

# FOREST STEWARDSHIP BRIEFINGS

Timber ◇ Wildlife ◇ Water ◇ Soil ◇ Best Management Practices ◇ Forest Health ◇ Recreation ◇ Aesthetics

## TAX TIPS FOR FOREST LANDOWNERS

from article by Linda Wang, National Forest Tax Specialist, USDA Forest Service, Washington D.C.

For more information:

- <http://www.timbertax.org/publications/fs/taxtips/TaxTips2015Updated.pdf>

To help woodland owners in filing their 2015 tax returns, this summary explains the federal income tax laws on timber. Consult your tax and legal professionals for advice on your particular tax situation.

### TIMBER PROPERTY CLASSIFICATIONS -

For tax purposes, a woodland property may be classified as an investment, business, or personal-use property. Tax deductions and losses that are allowed for investment or business properties may be limited or denied for personal-use property. If your primary purpose of owning land is for personal enjoyment (such as fishing and family retreat), your property may be taxed as personal-use property. In contrast, if your primary purpose of land ownership is for making a profit from growing timber, your timber may be taxed as an investment property or a business when such profit-seeking timber activities are more regular, active, and continuous than an investment.

### TIMBER BASIS AND DEPLETION - *Basis*

is the cost of the timber to the owner. You may deduct it from timber sales, which reduces the tax due on the sales. *Depletion* is a deduction against timber sale.

### TIMBER SALES - *Sales of standing timber*

held as an investment for more than 1 year qualify for long-term capital gain, which is taxed at advantageous lower tax rates than ordinary income. Sale of inherited timber is considered long-term. *Sale of products cut from timber held for use in a business* - 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, the gains are ordinary income unless you elect to use sec. 631(a) on Form T, Part II.

### TIMBER MANAGEMENT EXPENSES -

Timber management expenses may include fees to a consulting forester; cost for competition control; the expense for insects, disease and fire control; pre-commercial thinning; or firebreak maintenance. Investment timber owners may deduct expenses on Schedule A, but they are subject to a 2 percent of adjusted gross income reduction. Business timber owners who are "materially participants" deduct them in full on Schedule C. Property taxes are deductible.

**REFORESTATION COSTS** - Taxpayers (except trusts) may deduct up to \$10,000 (\$5,000 for married couples filing separately) per year of reforestation costs per qualified timber property (QTP). Any amount over \$10,000 per year per QTP may be deducted over 84 months (amortized). Trusts are eligible for amortization deduction. Qualifying costs include the direct costs to plant or replant a stand including natural regeneration.

**COST-SHARE PAYMENTS** - If you receive a cost-share payment from a qualified government program, you may exclude part or all of the payment from your income if the cost share is used in capital expenditure. Otherwise, it is ordinary income. Several federal and state programs qualify.

**FILING FORM T (TIMBER)** - You must file Form T (Timber), Forest Activities Schedule, if you claim a timber depletion deduction, sell cut products in a business (under sec. 631(a)), or sell outright timber held for business use. However, there is an exception for owners who only have an occasional timber sale, defined as one or two sales every 3 or 4 years.

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## AG LANDS FOR WILDLIFE MANAGEMENT

from *Texas Parks and Wildlife website*

For more information:

- [http://tpwd.texas.gov/landwater/land/private/agricultural\\_land](http://tpwd.texas.gov/landwater/land/private/agricultural_land)

In 1995, Texas voters approved Proposition 11, which amended Article VIII, Section 1-d-1 of the Texas Constitution to permit agricultural appraisal for land used to manage wildlife. H.B. 1358 implemented the constitutional amendment by making wildlife management an agricultural use that qualifies the land for agricultural appraisal.

In 2001, the Legislature passed H.B. 3123, requiring Texas Parks and Wildlife Department to develop and the Comptroller to adopt rules for the qualification of agricultural land in wildlife management use.

Land qualified for timber appraisal is not eligible to qualify for wildlife management. Timber land is qualified under Tax Code Chapter 23, Subchapter E. The law limits wildlife management use to land qualified under Subchapter D of Chapter 23.

The first requirement for wildlife management use qualification is purely technical and is not related to the land's actual use to manage wildlife. The law restricts the land that may qualify for wildlife management use. To qualify for agricultural appraisal under the wildlife management use, land must be qualified for agricultural appraisal under Tax Code Chapter 23, Sub-

chapter D, (also called 1-d-1 or open space agricultural appraisal), at the time the owner changes use to wildlife management use. In other words, the land must have been qualified and appraised as agricultural land during the year before the year the owner changes to the wildlife management use.

The second requirement for qualified wildlife management use is that the land must be used to propagate a sustaining breeding, migrating or wintering population of indigenous wild animals. An indigenous animal is a native animal that originated in or naturally migrates through an area and that is living naturally in that area, as opposed to an exotic animal or one that has been introduced to the area.

The law also requires an owner to propagate the wildlife population for human use. Human use may include food, medicine or recreation. Land will not qualify unless the owner propagates the population of wild animals for a human purpose.

Much more information on this topic can be found on the website listed in the sidebar. Of course, check with your tax and legal professionals for current laws and requirements.

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## EDUCATION IN STEWARDSHIP - EXPO

Learn about our natural resources and what is being done and what you can do to be good stewards of these resources.

Texas Wildlife & Woodland Expo and Spring Fling – a free, how-to event – affords families, youth, and adults a chance to get outdoors; learn about the natural environment; and recognize the significance healthy forests, trees, wildlife, and pollinators have on clean air, clean water, and our overall health.

This event is designed to bring experts from the natural resource professions to one location for you to ask questions and learn through live demonstrations and hands-on application.

For children, the adventure area is where they can participate in climbing, archery, kayaking, fishing, digging in the dirt with earthworms, make a birdhouse, and so much more. For the adults - if you have a question about one tree or hundreds; if you have a question concerning your landscape or insects, gardening; or if you want to attract butterflies, bees, and birds to your home – you can find folks to help.

The event is Saturday, April 2, at the Lone Star College - Montgomery campus. The campus is at 3200 College Park Drive in The Woodlands. Follow the signs.

The Expo is open to the public, FREE OF CHARGE, 10:00 a.m. to 4:00 p.m.

from *Texas A&M Forest Service website*

For more information:

- <http://expo.tamu.edu>
- For vendor registration, click on "Exhibit" on the website listed above.

## FOREST HEALTH FUNDS AVAILABLE

Funds are now available for forest landowners near the Sam Houston National Forest through the Joint Chiefs' Landscape Restoration Partnership.

This partnership between USDA Forest Service, Natural Resources Conservation Service, National Wild Turkey Federation, and Texas A&M Forest Service looks to improve forest health and resiliency on the Sam Houston National Forest and surrounding private forestland. Priority areas for this project consist of Harris, Liberty, Montgomery, San Jacinto, and Walker counties.

Landowners may be eligible for financial assistance to implement prescribed burning and thinning treatments on their property. These forest management techniques can help reduce wildfire threat, prevent southern pine beetle infestations, improve the habitat of certain rare and endangered species, and improve overall forest health. On top of that, hunters and recreational visitors benefit from these improvements.

Management practices such as prescribed fire enable landowners to contribute to community safety and restore ecosystems on their land.

“Overgrown vegetation contributes to wildfires that damage the ecosystem and threaten communities,” said Andy McCrady, fuels coordinator for Texas A&M Forest Service. “Using prescribed fire will help return the ecosystem back to its natural state and reduce the threat of devastating wildfire.”

While Texas has not had a southern pine beetle outbreak in over 20 years, it is important that landowners and resource professionals remain cautious of this threat.

“Thinning overly dense pine stands is a proactive way to prevent a southern pine beetle outbreak from occurring and increase the overall health of the watershed—where the majority of Houston gets its drinking water,” said Texas A&M Forest Service Staff Forester Shane Harrington.

Eligible landowners can visit their local TFS office for specific information or visit the website in the sidebar for information on how to apply for funding.

Applications for prescribed burning must be submitted by Feb. 15; there is no submission deadline for landowners applying for thinning funds.

*from TFS news release dated January 7, 2016*

*For more information:*

- <http://tfsweb.tamu.edu/jointchiefs>

## BMP IMPLEMENTATION UPDATE

Texas A&M Forest Service's Water Resources program has completed another round of forestry Best Management Practices (BMP) implementation monitoring.

The BMP Implementation Monitoring Program was started in 1991 in order to measure the degree of implementation with BMP guidelines by the forest sector, evaluate the effectiveness of BMPs as applied in the field, and identify any weaknesses in the guidelines. Randomly chosen “normal silvicultural” operations are evaluated, with the landowner's consent, for the presence and functionality of BMPs. Operations that are selected include both public and private lands. This cooperative, non-regulatory program is

completely voluntary in Texas. Since 1991, the Texas A&M Forest Service has completed nine BMP implementation surveys. This latest round of monitoring was conducted between July 12, 2013, and October 28, 2015.

The round's overall BMP implementation rate is 94.0%, same as Round 8. In general, implementation in Round 9 was highest on sites under public ownership. These National Forest sites had an overall implementation of 100%. Corporate lands (commercial landowners that do not have wood processing facilities) scored 94.5% overall, while family forest owners scored 93.0% (an increase from 88% in Round 8). See sidebar link for the entire report.

*from Texas A&M Forest Service website*

*For more information:*

- <http://texasforests.tamu.edu/BMPMonitoring>
- <http://tfsweb.tamu.edu/water>

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- Joe Pase, TFS-Retired, Lufkin, Texas

## **TEXAS TIMBER TAX WORKSHOP**

**2016 Texas Timber Income and Property Tax Workshop**

**February 16, 2016**

Lottie & Arthur Temple Civic Center in Diboll, TX

This daylong workshop will help you: learn special timber tax laws and rules that are not well understood by many tax professionals; apply the rules through examples that apply basic concepts; find answers to your top questions.

The workshop is designed for forest landowners, consulting foresters, accountants, attorneys, and others who work with forest landowners in matters pertaining to timber taxes. Participants will receive a workbook containing information such as: presentation materials, examples, sample federal forms, and supplemental readings. The workshop qualifies for Continuing Education Credits for foresters, loggers, CPAs, and property tax professionals.

Registration is \$75; includes workbook, lunch, and refreshments.

For more information or to register, contact Jennifer Hayes at (979) 458-6630 or [jhayes@tfs.tamu.edu](mailto:jhayes@tfs.tamu.edu) or go to <http://texasforests.tamu.edu/TaxWorkshop>



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