Forest Taxes and Forest Landowners: Understanding the Tax Landscape and Federal Income Tax provisions

(What landowners should know and what research tells us about tax policy and private forests)

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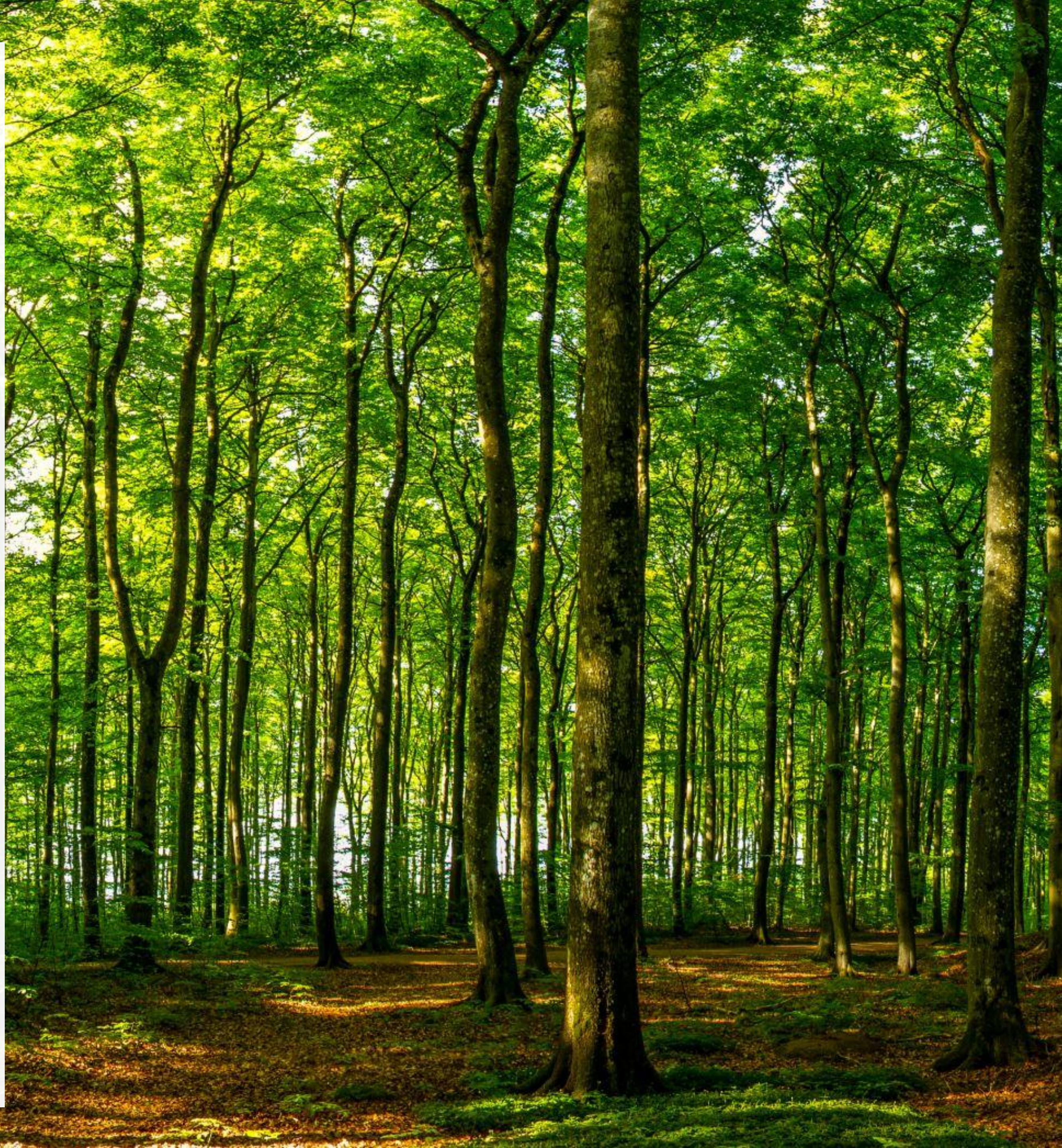
Forest Economics and Resource Management

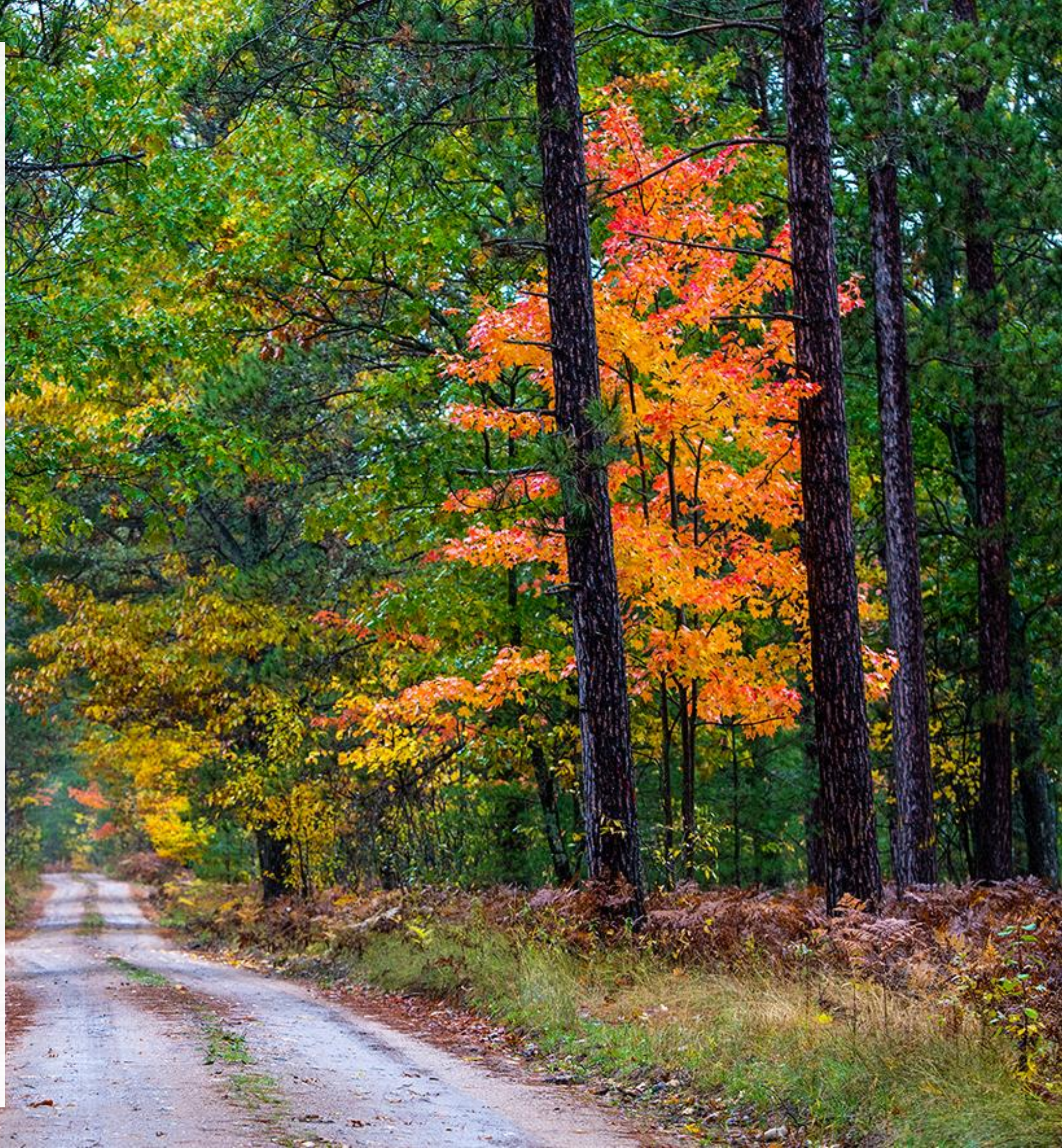


Disclaimer

- This presentation is intended for educational and informational purposes only and does not constitute tax, legal, or accounting advice.
- Tax laws and their application can change and depend on individual circumstances.
- Forest landowners should consult a qualified tax professional regarding their specific situation.

Today's Roadmap

1. Forest Taxes: The Big Picture
2. Federal Income Taxes and Forest Management
3. What Does the Research Tell Us?
4. Practical Takeaways and Resources

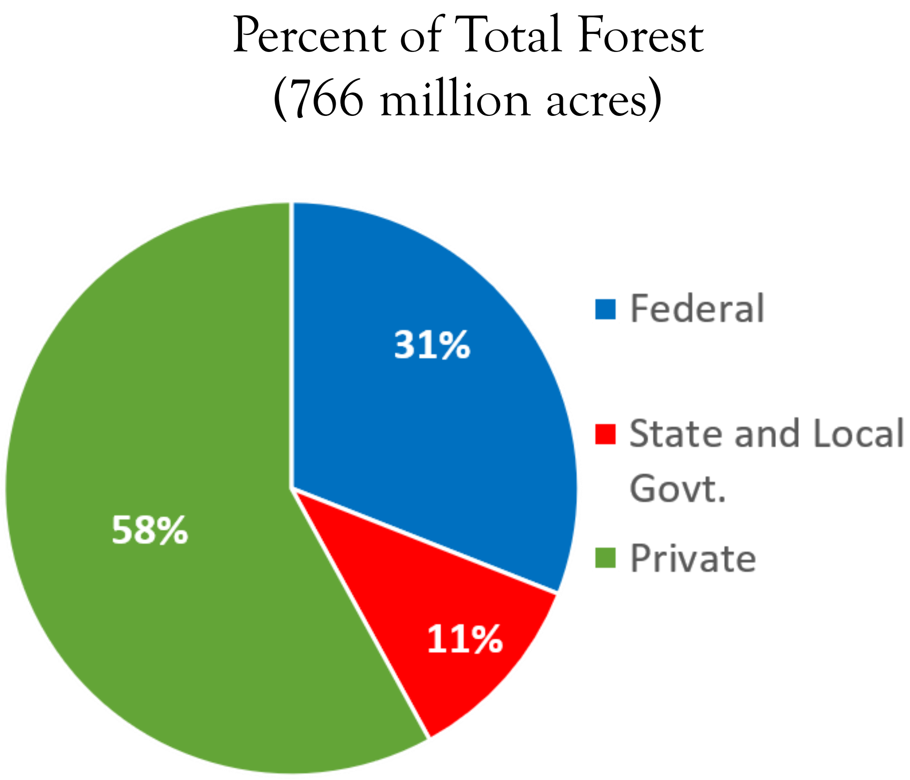


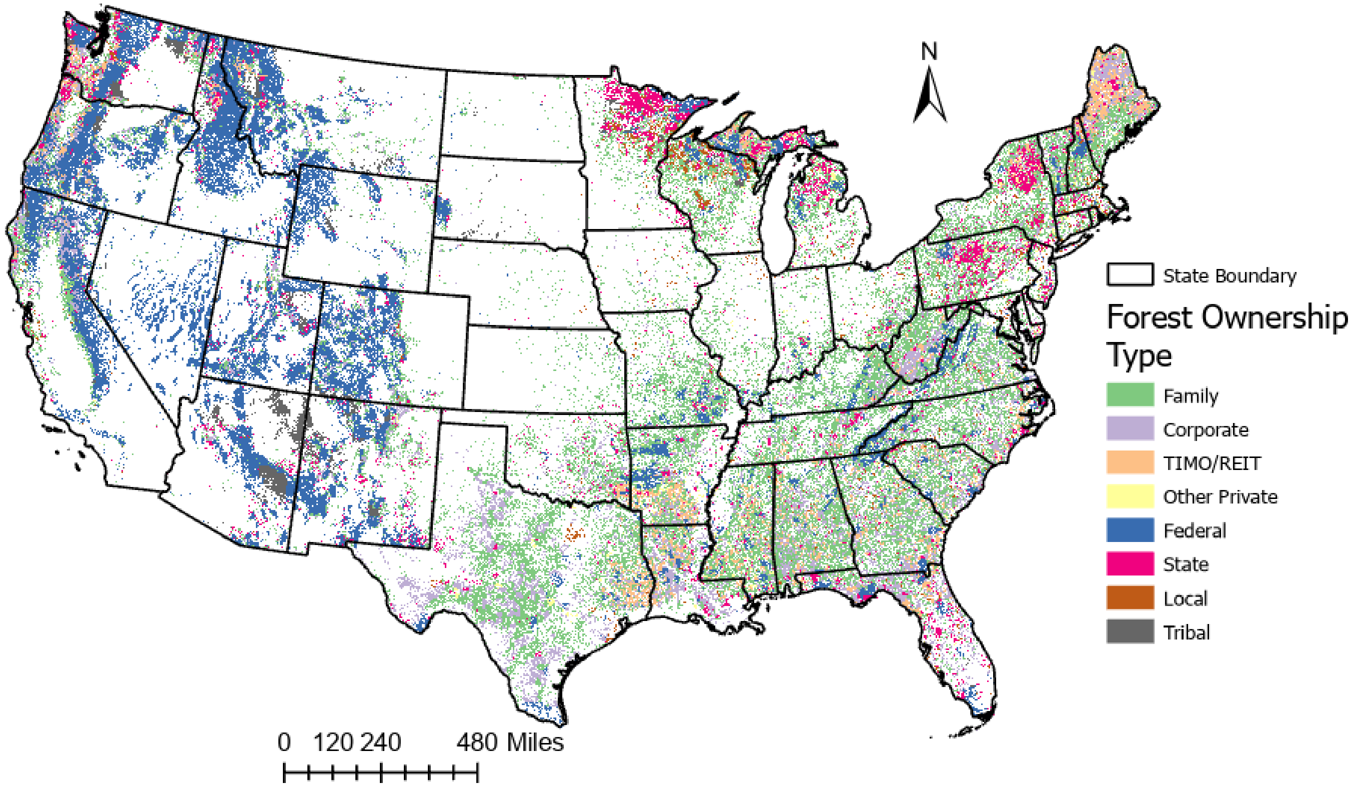
Forestry is Unique

- Forest ownership is a long-term investment.
- Costs may occur over years before income can be realized.
- Timber income may be infrequent and substantial.
- Management generates both private and public benefits.
- Forests face risks from storms, fire, insects, disease, and other disturbances.
- Ownerships often span generations.

Taxes can substantially influence the after-tax return from owning and managing forests

Who owns America's Forests?





<u>Private Ownership:</u> Individuals and families, corporate organizations, Native American tribes, nongovernmental conservation organizations, unincorporated partnerships and associations and others (Butler et al. 2016)

PRIVATE FORESTS PROVIDE MORE THAN TIMBER

Private Forests

(Timber | Carbon | Water | wildlife | Recreation | Rural Economies)

Society wants to encourage continued forest ownership and management

Technical Assistance | Cost Share | Tax Incentives

What taxes affect a forest landowner?

❑ State and Local

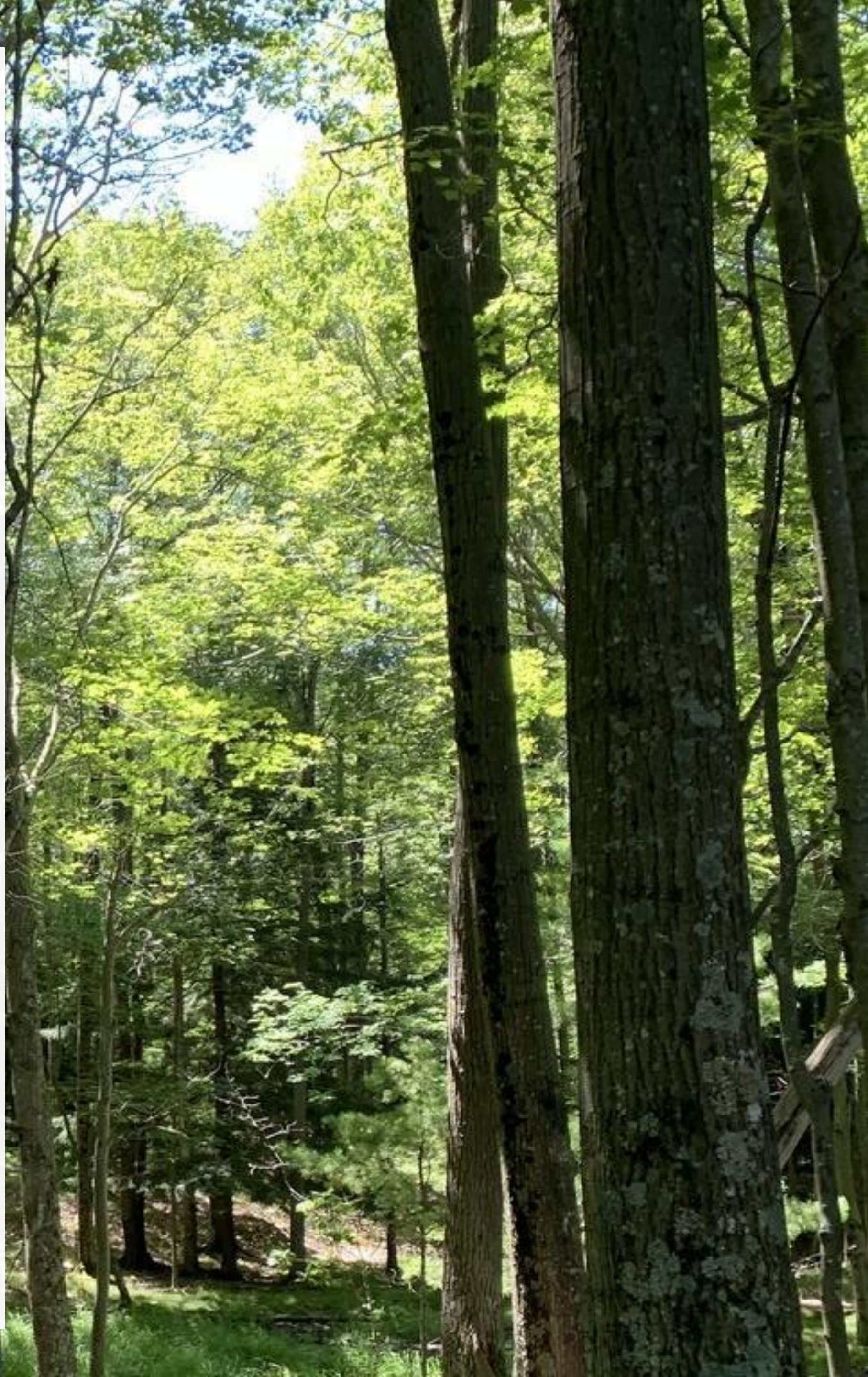
- Property tax (ongoing cost of owning a forestland)
- State income tax (may apply to forestry income; rules vary by state)
- Sales/use tax (when purchasing taxable equipment, supplies, etc.)
- Severance/Harvest/Yield tax (when timber is harvested or sold)
  (Example include California and Oregon)

❑ Federal

- Federal income tax (annual when income received, or expenses incurred)

❖Federal and /or State estate/inheritance taxes

(Taxes rules vary considerably across states)



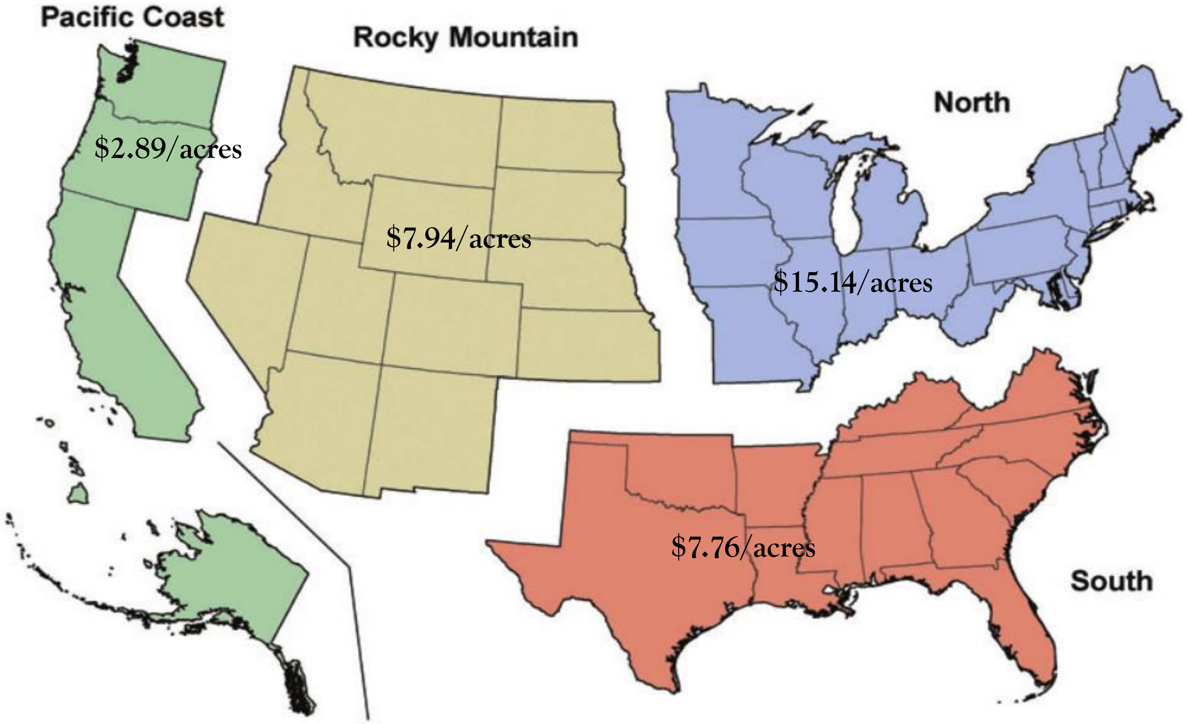
Property Taxes: The Tax Forest Landowners See Every Year

Example

- Suppose a landowner (Sarah) has 100 acres of forest near an expanding suburb
- If the market value of land is $5,000/acre, then the assessed value of property is $500,000
- If the property tax rate is 1.5% of assessed value.
- Ad valorem property tax = $7,500/year (1.5% of $500,000)
- Say with use value, the land is valued at $500/acre, then the assessed value of property is $50,000 total
- Current use value tax = $750/year (1.5% of $50,000)

Preferential Property Taxes and Annual Savings

Average annual savings per acre by region



In 2018, Kilgore and others conducted a national review of tax incentive programs available for private forest landowners.

- 210 million acres of private forestlands owned by 3.85 million owners were enrolled in some form of preferential property tax programs in 2014.
- These owners received approximately $1.61 billion in reduced annual property taxes.
- Average annual saving per acre: $7.68

Michigan as an Example

1. *Commercial Forest Program (CFP)*

-offers property tax reductions for landowners who actively manage their forests for commercial timber production.

-land enrolled is taxed at a flat rate ($1.35 per acre) regardless of its market value.

-min area requirement for enrollment is 40 acres

-must have a forest management plan

2. *Qualified Forest Program (QFP)*

-offers property tax reductions for forestlands managed for timber production

-property enrolled is exempt from local school operating taxes

-min area requirement for enrollment is 20 acres

-must have a forest management plan

How and When Does Federal Income Tax Affect Forest Landowners?

Let’s say we have a hypothetical forest landowner, Sarah, who owns 100 acres of family forest land.

- Acquire Forest
- Manage
- Reforest
- Receives Assistance
- Harvest
- Experience Disturbance
- Transfer

Taxes follow Sarah throughout the ownership cycle, and we will look at Federal Income Tax Provisions that are relevant at each of these stages

But first: It is important to understand why a landowner owns and manages the forest?

Personal Use/Hobby	Investment	Trade/Business
Enjoyment, recreation, scenery; no primary profit motive	Profit motive; less frequent management	Profit motive + regular and continuous management activity

Tax treatment can depend on how the forest property is held

Understanding/Establishing Timber Basis

Basis:
Amount of landowner's investment in property and is used to calculate gain or loss when the property is sold, exchanged or disposed of.

(So, Sarah buys her forest property for $200,000 and appraisal determines timber at $50,000 and land at $150,000, then her original timber basis is $50,000 and land basis is $150,000.

Original basis:
Starting investment in timber when a landowner acquires the forestland. It depends on how the property is acquired.

- If purchased: allocated purchase price based on appraisal or cruise
- If Inherited: fair market value on the day of death (stepped up basis)
- If gifted: carries over from the donor's basis with some adjustments

Depletion and Adjusted Basis

Depletion:
Deducting a portion of landowner's timber basis when they harvest/sell timber

Depletion allowance:
(Original timber basis ÷ Total timber volume) X volume sold

Depletion is subtracted from sale proceeds to calculate taxable gain

Adjusted Basis:
After each sale or harvest, a landowner's remaining investment in timber basis is reduced.

Adjusted basis = Original basis – Depletion taken – Losses claimed

Over time, adjusted basis can change and can even go to zero if investment is fully recovered

Why Timber Basis Matters?

Timber Sale

(Basis can reduce taxable gain)

Timber Loss

(Basis can limit the deductible loss)

Property Disposition

(Basis affects gain or loss)

When Sarah establishes or regenerates timber

Suppose Sarah spends $18,000 regenerating a harvested stand.

What happens for tax purposes?

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She may be able to deduct that expense for tax purposes.

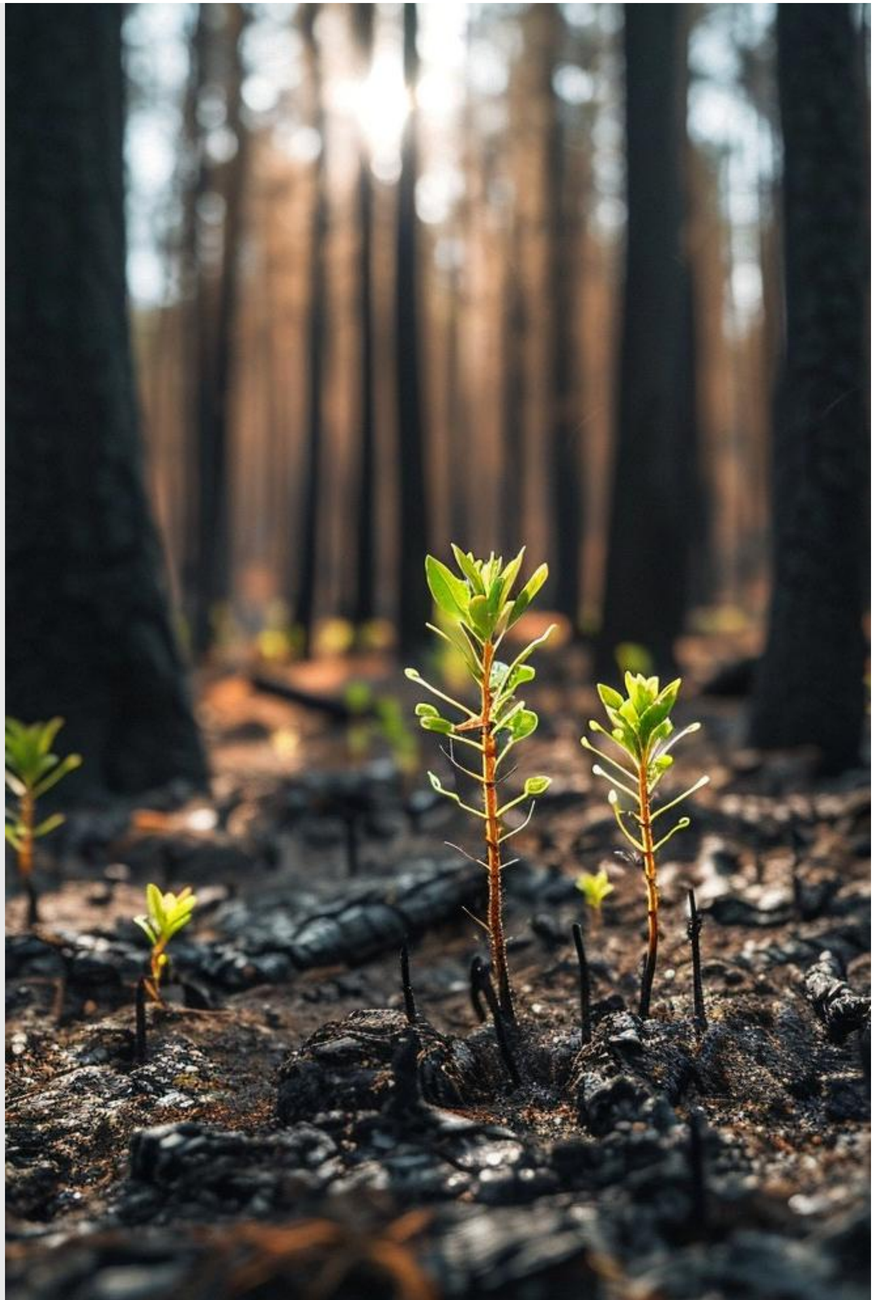
Relevant Federal Income Tax Provision

1. Reforestation Tax Incentives

Landowners may deduct up to $10,000 of reforestation expenditure per year per qualified timber property in the year it occurred and amortize (deduct gradually) the remaining amount over 84 months.

(It makes forest regeneration more affordable for forest landowners)

(Available to business and investment owners)



forest-regeneration-begins-stockcake.jpg (1024×1024)

When Sarah incurs forest management expenses

(Consulting forester, management plan, boundary maintenance, travel to inspect or manage the property, incur ordinary management and operating expenses)

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She may be able to deduct some of those expenses. However, whether and when expenses are deductible can depend on taxpayer classification and current tax law.

Relevant Federal Income Tax Provision

2. Annual deduction of management expenses

All or part of management expenses may be deducted in the year that the expense occurred.

(Not allowed for personal use owners; limited for investment owners; generally allowed for business owners)

native_solutions_Chainsaw-5.jpg (2048×1536)

When Sarah purchases equipment

Chainsaw/tractor/other forestry equipment

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She may be able to recover some of that cost through depreciation or applicable expensing provisions. But again, eligibility depends on how her ownership is categorized for tax purposes.

Relevant Federal Income Tax Provision

3. Bonus depreciation and section 179 provision

The cost of certain items with a useful life greater than one year can be recovered more quickly than allowed under normal depreciation deductions.

(Bonus depreciation: available to investment and business owners for qualifying property; Section 179: available to business owners only; generally, not available for personal use owners)

When Sarah receives Government assistance

She may qualify for exclusion depending on the program and applicable requirements.

Relevant Federal Income Tax Provision

4. Exclusion of qualifying conservation cost share payments

All or part of the payment received from approved conservation government cost share may be excluded from gross income. Examples of programs that may qualify include Forest Health Protection Program (FHPP), Environmental Quality Incentives Program (EQIP), Conservation Reserve Program (CRP) etc.

Internal Revenue Service (IRS) maintains a list of qualifying programs (periodically published in Revenue Rulings)

(Potentially available to all three taxpayer classifications for qualifying cost-share payments)

When Sarah sells timber

She will be taxed on her taxable timber gain.

Taxable timber sale gain = Gross Timber Sale Revenue minus Allowable Depletion minus Selling Expenses.

Relevant Federal Income Tax Provision

5. Long Term Capital Gains Tax Rate

Income obtained from the sale of standing timber held over 1 year generally qualifies for lower long-term capital gain tax rate.

(Applicable to all three landowner taxpayer classifications. However, business must make a special election under IRC 631)

Timber sale example

Timber proceeds = $80,000

Allowable depletion = – $15,000

Sale expenses = –$5,000

Taxable gain = $60,000

What if Sarah had never established her timber basis?

What happens when trees die?

Sarah may be able to deduct some of her timber losses for federal income tax purposes. However, the applicability of deductions vary based on her taxpayer classification and the nature of the disturbance.

Tax law distinguishes three loss categories based on the causing event (Greene et al. 2013)

Casualty losses:
(result from sudden, unusual, and unexpected events like wildfires, hurricanes, ice storms, flooding etc.)

Non-casualty losses:
(result from events that are unusual and unexpected but not sudden like insect infestations, disease outbreaks, and drought)

Non-deductible losses:
(represent background mortality expected in normal forest ownership due to competition and routine animal damage)

Deduction for timber losses resulting from disturbance

Same Economic Loss: Different Tax Consequences?

Hurricane
$50,000 timber loss

-Potential casualty loss deduction

Insect outbreak
$50,000 timber loss

-May receive no deduction

<u>Relevant Federal Income Tax Provision</u>

6. Deduction of loss (casualty, non-casualty, theft/condemnation)

The lesser of loss in fair market value or adjusted basis can be deducted

SAME DEAD TREES: DIFFERENT POTENTIAL DEDUCTIONS

Loss Category	Personal-Use	Investment	Business
Casualty (wind, fire, ice, flooding, geologic)	Deductible only for federally declared disasters	Deductible	Deductible
Non-casualty (drought)	Not deductible	Potentially deductible if unexpected and unusual	Potentially deductible if unexpected and unusual
Non-casualty (insect, disease)	Not deductible	Generally not deductible	Potentially deductible if unexpected and unusual
Non-deductible (competition, animals)	Not deductible	Not deductible	Not deductible

And Basis matters again

A $50,000 economic loss does not necessarily equal a $50,000 tax deduction.

Deduction =min(decline in FMV, adjusted basis)

Actual tax benefit can depend on:

- Adjusted timber basis
- Ownership classification
- Cause of loss
- Applicable disaster rules and
- Individual taxpayer circumstances

hurricane damaged forests - Search Images

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Tax Provisions Exist. But do Landowners Know About Them?

- Smith et al. 2008
  - Surveyed 183 landowners in the Western U.S.
  - Received 163 responses
  - 59% of respondents were aware of capital gains tax treatment for timber revenue
  - 66% were aware that management cost could be deducted
  - 29% were aware of the provision allowing amortization of reforestation costs

- Hatcher et al. 2016
  - Studied awareness and use of federal income tax provisions among forest landowners in South Carolina
  - Found uneven awareness about different tax provisions among respondents
  - Used two step sample selection approach to understand factors influencing awareness and use of federal income tax provisions
  - Membership in landowner organization and forest holding size were found to positively influence landowner awareness of tax provisions
  - Ownership size was found to be the key determinant that influences use of federal income tax provisions among respondents

HOW ARE AMERICA'S FAMILY FORESTS HELD FOR TAX PURPOSES?

Our previous work (Gc et at., 2025) used NWOS data to estimate potential proportion of family forest acreage and ownership (held in parcels of 10 acres or larger) under different tax classification across the country.

Our estimates from that study:

By forest Area

Personal use: 39%
Investment: 49%
Business: 12%

By number of Ownerships

Personal use: 60%
Investment: 37%
Business: 3%

Why classification matters?

<u>Personal Use</u>

- Smaller parcels
- Less active management
- More limited access to some deductions

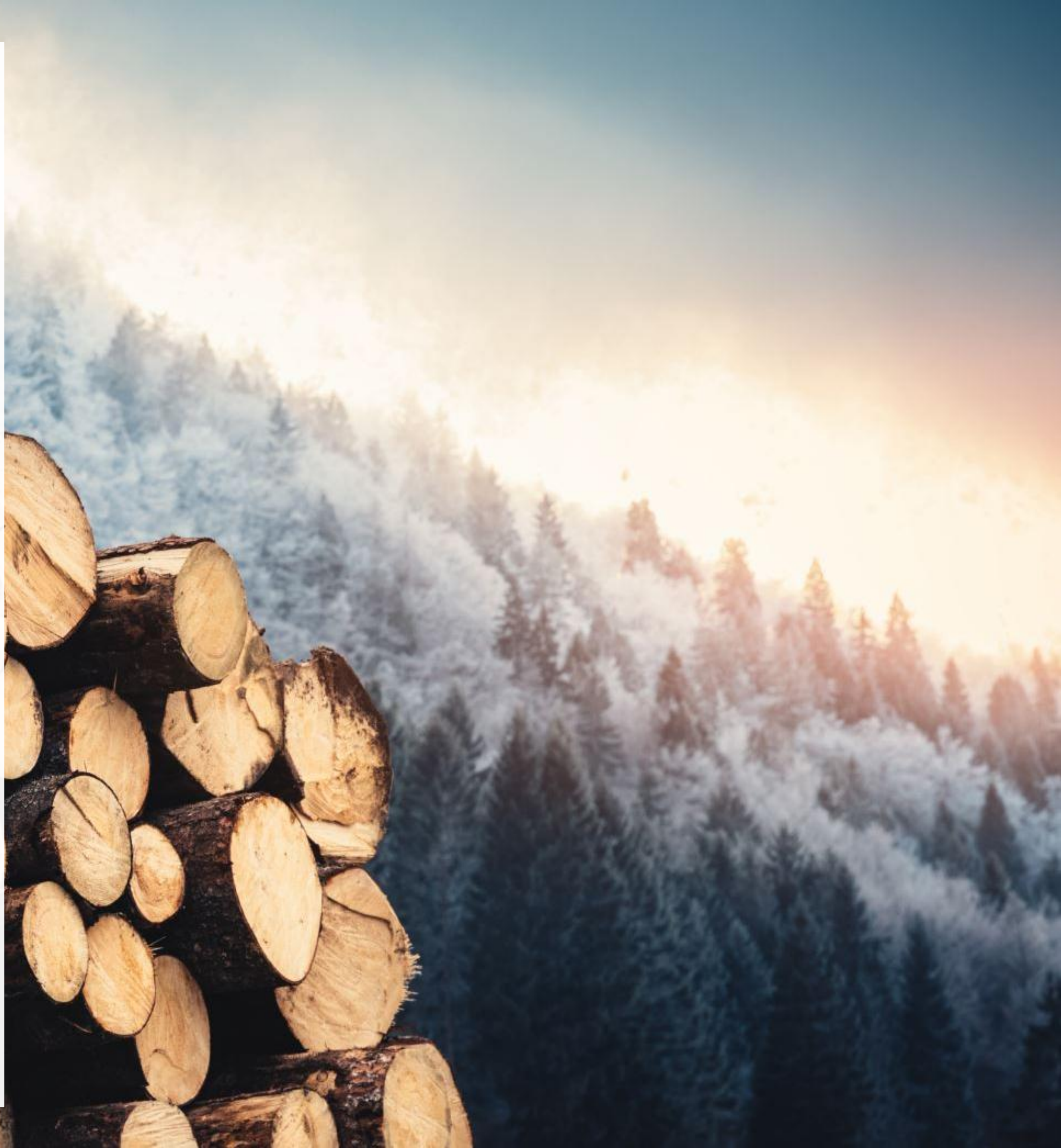
Versus

<u>Investment/Business</u>

- Larger holdings
- Profit motive
- More active management
- Greater potential access to certain provisions

Our ongoing research attempts to link timber mortality and tax policy

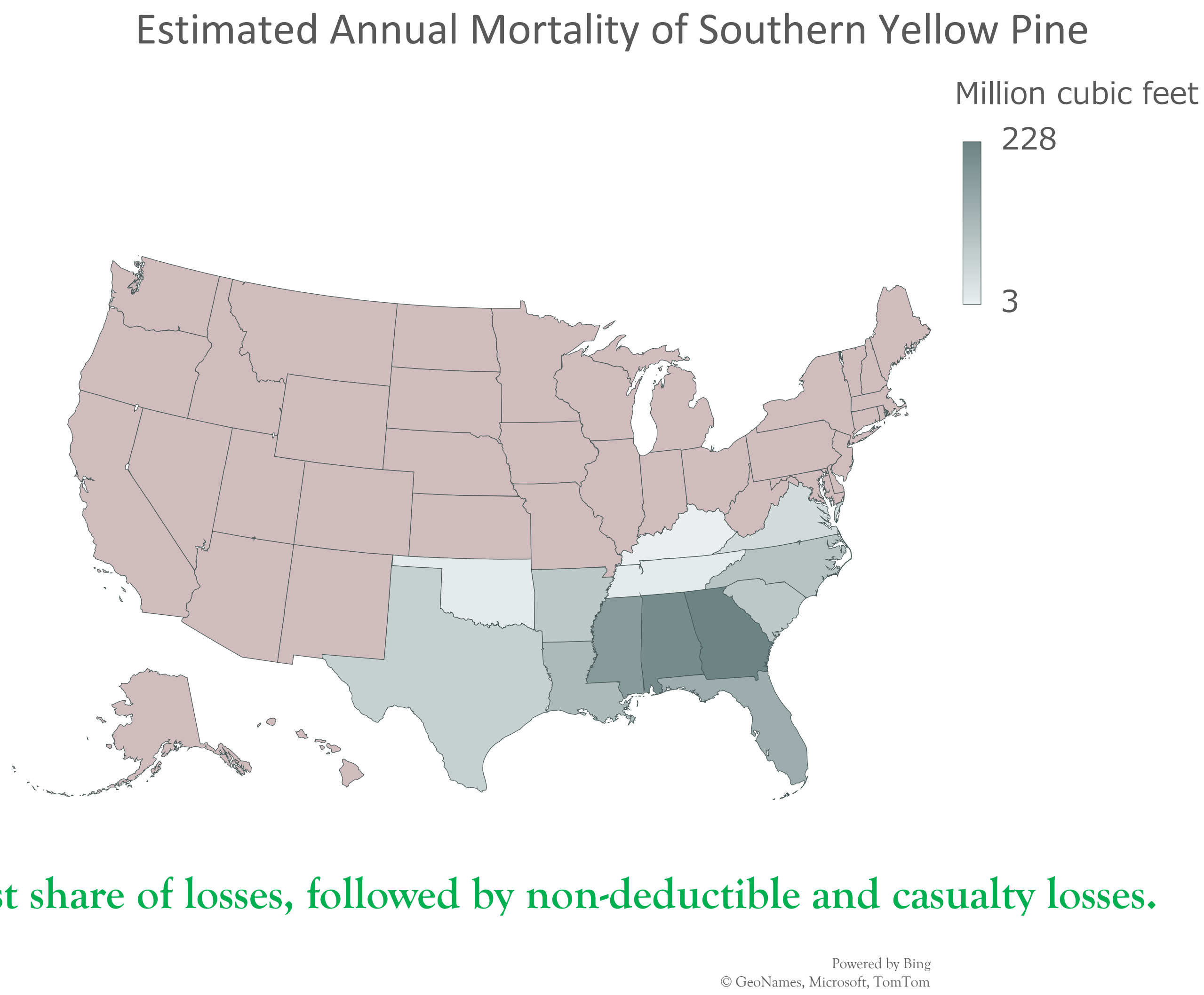
- Quantifies annual Southern Yellow Pine mortality by disturbance cause across the U.S. South.
- Estimates the annual economic value of timber mortality using stumpage prices.
- Classifies mortality into federal tax policy relevant categories.
- Provide a framework for evaluating the potential exposure of family forest ownership classes to differently treated mortality losses.



Preliminary results

Southern Yellow Pine Annual Mortality to be approximately 1.27 billion cubic feet.

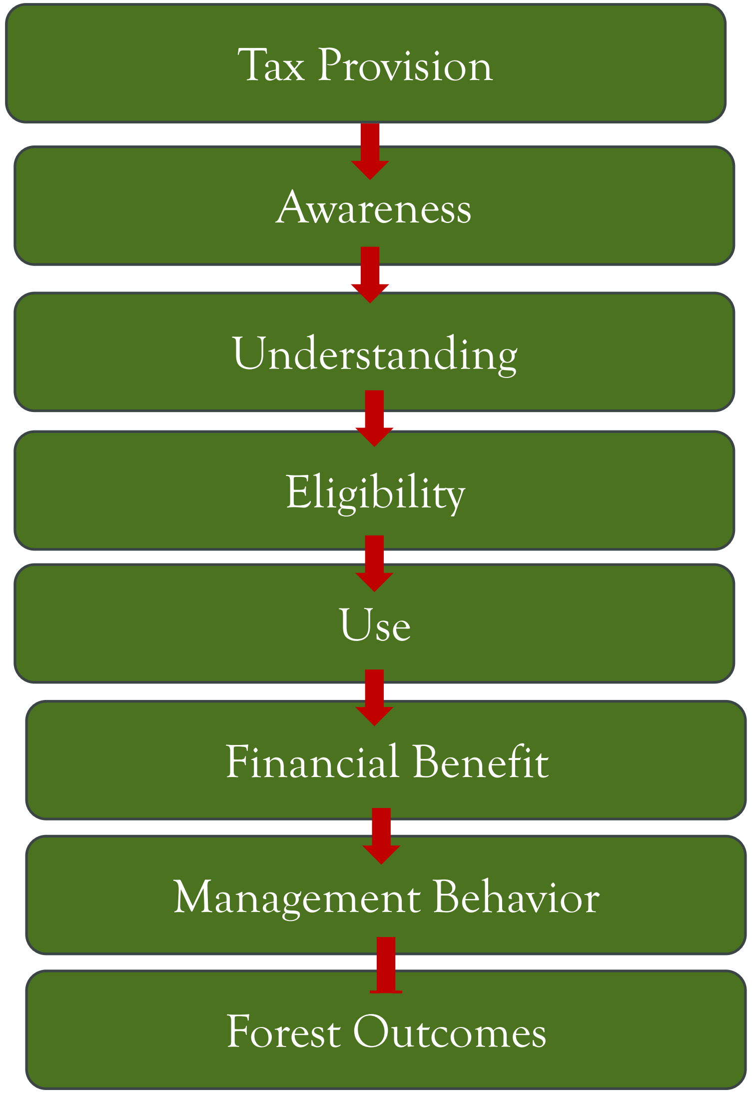
State	Percent of total mortality of SYP
Georgia	18%
Alabama	17%
Mississippi	14%
Florida	11%
Louisiana	9%



Non casualty losses are responsible for the largest share of losses, followed by non-deductible and casualty losses.

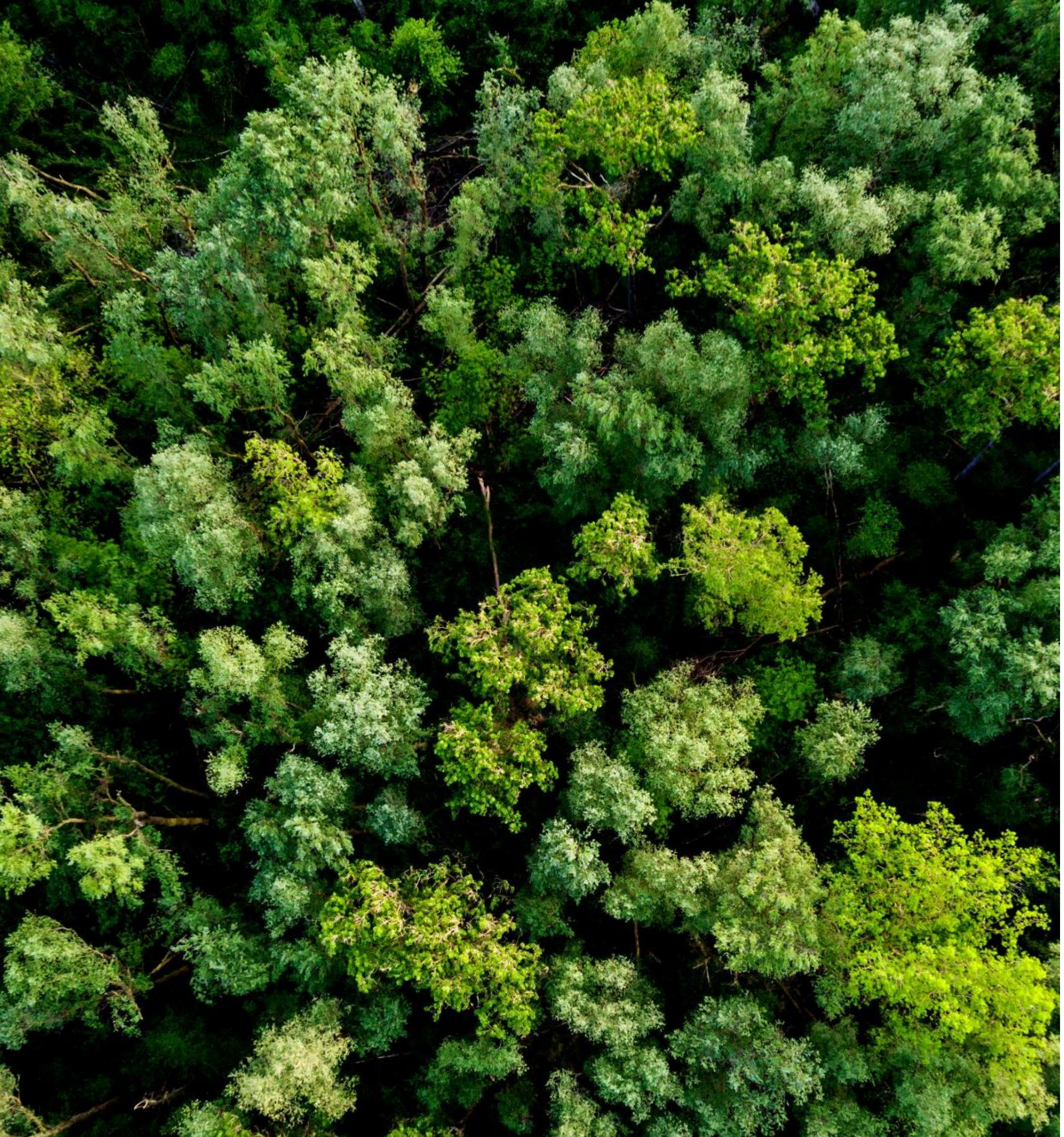
The Bigger Research Question

Where does the policy chain work and where does it break down?



Key things that every forest landowner should know

- ❑Know why and how you hold your forest for tax purposes.
- ❑Establish your timber basis.
- ❑Keep good records.
- ❑Understand tax consequences before a timber sale.
- ❑Track qualifying reforestation and management expenditures.
- ❑Document timber losses promptly.
- ❑Use forestry and tax professionals familiar with timber taxation.



Finally

- Forest taxation is not simply about what a landowner owes.
- It affects the economics of owning, managing, harvesting, conserving, and transferring private forests and therefore can influence the future of the forest itself.

RESOURCES

- National Timber Tax Website (https://www.timbertax.org)
- Tax Tips for Forest Landowners 2025 Tax Year
- State Financial Incentive Programs for Non-industrial Private Forest Owners
- Greene, J. L., W.C. Siegel, W.L. Hoover, and M. Koontz. 2013b. Forest landowners' guide to the Federal income tax. Agriculture Handbook 731. Washington, DC: US Department of Agriculture. 152 p.
- Kilgore, M.A., P.V. Ellefson, T.J. Funk, and G.E. Frey. 2018. Private forest owners and property tax incentive programs in the United States: A national review and analysis of ecosystem services promoted, landowner participation, forestland area enrolled, and magnitude of tax benefits provided. Forest Policy and Economics. 97(2018): 33-40.
- Gc, S., G.E. Frey, C. Mihiar, B.J. Butler, and C. Brandeis. 2025. Quantifying the distribution of forest ownership classifications for US federal income tax. Trees, Forests and People. 19(2025) 100756.
- Hatcher, J.E., T.J. Straka, T.L. Cushing, J. L. Greene, and W. C. Bridges Jr. 2016. Socioeconomic predictors of family forest owner awareness and use of U.S. federal income tax provisions. Forests. 7,114; doi:10.3390/f7060114.
- Smith, N.R., P. Bailey, H. Haney Jr., D. Salbador, and J. Greene. 2008. The impact of federal and state income tax liabilities on timber investments in the West. Western Journal of Applied Forestry. 23(2): 121-126.

Thank you!

Questions?

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