


# An overview of forest taxes



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## Outline

- Why knowing forest taxes is important
- Major types of forest taxes for forest landowners
- How they are determined and by whom
- Major tax incentives for forest landowners
- Current issues and discussion

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## Why understanding forest taxes matters?

- **Taxes** are one of the **major costs** for forest landowners
- Proper **tax planning** is as **important** as cultivation techniques
- Federal and state governments have provided **favorable tax provisions** to forest landowners
- Knowing it enables LOs to **avoid overpaying** forest taxes and **improve income** from forest operations
- Many tax professionals are **unfamiliar** with these special rules

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## Major types of forest taxes

- **Federal income tax**
- **Georgia:**
  - Forestland property tax (annually)
  - Timber property tax (upon timber harvest/sale)
  - State income tax on timber sales (upon harvest)
  - Sales tax when you buy equipment/supplies

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# Forest-related federal income taxes

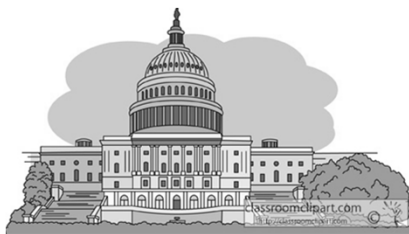


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## How the system works

- **Legislation** – Congress writes and the President signs into law the Internal Revenue Code (IRC)
- Formally, Title 26 of the U.S. Code



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## How the system works

- **Administration** – The IRS interprets the IRC into action through regulations, revenue rulings, private letter rulings, and technical advice memoranda



## How the system works

- **The Courts** – Cases are brought by taxpayers after they have exhausted all other means with the IRS



## The federal tax code and regulations are over 10 million words in length!



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## Overview of federal timber tax

- A tax levied on annual earnings
- A tax on net gain, or **profit** from forest operations
- Qualified expenditures (profit related) can be deducted currently from the revenue or capitalized
- Timber income is taxed as capital gain at lower rates  
15% vs. ordinary income 22%-37%
- Tax incentives are available
- Status of timber holding affects how timber tax is determined and reported

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## Example

Amanda sold 50 acres of pine to a timber Co. in 2016. They agreed to pay \$60,000 to her for the timber through a lump sum sale. She also paid \$2,000 to a forester and \$500 for advertisement.

Timber sales price	\$60,000
Timber basis	- \$20,000
Sales expenses (e.g., cruising, consultant fees, legal fees, advertising fees, survey, etc.)	- \$2,500
<b>Net gain on the timber sale</b>	<b>\$37,500</b>
Capital gain tax rate	15%
Tax due	\$5,625

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## Your tax status of timber holding is key

- **Personal use:** not for production of income (e.g., second home, personal enjoyment)
- **Investment:** for profit (income or property appreciation) and occasional timber sales
- **Business:** for profit, activity is more frequent and regular (**material participant or passive**)

**“For profit” activities (investment or business) in general receive larger tax benefit.**



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## Major federal tax incentives

- Capital gain tax treatment of timber sale income
- Reforestation costs deduction and amortization
- Cost-share payment exclusion
- Management expenses deduction
- Timber depletion
- Casualty loss deduction
- Capital expenditure depreciation

## Timber sales

“We sold the timber on my land this year and want to know:

- 1) How to report the \$50,000 we received for taxes;
- 2) What deductions I can take.”

## Question #1: Type of income

### Capital gain or ordinary income?

- Sale of **standing timber** held as an **investment** or **for personal use** is a capital gain.
- Sale of **standing timber** held in a **business** longer than a year is treated as a capital gain.
- Sale of **cut timber** products is ordinary income unless a special election is in effect.

## Question #2: Long-term or short-term capital gain

Only long-term capital gain is taxed at the lower rate

- Long-term capital gain: own the property for more than 1 year
- Short-term capital gain: hold the property 1 year or less

**Income on inherited timber is a long-term capital gain.**  
**Timber by gift: donor's and donee's combined holding period longer than 1 year**



## How much can be deducted?

- Selling expenses
- Timber basis:
  - the amount of money invested in the timber
  - starts with original basis
  - adjusted over time (adjusted basis)

## Initial basis

**Depends on how the property is acquired:**

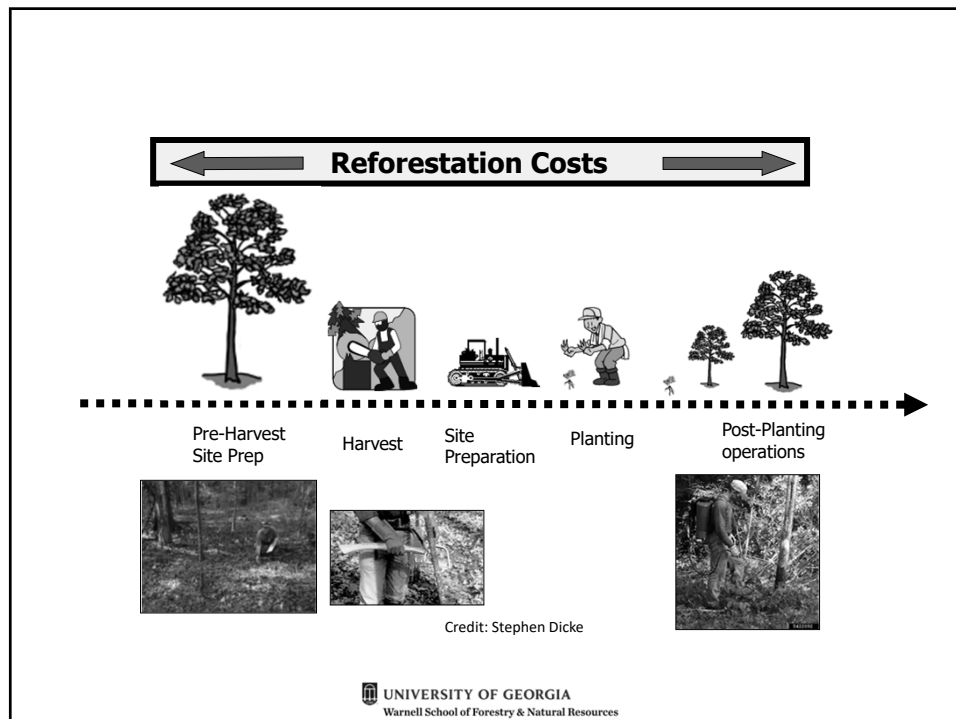
- **Purchased:** acquisition costs
- **Inherited:** FMV on the date the decedent died  
“Stepped-up basis”
- **Gifted:** donor’s basis  
“Carryover basis”

# Reforestation



- IRS allows outright up to \$10,000 expensing and an 84-month amortization
- This applies to per qualified timber property (QTP) per year
- QTP has a unique stand identifier
- Proper planning over years can maximize the tax benefits
- Individuals, estates, partnerships, and corporations are eligible
- Trusts are not eligible for the expense deduction but they are eligible for amortization

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## Cost-share payment

- Certain government cost-share payment may be excluded
- Financial assistance received from qualifying government agencies help with tree planting, insect control, thinning etc.
- The excludable cost share payment must be:
  - From an approved agency
  - For capital projects (such as reforestation)

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## Qualified programs

- Forest Health Protection Program (e.g., for southern pine beetle and mountain pine beetle)
- Conservation Reserve Program (annual rental payment not qualified)
- Conservation Security Program
- Environmental Quality Incentives Program
- Wildlife Habitat Incentives Program
- Wetlands Reserve Program

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## Forest management expenses

- **Ordinary** and **necessary** expenses of forest management may be deducted for forest landowners **holding timber for profit**
- Industry standard determines whether expenses are ordinary and necessary
- Hobby owners are not allowed to deduct operating expenses



## IRS Form T (Forest activities schedule)

**Part I.** Acquisition

**Part II.** Timber depletion

**Part III.** Profit or loss from land and timber sales

**Part IV.** Reforestation and timber stand activities

**Part V.** Land accounts

# Form T

## Who must file:

- It's prudent to file when you claim depletion deduction and if you are a business taxpayer
- Not required for landowners making occasional timber sale, but prudent to complete it for record purposes

occasional timber sale:

"... one or two sales every 3 or 4 years ..."

- So a sale every 2 or 3 years qualifies as an occasional sale

Form <b>T (Timber)</b> (Rev. December 2013)		<b>Forest Activities Schedule</b>		OMB No. 1545-0007
Department of the Treasury Internal Revenue Service		▶ <b>Information about Form T (Timber) and its separate instructions is at <a href="http://www.irs.gov/timber">www.irs.gov/timber</a>.</b>		Attachment Sequence No. <b>117</b>
For tax year ending _____, 20_____			Identifying number	
Name(s) as shown on return				
<b>Part I Acquisitions</b>				
<b>1</b> Name of block and title of account				
<b>Stand identifier</b>				
<b>2</b> Location of property (by legal subdivisions or map surveys)				
<b>3a</b> Name and address of seller or person from whom property was acquired			<b>b</b> Date acquired	
<b>4</b> Amount paid:				
<b>a</b> In cash . . . . .				
<b>b</b> In interest-bearing notes . . . . .				
<b>c</b> In non-interest-bearing notes . . . . .				
<b>5a</b> Amount of other consideration . . . . .				
<b>b</b> Explain the nature of other consideration and how you determined the amount shown on line 5a. Purchased/inherited/gifted/like-kind exchange				
<b>6</b> Legal expenses . . . . .				
<b>7</b> Cruising, surveying, and other acquisition expenses . . . . .				
<b>8</b> Total cost or other basis of property. Add lines 4a through 7 . . . . .				
				Total initial basis

## Current issues

- Many forest landowners are not aware of the special tax provisions
- Income averaging (available to farmers) is not available to forest landowners
- Casualty loss deduction rule (limit to basis)
- More significant distinction in tax treatment of management expense deduction between investors and active material participants
- Charitable donation of conservation easement

## Georgia property tax incentives for forest landowners



## Forest property taxes in Georgia

- *Ad valorem* tax
- Annual property tax on bare land value of forestland (assessment ratio 40%)
- One-time *ad valorem* tax on standing timber upon timber harvest or sale (assessment ratio 100%)

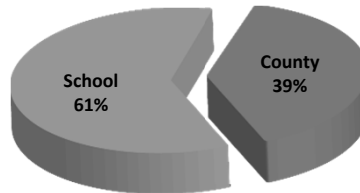
**Timber value should be excluded from valuation for annual property taxes on land**



**“Bare dirt value”**

# Property tax is raised and used locally in Georgia

2021 Georgia Property Tax Revenue (\$14.7 billion)



Starting from 2016, the state gets 0%.

Source: GA DOR Annual Property Tax Report (2023).

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# Property tax in Georgia

$$\text{Property Tax} = \text{Appraised Value} \times \text{Assessment Ratio} \times \text{Millage Rate}$$



1 mill = \$1 / \$1,000 assessed value

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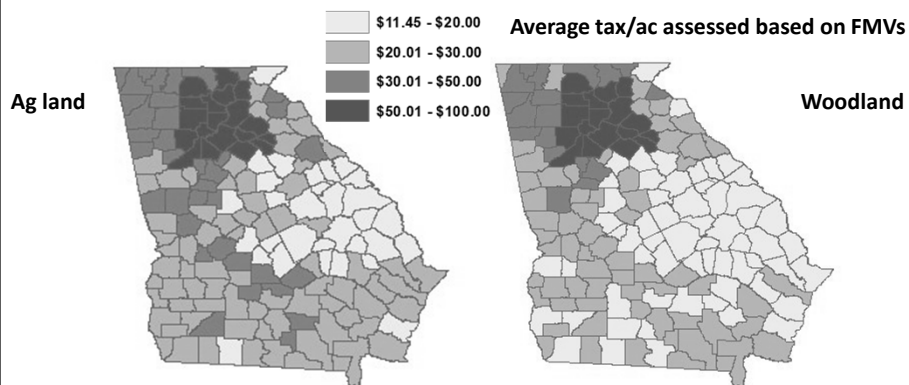
## Example – forestland property tax

Joe owns 50 acres of forestland in Oconee County, GA. The county assessor assessed the property at \$5,000/acre in 2016. The millage rate of the unincorporated area is 23.686. The property tax due is:

$$50 \times 1500 \times 40\% \times 23.686 \div 1000 = \$ 710.58$$

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## Property tax can be a substantial cost for rural landowners in Georgia



Estimated based on the regional benchmark FMVs of rural land and county mill rate from Georgia Department of Revenue (2020)

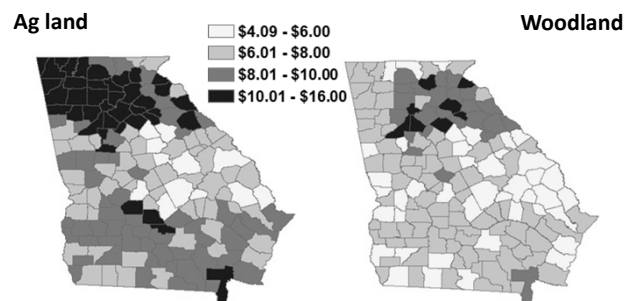
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## Forestland valuation for property taxes in Georgia

- Fair market valuation (FMV)
- Preferential Agricultural assessment (Ag. Pref.)
- Conservation use value assessment (CUVA)
- Forest Land Protection Act valuation (FLPA)
- Qualified Timberland Property (QTP)

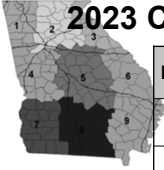
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## Average tax/ac under CUVA/FLPA



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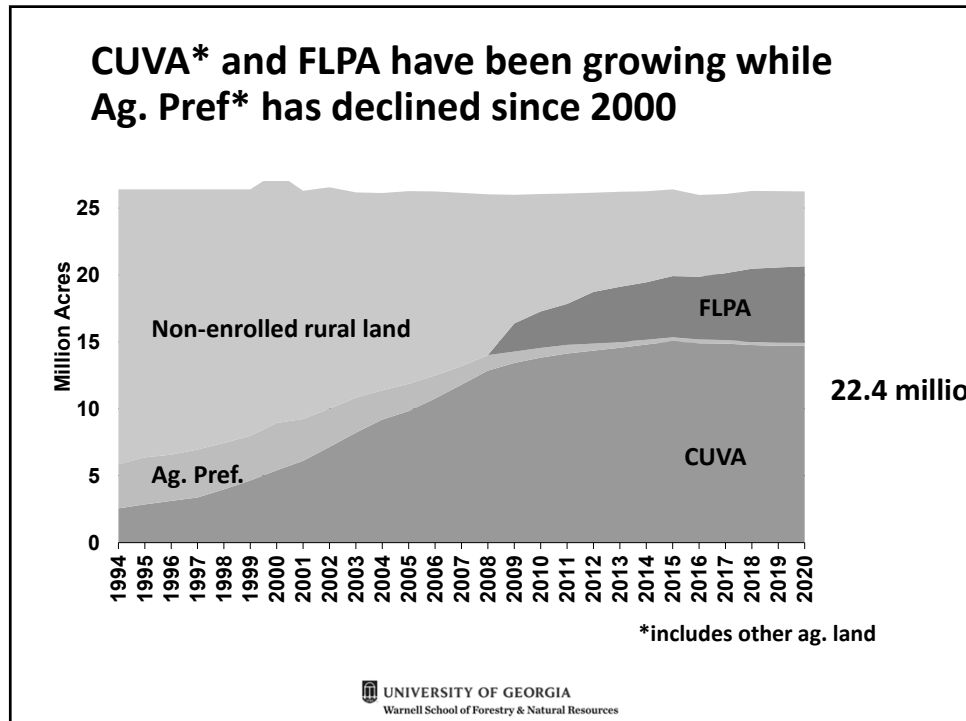
### 2023 CUVA/FLPA VALUES (Estimated)



Region	Land use	Soil Productivity Class								
		1	2	3	4	5	6	7	8	9
1	Ag.	1791	1693	1569	1438	1296	1159	1031	904	773
	Wood	985	884	803	736	675	625	586	537	490
2	Ag.	1962	1749	1556	1374	1230	1100	986	894	804
	Wood	1334	1209	1089	986	908	853	804	738	669
3	Ag.	1493	1358	1215	1076	938	846	695	580	490
	Wood	1309	1139	1027	986	908	831	699	568	475
4	Ag.	1223	1096	1004	897	787	653	566	438	314
	Wood	963	862	781	716	623	580	504	436	354
5	Ag.	906	788	733	669	597	507	416	328	238
	Wood	819	759	697	638	575	518	453	392	325
6	Ag.	1029	902	827	759	669	557	453	347	243
	Wood	810	744	679	619	552	489	424	357	291
7	Ag.	1196	1083	963	837	717	601	464	351	236
	Wood	868	790	719	645	569	497	424	347	273
8	Ag.	1209	1142	1031	919	807	697	537	436	321
	Wood	944	855	766	679	590	504	415	328	266
9	Ag.	1119	1078	968	862	754	646	537	428	321
	Wood	956	862	781	695	603	520	431	344	266

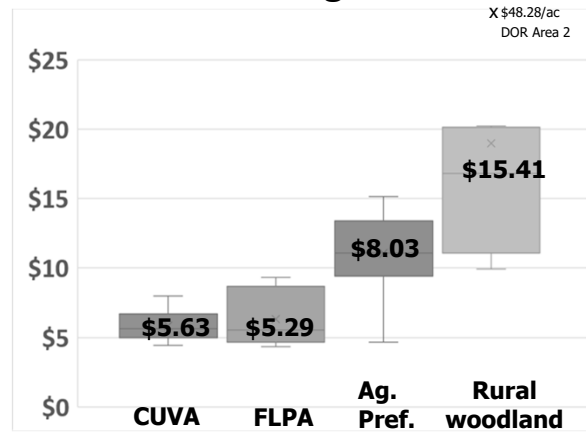
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## Forestland property taxes vary (greatly) by category and region

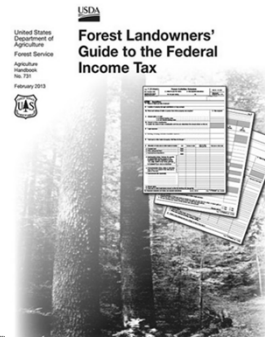
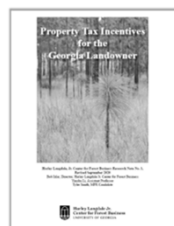


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## Timber taxation

- Can be quite complicated
- Look for help from qualified professionals
- National Timber Tax website: [www.timbertax.org](http://www.timbertax.org)
- USDA Ag Handbook 731:
- Georgia property taxes



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