deduction limits set by the tax law: specifically, you can elect to deduct up to $10,000 ($5,000 if married filing separately) of qualified reforestation cost for any qualified timber property in the tax year paid or incurred. The remaining costs are deductible over 84 months (through “amortization deduction”).

Can you show me an example of how amortization deduction works?

If you incurred $18,400 reforestation costs in 2010, your amortization deduction is figured as follows: for 2010, you can elect to take $600 ($8,400÷14 = $600) as amortization deduction. The 1/14 comes from the amortization period of seven years (84 months) with each year taking 1/7, but only half of the deductions are allowed in the first and last year of the amortization period. So the total of reforestation deduction for your 2010 return is $10,600 ($600 amortization and $10,000 deduction). For 2011 through 2016, your amortization deduction will be $1,200 ($8,400÷7 = $1,200). For 2017, your amortization deduction will be $600. It’s important to keep track of the deduction schedule over the amortization years.

What are qualified reforestation costs?

Qualified reforestation expenditures means “direct costs incurred in connection with forestation or reforestation by planting or artificial or natural seeding, including costs (i) for the preparation of the site; (ii) of seeds or seedlings; and (iii) for labor and tools, including depreciation of equipment such as tractors, trucks, tree planters, and similar machines used in planting or seeding.”

I’m an individual taxpayer owning timber as income-producing property, not a business. Where do I report the reforestation costs?

For income-producing timber property, individuals use Form 4562, Part IV “Amortization” to claim the reforestation amortization. Then combined with the reforestation deduction, report on the front page of Form 1040, under “Adjusted Gross Income” section (Line 23-35 of 2010 Form 1040). There is not a specific line for reforestation under this section; however, you may write “reforestation” and amount on one of the dotted lines. So the reforestation deduction and amortization reduce your gross income to arrive at your adjusted gross income. You must also either file Form T if it is otherwise required or attach a statement to make the reforestation deduction and amortization election under sec. 194.

Where does a timber-growing business report reforestation expenditure? Is it on Schedule C?

You report amortization using Form 4562 and combine the $10,000 deduction together on Schedule C if you are a sole proprietor timber business or Schedule F if you are an ag producer. You must also either file Form T if it is otherwise required or attach a statement to make the reforestation deduction and amortization election under sec. 194.

Must I make an election to take reforestation deduction?

Yes, an election must be made to deduct and amortize reforestation costs under sec. 194. The election is done by filing in the appropriate place in the return and tax forms such as Form 4562 for amortization and Form T (Timber), Forest Activities Schedule if otherwise required or attach a statement if Form T is not required (IRS Publication 535). The statement should state the amounts of the expenditures, describe the nature of the expenditures, state the date on which each was incurred, state the type of timber being grown and the purpose for which it is being grown. In addition, the statement also should include the applicable unique stand identification numbers and the total number of acres reforested during the tax year (IRS Publication 535 and Form T instructions). A separate statement must be included for each property for which reforestation

(Continued on next page)
expenditures are being amortized under sec. 194.

We operate as a partnership. How do we report the reforestation costs?

The partnership must make an election to take the reforestation deduction and amortization. A partner cannot make that election (IRS Publication 535). Partners report their reforestation deduction on Schedule E of Form 1040 using information reported on their schedule K-1. The $10,000 deduction limitation applies with respect to the partnership and with respect to each partner.

What is qualified timber property?

Qualified timber property is woodlot or other site that is “held by the taxpayer for the growing and cutting of timber” to be sold or used in the commercial production of timber products. The property must consist of at least one acre and be located in the United States. Qualified timber property does not include property on which the taxpayer has planted shelter belts (for which current deductions are allowed under section 175) or ornamental trees, such as Christmas trees.

Can I still make the election if I missed the deadline?

The IRS regulation requires that the election to amortization may only be made on a timely return (including extensions) for the tax year. However, the IRS guide allows an exception: if you timely filed your return, you can still make the election by filing an amended return within six months of the due date of the return (excluding extensions) by writing “Filed pursuant to section 301.9100-2” on Form 4562 (IRS Publication 535).

I received cost share to reforest my property. How do I report the reforestation expenses in this case?

Your cost share payment received generally must be reported as income unless it qualifies for income exclusion (under sec. 126). If all or a portion of the cost share payment is excluded from your income, your qualified reforestation costs must be reduced by the excluded amount. If you included the cost share payment in your income, you may deduct and amortize all of the reforestation costs (not reduced by the cost share amount). You cannot exclude cost share payment from your income and at the same time claim a reforestation deduction on the same amount.

What is reforestation deduction recapture?

If you dispose of qualified timber property within 10 years after the tax year you incur qualifying reforestation expenses, report any gain as ordinary income up to the amortization you took.

Is the estate and trust eligible for the reforestation deduction and amortization?

An estate may take the reforestation deduction and amortization. A trust is only eligible for the amortization deduction.

What tax records do I need to keep and for how long will I keep them?

You should maintain adequate and separate tax records (called “timber account”) for each qualified timber property under sec. 194. These records should include all reforestation treatments and the dates. The reforestation cost, after taking sec. 194 elections, generally cannot become part of any other timber account you have because they may not be used for (depletion) deduction and casualty loss deduction again in the future. All records relating to a qualified timber property account also should be maintained until disposal occurs.

LINDA WANG is a National Timber Taxation specialist for the USDA Forest Service in Washington, D.C. She can be reached at 404-272-4791 or lwang@fs.fed.us.

Northwest Hardwoods, Inc.

Sustainable Forestry Initiative

Purchasing alder, maple and ash sawlogs and pulp. Also hemlock sawlogs and timber at the following locations:

<table>
<thead>
<tr>
<th>Location</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arlington, WA</td>
<td>(360) 435-8502</td>
</tr>
<tr>
<td>Centralia, WA</td>
<td>(360) 736-2811</td>
</tr>
<tr>
<td>Longview, WA</td>
<td>(360) 577-3887</td>
</tr>
<tr>
<td>Eugene, OR</td>
<td>(541) 689-2581</td>
</tr>
<tr>
<td>Coos Bay, OR</td>
<td>(541) 267-0419</td>
</tr>
<tr>
<td>Garibaldi, OR</td>
<td>(503) 322-3367</td>
</tr>
</tbody>
</table>
Piling by hand followed by burning is used frequently in many forest and woodland types to remove or reduce the residue created by mechanical manipulation of excessive tree or shrub growth. Hand-piling mitigates soil compaction concerns and widens the prescribed burning window. Landowners have more flexibility when burning piles (e.g., piles can be burned under weather conditions and with fewer personnel that are not conducive to safe and effective broadcast burning). Hand-pile burning can be more easily monitored and controlled, minimizing escape potential. Likewise, landowners can choose to not burn all piles in an area at once, thereby distributing total smoke production over several days or burning periods and reducing the air quality impacts of smoke.

Past pile characterization research dealt with machine piles and windrows, but machine piles have different physical properties than hand-piles. This study quantifies the relationship between hand-pile composition, size, biomass, and emissions from data collected in California and Washington. The research result is a web-based calculator at http://depts.washington.edu/nwfire/handpiles. The user enters easily measured variables such as pile shape (GTR-805 has the diagrammed choices), dimensions, type, number, and estimated proportion consumed. The output is pile volume (cu. ft.), biomass (tons), consumed fuel (tons), and emissions by specific pollutants (tons).

The extreme soil temperatures generated beneath burning slash piles typically have undesirable impacts on established understory plants, soil seedbank, soil biota, and soil chemical and water-holding properties.
Consequently, native plant recovery in burn scars is often delayed for years, although the scars are vulnerable to exotic plant invasion.

This research study compared the relative effectiveness of seeding, mulching, and scarifying to rehabilitate slash pile burn scars. (Reviewer comment: The study sites were in lodgepole pine and quaking aspen forest on sandy, gravelly, and stony loam soils of Colorado, but the rehabilitation concept intuitively seems appropriate elsewhere.)

Simple rehabilitation treatments can be useful tools for ameliorating some negative impacts of pile burning. Seeding of scars with native perennial grasses (but no other treatments) doubled native plant diversity, only slightly increased native plant cover, and made no difference in exotic species diversity or cover when compared to the control. Mulching with a 1.5-2.5 inch layer of wood chips (but no other treatment) also doubled native plant diversity, only slightly increased native cover, tripled exotic plant diversity, and halved exotic cover when compared to the control. Soil scarification by hand-raking to a depth of 3-4 inches almost tripled native diversity, doubled native cover, made no difference in exotic diversity, and only slightly decreased exotic cover. The greatest increase in native species (3.4x to 4.6x the control), and the greatest decrease in exotic cover (4x the control), came from a combination of seeding and mulching. The researchers recommend monitoring for needed adjustments if this treatment is used in other settings.

TreeSmarts: Forest Research You Can Use is edited by Ed Styskel, a Certified Wildlife Biologist®, tree farmer in Pend Oreille County, member of the Washington Farm Forestry Association, and member of the Northwest Woodlands Advisory Committee. Suggestions are especially welcome; send to esi@bendnet.com.
DEAR TREEMAN, On my ponderosa pine and Douglas-fir seedlings, I use plastic mesh for critter control. Twice now, I’ve found a bird and mouse, both dead, on top of the tree seedling inside the mesh. Could this be the work of a shrike, stashing his kill for later consumption? I couldn’t find any obvious injury to the animal. —Vic

DEAR VIC, Shrikes belong to the family Laniidae of which there are 31 species, although only two of the species breeds in North America, the loggerhead and the great grey. Considering the location of the scene of the crime, we’ll assume your bird is the loggerhead, Lanius ludovicianus, and not the great grey. The family name is derived from the Latin word for “butcher,” and some shrikes are also known as “butcher birds” because of their feeding habits. They are known for catching insects, lizards, mice, and other birds, then impaling their bodies on thorns or barbed wire fences.

Shrikes are predators, but they do not have the strong feet and talons of a raptor. They do possess a strongly hooked bill for gripping flesh, and a strong notch or “tooth” near the bill tip that helps sever the spinal cord of their prey. They perch themselves in opportune locations where they can survey the landscape, awaiting potential victims. Thorns, barbed wire, or a fork in a tree branch is used to hold their prey while they tear them apart as they bite off edible chunks.

Possibly, the plastic mesh surrounding your seedlings is being used for the same purpose. Many times their prey will be left at these sites for later consumption, and your erect tubes do serve as a distinct and easy-to-locate site.

Shrikes are about the size of robins. One of their more distinguishing marks is their mask, a black stripe around their eyes extending across the forehead. They also have a disproportionately large, or logger, head, thus the derivation of the common name. During courtship, they sing a rather unmusical series of notes, more like a shriek, thus the common name shrike being a variant of shriek. In the past, shrikes were widely distributed around farms and suburbs, but are now located in areas thinly populated by humans.

Amazingly, we see a close similarity to shrikes and politicians. They are predators, seek opportune locations for prey, have big heads, are difficult to identify, hiding behind a mask, and make shrieking sounds (especially during mating or election time). Dissimilarities include shrikes being, for the most part, monogamous, avoiding crowds, and only biting off as much as they can chew. There certainly exists the possibility of there being another explanation for your dead mouse, but a strong possibility it would not have been as entertaining...at least to the writer. —Treeman

DEAR TREEMAN, Part of my property borders a peach orchard. Several of the branches from some of the trees extend over the fence and make a mess in my yard when the fruit falls from the tree. Can I remove the branches that hang over my yard so I don’t have to keep clearing up rotten peaches? —Roger

DEAR ROGER, Roger that. Or better yet, why not further your culinary capacities with a cobbler before those drupaceous delectables drop? Then again, your perfunctory picking just might get you in a pecuniary pickle. By law, you have the right to trim branches and limbs that extend past the property line. However, the law only allows tree trimming and tree cutting up to the property line. You may not go onto the neighbor’s property or destroy the tree. Any decisions deleterious to the object in question may find you liable.

Unfortunately, your case is yet another example where common sense and the letter of the law appear to be at loggerheads. The peaches belong to the owner of the tree, so you are not allowed to pick any of the fruit. As long as they are attached to the stem they remain the forbidden fruit, in this case a peach, not an apple. Once gravity predominates, the courts are divided on who can have the fallen objects. In a personal conversation with a local judge, she said she would “laugh the guy out of court” if they sued for damages or attempted to confiscate your cobbler. But the interviewed judge is a personal friend and was perhaps a bit flippant in her response to the question.

But while we are on the subject of overhanging trees and who is responsible for what under which circumstances...how about leaves? If the leaves from the peach trees are blowing into your yard, can they be considered a nuisance? The answer is no. Leaves are considered a natural product and even if they cause damage, like clogging your gutters and rotting out the roof, you have no legal recourse against the owner of the trees. So we have returned to removing a portion of the tree to ameliorate your landscaping and maintenance regimes.

If, in your zest for removing portions of such said tree hanging over your property, and the tree dies, then you have become liable. Monetary damages are variable and myriad factors may be taken into consideration. And you may find yourself in a legal quandary merely by “defacing” the tree. Ordinances exist where a tree may be considered a historic landmark and any changes in the object’s structure or appearance may auger ill for the agent responsible for the act. So think before you fire up that chainsaw. Or, as we like to say around here: a kerf is forever. —Treeman
Tax Tips for 2011
continued from page 9

federal programs include the Forest Health Protection Program (for southern pine beetle and mountain pine beetle), the Conservation Reserve Program, Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, and Wetlands Reserve Program. Several state programs also are approved. The excludable amount is the present value of the greater of $2.50 per acre or 10 percent of the average annual income from the affected acres over the last three years. You generally may not exclude a payment if the cost can be expensed. Neither can you claim a deduction for an expense reimbursed with a cost-share payment and also exclude the payment from your income.

Example 8: You received a $4,000 cost-share payment from the Conservation Reserve Program for your 100-acre woodland. If you had no income from the property in the last three years, you could exclude $3,275 (($2.50 x 100 acres) ÷ 7.63%). The interest rate of 7.63% is from the Farm Credit System Bank. If you had $9,600 in income, you could exclude the entire payment: (10% x ($9,600 ÷ 3)) ÷ 7.63% = $4,194 > $4,000. Attach a statement to your tax return describing the cost-share program and your calculations.

Casualty and theft losses

Loss of timber from a casualty—a sudden, unexpected, and unusual event such as a fire or severe storm—may result in a tax deduction. The deduction is limited to the lesser of the decrease in FMV caused by the casualty or your basis in the timber block (the area or unit you use to keep track of your basis in the damaged timber). Similarly, a theft loss deduction is limited to the lesser of the decrease in FMV or your basis in the stolen timber. A competent appraisal that meets appropriate appraisal standards is usually required. For details on accepted appraisals, refer to the Timber Casualty Loss Audit Technique Guide posted on the IRS website and at timbertax.org.

Example 9: A fire caused $5,000 in damage to your timber ($9,000 before-fire FMV–$4,000 after-fire FMV). Your basis in the affected block is $2,000. Your loss deduction is the lesser amount, or $2,000. Report the loss on Form 4684, Section B, and adjust your timber basis (reduce it to zero) on Form T, Part II.

Example 10: Continuing with Example 9, you sell the damaged timber for $2,000 in a salvage sale. You have a taxable gain of $2,000 ($2,000 – $0 basis), but you can defer tax on the gain by using it to acquire qualified replacement property (e.g., reforestation) within the allowable replacement period (generally two years).

Filing Form T

You must file Form T, Forest Activities Schedule, if you claim a timber depletion deduction, sell cut products under sec. 631(a), or sell timber held for business use lump-sum (sec. 631(b)).

LINDA WANG is National Timber Taxation specialist for the USDA Forest Service in Washington, D.C. She can be reached at lwang@fs.fed.us. JOHN L. GREENE is research forester, Southern Research Station, USDA Forest Service. He can be reached at jgreen01@fs.fed.us.

CALENDAR

Forest Stewardship Coached Planning Class, Jan. 18-March 14, 2012, Wednesdays, Coupeville, WA. Contact: Kevin Zobrist, 425-357-6017, kzobrist@wsu.edu.


Forest Stewardship Coached Planning Class, Feb. 15-April 5, 2012, Thursdays, Elk, WA. Contact: Kevin Zobrist, 425-357-6017, kzobrist@wsu.edu.

IFOA annual business meeting and Family Forest Owners and Managers Conference and Exposition, March 19-20, Moscow, ID. Contact: IFOA, 208-683-3168, info@idahoforestowners.org.

Tree School Clackamas, March 24, Oregon City, OR. Contact: OSU Extension, 503-655-8631.

Tree School Baker City, April 14, Baker City, OR. Contact: Bob Parker, 541-523-6418, bob.parker@oregonstate.edu.


OSWA 2012 Annual Meeting, June 22-23, Forest Grove, OR. Contact: Jen Reins, jen-reins@gmail.com.

Send calendar items to the editor at rasor@safnwo.org.
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