

Timber Tax

Dr. Linda Wang

**National Timber Tax Specialist
USDA Forest Service**

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Disclaimer

The materials and discussions are educational, not legal or accounting advice.

How Is My Woodland Property Classified for Tax Purpose?

**The answer has implications for
deductions and income**

Three Holding Purposes...

- **A woodland property may be considered as one of three tax categories:**
 - **personal property**
 - **investment property**
 - **business property**

Woodland as Personal Property

- **Your holding is for personal purpose, not for profit seeking**
 - **Personal hunting and fishing**
 - **Family retreat**
- **This classification is at a disadvantage because its tax deductions are limited**

Is Your Woodland Property an Investment?

- **Woodland property held for income-producing purposes may be an investment when your activity does not rise to the level of a business**

Tax Treatment of Investment Property

- **Expenses:**
 - **Don't file Schedule C as it is for business**
 - ** Deduct on Schedule A, but it is subject to 2% of your adjusted gross income floor**
OR
 - ** Elect to keep them in the cost of your timber and recover upon timber sale**

2% Floor Example

Your adjusted gross income was \$40,000.

Your woodland expenses was \$1,000.

But only \$200 is deductible on Schedule A:

$$\mathbf{\$1,000 - 2\% \times \$40,000 = \$200}$$

One of the best way to document your income-producing purpose...

- is by including income production and cash flow projection in your woodland management plan**

What Is This Year's Tax Filing Deadline?

A) April 13, 2012

B) April 15, 2012

C) April 17, 2012 (Tuesday)

What Is A Business?

- **A business is an activity you regularly and continuously engage in primarily to make a profit**

Passive Business?

- **If you don't "materially participate" in your woodland business, your activity may be "passive"**
- **Loss from passive business activity cannot offset income from non-passive activity**
 - Retirement income
 - Salary
 - Self-employment income ...

Deducting Expenses by a Business

Ordinary and necessary business expenses are fully deductible on Schedule C (material participants)

What Qualifies as a Business?

- **Profit motive—Does the activity make profit?**
 - **The IRS presume an activity is for profit if it makes a profit during at least 3 of the last 5 years**
 - **Profit also include expectation that assets appreciate in value**

What Qualifies as a Business?

- 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?**
- Does the taxpayer or his advisors have the knowledge to carry on the activity as a business?**

What Qualifies as a Business?

- Does the activity make a profit in some years?**
- Has the taxpayer made a profit in similar activities in the past?**
- The timber activities and transactions by a business are generally more active, regular, intensive and continuous than investment**

Business or Hobby?

- **If the profit objective is not met, your activity may be a hobby**
- **Losses that deductible for a business are disallowed for a hobby**

Quiz: True or False

If your woodland is an investment property, the expenses are deductible but are subject to 2% of your adjusted gross income floor.

- A) True**
- B) False**

Example of Woodland Management Expenses



Fire, insect and disease control



Southern Pine Beetle

Examples of Woodland Management Expenses



Firebreak Maintenance Cost

Expenses...



Hiring Consulting Forester



Weed Control

What is Form T?

Forest Activities Schedule

This schedule has five parts:

- Acquisition**
- Timber Depletion**
- Profit or Loss from Land and Timber Sale**
- Reforestation and Timber Stand Activities**
- Ownership**

Who Must File Form T?

- **File Form T only if you:**
 - **claim a depletion deduction**
 - **timber sold after cut (vs. *sold on the stump*) (Sec. 631(a))**
 - **make an outright timber sale by business (Sec. 631(b))**

Form T

- **What about occasional timber sales?**
 - **defined as: One or two sales every 3 or 4 years**
 - **not required, but prudent to file**

Quiz: True or False

Form T, Forestry Activity Schedule, is a tax form.

- A) True**
- B) False**

Figure Out Timber Basis

Transactions regarding timber acquisitions and sale involve its basis.

Basis reduces sale proceeds and therefore save taxes.

Figure Out Timber Basis

- For purchased timber property, the basis is the purchase price plus other acquisition cost
- For inherited property, it is the fair market value of timber on the date of death
- For gifted property, it is generally the cost in the donor's hand

An Example of Timber Basis

Pine Sawtimber:

- 30 MBF (\$300/MBF)

Hardwood Pulpwood:

- 100 cords (\$15/cord)

Pine Pulpwood

- 600 cords (\$7/cord)

Quiz

What Form Is for Reporting Woodland Business Expenses?

- A) Schedule A**
- B) Schedule B**
- C) Schedule C**

Cost Share Payment

- **Cost share payment must be included in your income unless it qualifies for income exclusion (Sec. 126)**
- **The excludable cost share payment must be:**
 - **From an approved program**
 - **For capital project (such as reforestation)**

So, tree stand improvement cost share are taxable income as it is not a capital expenditure

Approved Federal Programs

- **Excludable Federal Programs that may affect timberland owners include:**
 - **Conservation Reserve Program (CRP)**
 - **Environmental Quality Incentives Program (EQIP)**
 - **Wetland Reserve Program (WRP)**
 - **Wildlife Habitat Incentive Program (WHIP)**
 - **Forest Health Protection Cost Share**
 - **Conservation Security Program**

Approved State Programs

- **Approved State cost-share programs that most often affect timberland owners include:**

- **Forestry Development Program..... NC**
- **Reforestation of Timberlands Act Program..... VA**
- **Forest Resource Development Program..... MS**
- **Forest Improvement Program..... CA**
- **Forest Renewal Program..... SC**
- **Forestry Development Program..... IL**
- **Forestry Productivity Program LA**

Timber Loss from Casualty



Forest Fire



Hurricane Damage

Timber Loss from Casualty

- **Casualty loss is deductible**
- **The amount of deduction is the smaller of fair market value loss or timber basis**
- **Tip: Basis and fair market value loss is for the entire timber account (vs. only the destroyed portion)**
- **Caution: the loss valuation for the entire property may be expensive or even prohibitive**

Quiz

Is Cost Share Payment Income?

- A) Yes, you must always include it in your income.**
- B) No, it's not taxable.**
- C) Yes, but certain qualified cost share may be excluded from your income.**

1099-S Reporting

- **Lump sum timber sales are subject to 1099-S reporting**
 - Effective for timber sales after May 28, 2009
 - Treasury Decision 9450
- **Pay-as-cut sales has been subject to 1099-S reporting**

Form 1099-S Reporting

- **Who Must Issue 1099-S?**
 - (1) the person (including attorney or title company) responsible for closing the transaction,**
 - (2) the mortgage lender,**
 - (3) the seller's broker,**
 - (4) the buyer's broker, or**
 - (5) the buyer**

Taxes on Investment Income

New Tax for High-Income Taxpayer

- Beginning in 2013, investment income of a high-income taxpayer is subject to a new tax of 3.8%
 - Married filing joint: \$250,000
 - Single: \$200,000

Quiz

What transactions may involve timber basis?

A) Timber sale

B) Timber sale and claiming casualty loss

Brand New Tax Publication

United States
Department of Agriculture



Forest Service
Southern Region



R8-TP 39
Revised November 2011

Third Edition

2011



Federal Income Tax on Timber

**A Key to Your Most
Frequently Asked Questions**

Revised by Linda Wang
USDA Forest Service

Reviewed by William C. Siegel
Attorney-at-Law

Timber Sales and Income

**Ag. Handbook 718, pages 45-57, updated for:
Economic Growth & Tax Relief Reconciliation Act of 2001 (EGTRRA),
Jobs & Growth Tax Relief Reconciliation Act of 2003 (JGTRRA),
American Jobs Creation Act of 2004 (AJCA),
Treasury Decision 9450, and
Tax Relief, Unemployment Insurance Reauthorization, and Job
Creation Act of 2010 (2010 Tax Relief Act)**

Type of Income

- **When you sell timber, both the amount and type of income you receive are important**
- **Amount: *Price – Timber Basis – Costs of Sale***
- **Type: Ordinary income or a capital gain**

Type of Income

- **In almost every case you would prefer that the income be a long-term capital gain:**
 - **Depending on your tax bracket, there is a 10 to 20% differential favoring long-term capital gains**
 - **If you hold timber for use in a trade or business, any ordinary income you earn from it is subject to self-employment tax, at rates up to 15.3%**
 - **Other reasons related to capital losses and Social Security benefits**

Type of Income

- **Three factors determine whether income you receive from timber is ordinary income or a long-term capital gain:**
 - 1. Your primary purpose for holding the timber**
 - 2. How long you have held it**
 - 3. The method you use to sell or dispose of it**

Primary Purpose

- **Timber held as an investment (or for personal use) is covered under IRC sec. 1221**
 - **A capital asset in your hands, by definition**
 - **Gain from its sale or disposal qualifies as a capital gain, by definition, regardless of how you sell or dispose of it**

Primary Purpose

- **Timber held for use in a trade or business is covered under IRC sec. 1231**
 - ***Not* a capital asset in your hands**
 - **But gain from its sale or disposal *still can qualify* for treatment as a capital gain**

Holding Period

- **Holding period for long-term treatment depends on how you acquired the timber:**
 - **By purchase: More than 12 months**
 - **By gift: More than 12 months, including time the donor held it**
 - **By inheritance: No requirement**
- **Holding period is measured from the date of acquisition to the “date of disposal”**

Method of Sale or Disposal

- **Basically three ways:**
 - 1. Outright sale or exchange**
 - 2. Disposal with an economic interest retained**
 - 3. Convert standing timber into products for sale**

Outright Sale

- **Direct sale of standing timber for a fixed total amount agreed upon in advance, for example, through a timber deed or sale contract**
 - **AKA lump-sum sale**
 - **Once the sale is complete, the buyer has title to the timber and bears all risk of loss**
 - **“Date of disposal” is the date ownership of the timber changes hands – the *only* definition of “date of disposal” for an outright sale**

Outright Sale

- **“Timber” is the parts of standing trees usable for wood products**
 - **Includes evergreen (coniferous) trees more than 6 years old when cut and sold for ornamental purposes**
 - **But not evergreen trees sold live, or the tops or other parts of standing trees used separately from the main stem**

Outright Sale

- For many years, only owners who held their timber as an investment (or personal property) qualified for capital gain treatment of income from the outright sale of timber
- But since Dec. 31, 2004, owners who hold timber for use in a trade or business *also can qualify* for capital gain treatment
 - Accomplished by a change in the wording of IRC sec. 631(b) put in place by AJCA

Outright Sale

- **Wording in AJCA also indicates that in an outright sale under sec. 631(b), “owner” is intended to be the landowner who makes the original sale**
- **Disposing of timber under sec. 631(b) gives the seller two important advantages**
 - **First, any gain realized is treated as a capital gain, regardless of whether the seller held the timber primarily for sale to customers – even if they are a dealer in standing timber**

Outright Sale


- **Second, timber disposed of under sec. 631(b) is sec. 1231 property; any gain or loss from disposal of the timber is aggregated with other sec. 1231 gains and losses, with**
 - **A net gain treated as a capital gain**
Best tax outcome, because capital gains are taxed at a lower rate
 - **But a net loss treated as (ordinary income)**
Best tax outcome, because the loss is deducted from dollars taxed at a higher rate

Example

Last year a timber buyer knocked on your door and offered you \$15,000, lump sum, to buy 1,000 cords of pulpwood from your 150-acre forest tract. You agreed. Your only cost of the sale was \$350 to have your lawyer examine the contract. Just before the sale, the tract held 2,320 cords of pulpwood with a cost basis of \$32,408.

Calculate your timber depletion deduction, your adjusted timber basis, and your net taxable proceeds from the sale.

Solution

- Calculate your timber depletion deduction:
 - = Depletion unit x Cords sold
 - = $(\$32,408 \div 2,320 \text{ cord}) \times 1,000 \text{ cords}$
 - = $\$13.97 \text{ per cord} \times 1,000 \text{ cords} = \underline{\underline{\$13,970}}$
- Calculate your adjusted timber basis:
 - = Original basis – Depletion deduction
 - = $\$32,408 - \$13,970 = \underline{\underline{\$18,438}}$
- Report them on Form T (Timber), Part II 

Part II Timber Depletion (see instructions)

1 Name of block and title of account ▶ (Your Name) Merchantable Sawtimber Subaccount:
Investor: Lump sum sale of pulpwood
Material participant: Outright sale of pulpwood under sec. 631(b)

		(a) Quantity	(b) Cost or other basis
If you express timber quantity in thousand board feet (MBF), log scale, name the log rule used. If another unit of measure is used, provide details ▶			
2	Estimated quantity of timber and cost or other basis returnable through depletion at end of the preceding tax year	2,000 cd	32,408
3	Increase or decrease of quantity of timber required by way of correction	--	
4a	Addition for growth (number of years covered ▶ <u>2</u>)	320 cd	
b	Transfers from premerchantable timber account	--	--
c	Transfers from deferred reforestation account	--	--
5	Timber acquired during tax year		--
6	Addition to capital during tax year		--
7	Total at end of tax year, before depletion. Add lines 2 through 6	2,320 cd	32,408
8	Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a)		13.97/cd
9	Quantity of timber cut during tax year	--	
10	Depletion for the current tax year. Multiply line 8 by line 9		--
11	Quantity of standing timber sold or otherwise disposed of during tax year	1,000 cd	
12	Allowable as basis of sale. Multiply line 8 by line 11		13,790
13	Quantity of standing timber lost by fire or other cause during tax year	--	
14	Allowable basis of loss plus any excess amount where decrease in FMV (before and after the casualty) exceeds the standard depletion amount, but not the block basis (see instructions)		--
15	Total reductions during tax year:	1,000 cd	
a	In column (a), add lines 9, 11, and 13		
b	In column (b), add lines 10, 12, and 14		13,790
16	Net quantity and value at end of tax year. In column (a), subtract line 15a from line 7. In column (b), subtract line 15b from line 7	1,320 cd	18,438
17	Quantity of cut timber that was sold as logs or other rough products		
18	Section 631(a):		
a	Are you electing, or have you made an election in a prior tax year that is in effect, to report gains or losses from the cutting of timber under section 631(a)? (see instructions)	<input type="checkbox"/> Yes	<input type="checkbox"/> No
b	Are you revoking your section 631(a) election (see instructions)?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
	Effective date ▶		

Solution

- Calculate your net taxable proceeds from the sale:

Gross sale proceeds	\$ 15,000
Minus depletion deduction	- 13,970
Minus cost of the sale	- <u>350</u>
Net taxable sale proceeds	<u>\$ 680</u>

- Report them on Form T (Timber), Part III ②

Participants in a business include a note that your income is reported on Form 4797

Part III Profit or Loss From Land and Timber Sales (see instructions)

1 Name of block and title of account
(Your Name) Timber Account

2 Location of property (by legal subdivisions or map surveys)
(Legal description)

3a Purchaser's name and address (Buyer's name and address)	b Date of sale 08/15/2011
---	--

4 Amount received: a In cash	15,000
b In interest-bearing notes	--
c In non-interest-bearing notes	--

5a Amount of other consideration	--
b Explain the nature of other consideration and how you determined the amount shown on line 5a:	

6 Total amount received for property. Add lines 4a, 4b, 4c, and 5a. **15,000**

7 Cost or other basis of property:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
a Forested land	Acre			--
b Nonforested land	Acre			--
c Improved land (describe) ▶	Acre			--
d Merchantable timber. Estimate in detail the quantity of merchantable timber on the date of sale or exchange. Include the quantity of timber in each species of timber by diameter at breast height (DBH) classes. State the log rule used if the unit of measure is thousand board feet (MBF), log scale. If another unit of measure is used, provide details. ▶ .	Cord	1,000	13.97 / Cord	13,970
				--
				--
				--
				--
				--
				--
				--
				--
				--
e Premerchantable timber.				--
				--
				--
f Improvements (list separately) .				--
				--
				--
				--
g Mineral rights				--
h Total cost or other basis. Add lines 7a through 7g				13,970
i Direct sale expenses (cruising, marking, selling).				350
8 Profit or loss. Subtract the sum of lines 7h and 7i from line 6				680

Outright Sale

- Investors report a capital gain from an outright sale of timber on new Form 8949 and Form 1040, Schedule D ③④
 - It will be combined with other capital gains and losses, with the net amount and your total tax due transferred to Form 1040
- You *may be required* to file Form T, Parts II and III – unless you only sell timber “infrequently”
- You can expect to receive a Form 1099-S

**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)
Name(s) shown on return
(Your Name)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).
▶ Use Form 8949 to list your transactions for lines 1, 2, 3, 8, 9, and 10.

OMB No. 1545-0074

2011
Attachment
Sequence No. **12**

Your social security number
XXX-XX-XXXX

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

Complete Form 8949 before completing line 1, 2, or 3. This form may be easier to complete if you round off cents to whole dollars.	(e) Sales price from Form(s) 8949, line 2, column (e)	(f) Cost or other basis from Form(s) 8949, line 2, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 2, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
1 Short-term totals from all Forms 8949 with box A checked in Part I		()		
2 Short-term totals from all Forms 8949 with box B checked in Part I		()		
3 Short-term totals from all Forms 8949 with box C checked in Part I		()		
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions				6 ()
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back				7

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

Complete Form 8949 before completing line 8, 9, or 10. This form may be easier to complete if you round off cents to whole dollars.	(e) Sales price from Form(s) 8949, line 4, column (e)	(f) Cost or other basis from Form(s) 8949, line 4, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 4, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
8 Long-term totals from all Forms 8949 with box A checked in Part II		()		
9 Long-term totals from all Forms 8949 with box B checked in Part II		()		
10 Long-term totals from all Forms 8949 with box C checked in Part II	15,000	(14,320)		680
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14 ()
15 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (h). Then go to Part III on the back				15 680

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2011

Outright Sale

- Participants in a business report a capital gain from an outright sale of timber on Form 4797 ⑤
 - It will be combined with other sec. 1231 gains and losses, with a net gain transferred to Form 1040, Schedule D, as a capital gain ⑥
 - But a net loss transferred to Form 1040 as (ordinary income)
- You *are required* to file Form T, Parts II and III
- You also can expect to receive a Form 1099-S

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

(Your Name)	Identifying number
1 Enter the gross proceeds from sales or exchanges reported to you for 2011 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)	XXX-XX-XXXX 1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	1,000 cd pulpwood stumpage	02/01/2009	08/15/2011	15,000		14,320	680

3 Gain, if any, from Form 4684, line 39	3	
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37	4	
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5	
6 Gain, if any, from line 32, from other than casualty or theft.	6	
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below. Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.	7	680
8 Nonrecaptured net section 1231 losses from prior years (see instructions)	8	
9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)	9	

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):		
11 Loss, if any, from line 7	11	
12 Gain, if any, from line 7 or amount from line 8, if applicable	12	
13 Gain, if any, from line 31	13	
14 Net gain or (loss) from Form 4684, lines 31 and 38a	14	
15 Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824.	16	
17 Combine lines 10 through 16	17	
18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below: a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14	18a 18b	

**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)
Name(s) shown on return
(Your Name)

Capital Gains and Losses

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▶ Use Form 8949 to list your transactions for lines 1, 2, 3, 8, 9, and 10.

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1 Short-term totals from all Forms 8949 with box A checked in Part I		()		
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4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions				6 ()
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back				7

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

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8 Long-term totals from all Forms 8949 with box A checked in Part II		()		
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15 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (h). Then go to Part III on the back				15 680

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Cat. No. 11338H

Schedule D (Form 1040) 2011

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“Of course you have a purpose in life. You pay taxes, don’t you?”

Disposal with Economic Interest Retained

- **Disposal of timber under a contract that requires payment at a specified rate for each unit of timber that actually is cut and measured**
 - **AKA pay-as-cut contract**
 - **Technically a “disposal with economic interest retained,” which means the seller typically retains title to the timber and bears all risk of loss until it is cut**
 - **“Date of disposal” is the date when the volume of the cut timber is first definitely determined**

Disposal with Economic Interest Retained

- **Before AJCA, a disposal with economic interest retained was the only method to dispose of standing timber recognized under sec. 631(b)**
 - **Owners who held their timber for use in a trade or business had to use this method to ensure their timber income qualified for treatment as a capital gain**

Disposal with Economic Interest Retained

- In a sec. 631(b) disposal “owner” is any person or legal entity with the right to cut the timber for sale or use on their own account
 - Can be the holder of a sublease or cutting contract, as long as they meet the 12-month holding requirement
- Selling timber held for use in a trade or business “on shares” with a harvester likely is a sec. 631(b) disposal with economic interest retained

Example

Say instead of accepting the timber buyer's offer, you decide to take bids for the 1,000 cords of pulpwood. A consulting forester solicits the bids, structures the sale as a disposal with economic interest retained, and administers it for 10% of the gross proceeds. The best bid you receive is \$22 per cord, or \$22,000.

Calculate the adjustments to your timber basis and your proceeds from the sale.

Solution

- The adjustments to your timber basis are exactly the same as they were for the outright sale
 - Your timber depletion deduction is \$13,970
 - Your adjusted timber basis is \$18,438
- Report them on Form T (Timber), Part II

Solution

- Calculate your net taxable proceeds from the sale:

Gross sale proceeds	\$ 22,000
Minus depletion deduction	- 13,970
Minus cost of the sale	- <u>2,200</u>
Net taxable sale proceeds	<u>\$ 5,830</u>

- Report them on Form T (Timber), Part III 7

Participants in a business again include a note that your income is reported on Form 4797

Part III Profit or Loss From Land and Timber Sales (see instructions)

1 Name of block and title of account

(Your Name) Timber Account

2 Location of property (by legal subdivisions or map surveys)

(Legal description)

3a Purchaser's name and address

(Buyer's name and address)

b Date of sale

08/15/2011

4 Amount received: a In cash	22,000	
	b In interest-bearing notes	--
	c In non-interest-bearing notes.	--

5a Amount of other consideration --
b Explain the nature of other consideration and how you determined the amount shown on line 5a:

6 Total amount received for property. Add lines 4a, 4b, 4c, and 5a. **22,000**

7 Cost or other basis of property:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
a Forested land	Acre			--
b Nonforested land	Acre			--
c Improved land (describe) ▶	Acre			--
d Merchantable timber. Estimate in detail the quantity of merchantable timber on the date of sale or exchange. Include the quantity of timber in each species of timber by diameter at breast height (DBH) classes. State the log rule used if the unit of measure is thousand board feet (MBF), log scale. If another unit of measure is used, provide details. ▶	Cord	1,000	13.97 / Cord	13,970
				--
				--
				--
				--
				--
				--
				--
				--
				--
e Premerchantable timber.				--
f Improvements (list separately)				--
				--
				--
g Mineral rights				--
h Total cost or other basis. Add lines 7a through 7g				13,970
i Direct sale expenses (cruising, marking, selling).				2,200
8 Profit or loss. Subtract the sum of lines 7h and 7i from line 6				5,830

Disposal with Economic Interest Retained

- Investors report a capital gain from a disposal with economic interest retained timber on Form 8949 and Form 1040, Schedule D 89
- It will be combined with other capital gains and losses, with the net amount and your total tax due transferred to Form 1040
- You *may be required* to file Form T, Parts II and III – unless you only sell timber “infrequently”
- You can expect to receive a Form 1099

**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)
Name(s) shown on return

(Your Name)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).
▶ Use Form 8949 to list your transactions for lines 1, 2, 3, 8, 9, and 10.

OMB No. 1545-0074

2011
Attachment
Sequence No. **12**

Your social security number
XXX-XX-XXXX

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

Complete Form 8949 before completing line 1, 2, or 3.
This form may be easier to complete if you round off cents to whole dollars.

	(e) Sales price from Form(s) 8949, line 2, column (e)	(f) Cost or other basis from Form(s) 8949, line 2, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 2, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
1 Short-term totals from all Forms 8949 with box A checked in Part I		()		
2 Short-term totals from all Forms 8949 with box B checked in Part I		()		
3 Short-term totals from all Forms 8949 with box C checked in Part I		()		
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions				6 ()
7 Net short-term capital gain or (loss) . Combine lines 1 through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back				7

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

Complete Form 8949 before completing line 8, 9, or 10.
This form may be easier to complete if you round off cents to whole dollars.

	(e) Sales price from Form(s) 8949, line 4, column (e)	(f) Cost or other basis from Form(s) 8949, line 4, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 4, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
8 Long-term totals from all Forms 8949 with box A checked in Part II		()		
9 Long-term totals from all Forms 8949 with box B checked in Part II		()		
10 Long-term totals from all Forms 8949 with box C checked in Part II	22,000	(16,170)		5,830
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14 ()
15 Net long-term capital gain or (loss) . Combine lines 8 through 14 in column (h). Then go to Part III on the back				15 5,830

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2011

Disposal with Economic Interest Retained

- Participants in a business report a capital gain from a disposal with economic interest retained on Form 4797 1011
 - It will be combined with other sec. 1231 gains and losses, with a net gain treated as a capital gain but a net loss treated as ordinary income
- You *should* file Form T, Parts II and III, to support your status as a participant in a business
- You also can expect to receive a Form 1099

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

Identifying number
XXX-XX-XXXX

1 Enter the gross proceeds from sales or exchanges reported to you for 2011 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)

1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	1,000 cd pulpwood stumpage	02/01/2009	08/15/2011	22,000		16,170	5,830

3 Gain, if any, from Form 4684, line 39

3

4 Section 1231 gain from installment sales from Form 6252, line 26 or 37

4

5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824

5

6 Gain, if any, from line 32, from other than casualty or theft.

6

7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:

7

5,830

Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.
Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

8 Nonrecaptured net section 1231 losses from prior years (see instructions)

8

9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)

9

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11 Loss, if any, from line 7

11

12 Gain, if any, from line 7 or amount from line 8, if applicable

12

13 Gain, if any, from line 31

13

14 Net gain or (loss) from Form 4684, lines 31 and 38a

14

15 Ordinary gain from installment sales from Form 6252, line 25 or 36

15

16 Ordinary gain or (loss) from like-kind exchanges from Form 8824.

16

17 Combine lines 10 through 16

17

18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:

a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions

18a

b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14

18b

**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on return

(Your Name)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).
▶ Use Form 8949 to list your transactions for lines 1, 2, 3, 8, 9, and 10.

OMB No. 1545-0074

2011
Attachment
Sequence No. **12**

Your social security number

XXX-XX-XXXX

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

Complete Form 8949 before completing line 1, 2, or 3.
This form may be easier to complete if you round off cents to whole dollars.

	(e) Sales price from Form(s) 8949, line 2, column (e)	(f) Cost or other basis from Form(s) 8949, line 2, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 2, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
1 Short-term totals from all Forms 8949 with box A checked in Part I		()		
2 Short-term totals from all Forms 8949 with box B checked in Part I		()		
3 Short-term totals from all Forms 8949 with box C checked in Part I		()		
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions				6 ()
7 Net short-term capital gain or (loss) . Combine lines 1 through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back				7

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

Complete Form 8949 before completing line 8, 9, or 10.
This form may be easier to complete if you round off cents to whole dollars.

	(e) Sales price from Form(s) 8949, line 4, column (e)	(f) Cost or other basis from Form(s) 8949, line 4, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 4, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
8 Long-term totals from all Forms 8949 with box A checked in Part II		()		
9 Long-term totals from all Forms 8949 with box B checked in Part II		()		
10 Long-term totals from all Forms 8949 with box C checked in Part II		()		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11 5,830
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14 ()
15 Net long-term capital gain or (loss) . Combine lines 8 through 14 in column (h). Then go to Part III on the back				15 5,830

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2011



"I'LL BE HONEST WITH YOU - THE GOVERNMENT CAN'T
GET BY ON WHAT YOU'RE MAKING."

Reprinted from The Funny Times / PO Box 18530 / Cleveland Heights, OH 44118
phone: (216) 371-8600 / e-mail: ft@funnytimes.com

Sale of Cut Products

- If you cut standing timber and convert it into logs, pulpwood, or other products for sale, all of the income that results will be *ordinary income* unless you have a sec. 631(a) election in effect
If you have an election in effect, then the income that results from holding the timber will be a capital gain – just as if you had sold it outright – and only the value added by converting the timber into products for sale will be ordinary income

Sale of Cut Products

NOTE: Profit from converting standing timber into products for sale *always* is ordinary income, *never* is a capital gain

- **AKA sec. 631(a) transaction**
- **Inherently a business operation: In effect, you become an integrated forest products firm, selling the standing timber to yourself at a “transfer price” and making products for sale**
- **Make the election on Form T, Part II, line 18a**

Sale of Cut Products

- **“Timber cut by taxpayer”** includes timber cut by other persons at your direction as well as timber you cut yourself
- **“Owner”** is any person or entity who, before entering into the 631(a) contract, has the right to cut the timber for sale or use on their own account

Can be the holder of a cutting contract or sublease, as long as they meet the holding requirement

Sale of Cut Products

But not the holder of a cutting service contract who is obligated to deliver the cut logs to a place you specify, even if your contract uses terms like “buy,” “sell,” or “stumpage charge”

Sale of Cut Products

- **“Transfer price” is the price at which the standing timber would have changed hands in a transaction between a willing, informed buyer and a willing, informed seller**

If you only cut a small amount of timber, price information from local mill operators or timber buyers may be good enough

If you cut a large amount of timber, you need to use a qualified timber appraiser

Sale of Cut Products

- **“Date of disposal” is the *first day of the tax year* in which the timber is cut – Jan. 1 for calendar-year taxpayers (deemed date of sale)**
- **Less common than other methods of sale, *but* An arrangement where a consulting forester oversees a harvest and delivery of timber to a mill, receives the payment, and writes checks to the owner and logger for their shares likely is a sec. 631(a) transaction**

Example

Say instead of selling the 1,000 cords of pulpwood from your tract outright, you hire a consulting forester to oversee its harvest and delivery to a local paper mill. You receive \$50 per cord for the delivered pulpwood. The consultant sets the transfer price of the standing pulpwood at \$22 per cord and charges you \$5,000, \$2,200 for overseeing the harvest and \$2,800 for overseeing the delivery. The contractor charges you \$25,000 for harvesting the pulpwood and delivering it to the mill.

Solution

- The adjustments to your timber basis are exactly the same as they were for the outright sale
 - Your timber depletion deduction is \$13,970
 - Your adjusted timber basis is \$18,438
- Report them on Form T (Timber), Part II 12

Part II Timber Depletion (see instructions)

1 Name of block and title of account ▶ (Your Name) Merchantable Sawtimber Subaccount: Cut standing timber and convert into products for sale (section 631(a) transaction)

If you express timber quantity in thousand board feet (MBF), log scale, name the log rule used. If another unit of measure is used, provide details ▶

	(a) Quantity	(b) Cost or other basis
2 Estimated quantity of timber and cost or other basis returnable through depletion at end of the preceding tax year	2,000 cd	32,408
3 Increase or decrease of quantity of timber required by way of correction	--	
4a Addition for growth (number of years covered ▶ <u>2</u>)	320 cd	
b Transfers from premerchantable timber account	--	--
c Transfers from deferred reforestation account	--	--
5 Timber acquired during tax year	--	--
6 Addition to capital during tax year		--
7 Total at end of tax year, before depletion. Add lines 2 through 6	2,320 cd	32,408
8 Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a)		13.97 / cd
9 Quantity of timber cut during tax year	1,000 cd	
10 Depletion for the current tax year. Multiply line 8 by line 9		13,970
11 Quantity of standing timber sold or otherwise disposed of during tax year	--	
12 Allowable as basis of sale. Multiply line 8 by line 11		--
13 Quantity of standing timber lost by fire or other cause during tax year	--	
14 Allowable basis of loss plus any excess amount where decrease in FMV (before and after the casualty) exceeds the standard depletion amount, but not the block basis (see instructions)		--
15 Total reductions during tax year:	1,000 cd	
a In column (a), add lines 9, 11, and 13		
b In column (b), add lines 10, 12, and 14		13,970
16 Net quantity and value at end of tax year. In column (a), subtract line 15a from line 7. In column (b), subtract line 15b from line 7	1,320 cd	18,438
17 Quantity of cut timber that was sold as logs or other rough products		1,000 cd
18 Section 631(a):		
a Are you electing, or have you made an election in a prior tax year that is in effect, to report gains or losses from the cutting of timber under section 631(a)? (see instructions)	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
b Are you revoking your section 631(a) election (see instructions)?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Effective date ▶		

Solution

- Calculate your sec. 1231 gain from holding the timber

Fair market value as of Jan. 1	\$ 22,000
Minus consultant charge	- 2,200
Minus depletion allowance	<u>- 13,970</u>
Sec. 1231 gain	<u>\$ 5,830</u>

- Report it on Form T, Part III, and Form 4797 1314

Part III Profit or Loss From Land and Timber Sales (see instructions)

1 Name of block and title of account

(Your Name) Timber Account

2 Location of property (by legal subdivisions or map surveys)

(Legal description)

3a Purchaser's name and address

(YOUR name and address)

b Date of sale

01/01/2011

4 Amount received: a In cash	22,000
b In interest-bearing notes	--
c In non-interest-bearing notes.	--

5a Amount of other consideration	--
b Explain the nature of other consideration and how you determined the amount shown on line 5a:	

6 Total amount received for property. Add lines 4a, 4b, 4c, and 5a.	22,000
--	---------------

7 Cost or other basis of property:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
a Forested land	Acre			--
b Nonforested land	Acre			--
c Improved land (describe) ▶	Acre			--
d Merchantable timber. Estimate in detail the quantity of merchantable timber on the date of sale or exchange. Include the quantity of timber in each species of timber by diameter at breast height (DBH) classes. State the log rule used if the unit of measure is thousand board feet (MBF), log scale. If another unit of measure is used, provide details. ▶	Cord	1,000	13,97 / Cord	13,970
				--
				--
				--
				--
				--
				--
				--
				--
				--
e Premerchantable timber.				--
				--
				--
f Improvements (list separately)				--
				--
				--
				--
g Mineral rights				--
h Total cost or other basis. Add lines 7a through 7g				13,970
i Direct sale expenses (cruising, marking, selling).				2,200
8 Profit or loss. Subtract the sum of lines 7h and 7i from line 6				5,830

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts
Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

Identifying number
XXX-XX-XXXX

1 Enter the gross proceeds from sales or exchanges reported to you for 2011 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)

1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	1,000 cd pulpwood stumpage	02/01/2009	08/15/2011	22,000		16,170	5,830

3 Gain, if any, from Form 4684, line 39

4 Section 1231 gain from installment sales from Form 6252, line 26 or 37

5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824

6 Gain, if any, from line 32, from other than casualty or theft.

7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:
Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.
Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

8 Nonrecaptured net section 1231 losses from prior years (see instructions)

9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)

3

4

5

6

7 align="right">5,830

8

9

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11 Loss, if any, from line 7

12 Gain, if any, from line 7 or amount from line 8, if applicable

13 Gain, if any, from line 31

14 Net gain or (loss) from Form 4684, lines 31 and 38a

15 Ordinary gain from installment sales from Form 6252, line 25 or 36

16 Ordinary gain or (loss) from like-kind exchanges from Form 8824.

17 Combine lines 10 through 16

18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:

a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions

b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14

11 ()

12

13

14

15

16

17

18a

18b

Solution

- Calculate your ordinary income from selling the cut pulpwood

Sale proceeds	\$ 50,000
Minus FMV of the timber	- 22,000
Minus consultant's charge	- 2,800
Minus contractor's charge	<u>- 25,000</u>
Ordinary income	<u>\$ 200</u>

- Report it on Form 1040, Schedule C: List the FMV of the timber cut and other costs associated with the harvest and sale as "other costs" on page 2 1516

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

**Profit or Loss From Business
(Sole Proprietorship)**

► For information on Schedule C and its instructions, go to www.irs.gov/schedulec
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2011
Attachment
Sequence No. **09**

Name of proprietor
(Your Name)

Social security number (SSN)
XXX-XX-XXXX

A Principal business or profession, including product or service (see instructions)
Timber management for profit

B Enter code from instructions
► **1 1 3 0 0 0**

C Business name. If no separate business name, leave blank.
--

D Employer ID number (EIN), (see instr.)

E Business address (including suite or room no.) ► **(Your address)**
City, town or post office, state, and ZIP code

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ►

G Did you "materially participate" in the operation of this business during 2011? If "No," see instructions for limit on losses Yes No

H If you started or acquired this business during 2011, check here

I Did you make any payments in 2011 that would require you to file Form(s) 1099? (see instructions) Yes No

J If "Yes," did you or will you file all required Forms 1099? Yes No

Part I Income

1a Merchant card and third party payments. For 2011, enter -0-	1a	--		
1b Gross receipts or sales not entered on line 1a (see instructions)	1b	50,000		
1c Income reported to you on Form W-2 if the "Statutory Employee" box on that form was checked. Caution. See instr. before completing this line	1c	--		
1d Total gross receipts. Add lines 1a through 1c	1d	50,000		
2 Returns and allowances plus any other adjustments (see instructions)	2	--		
3 Subtract line 2 from line 1d	3	50,000		
4 Cost of goods sold (from line 42)	4	49,800		
5 Gross profit. Subtract line 4 from line 3	5	200		
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	--		
7 Gross income. Add lines 5 and 6	7	200		

Part II Expenses

Enter expenses for business use of your home only on line 30.

8 Advertising	8		18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9		19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	
12 Depletion	12		b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15		23 Taxes and licenses	23	
16 Interest:			24 Travel, meals, and entertainment:		
a Mortgage (paid to banks, etc.)	16a		a Travel	24a	
b Other	16b		b Deductible meals and entertainment (see instructions)	24b	
17 Legal and professional services	17		25 Utilities	25	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28	--	26 Wages (less employment credits)	26	
29 Tentative profit or (loss). Subtract line 28 from line 7	29	200	27a Other expenses (from line 48)	27a	
30 Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere	30	--	b Reserved for future use	27b	
31 Net profit or (loss). Subtract line 30 from line 29.	31	200			

- If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. If you entered an amount on line 1c, see instr. Estates and trusts, enter on **Form 1041, line 3**.
- If a loss, you **must** go to line 32.
- 32** If you have a loss, check the box that describes your investment in this activity (see instructions).
 - If you checked 32a, enter the loss on both **Form 1040, line 12**, (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. If you entered an amount on line 1c, see the instructions for line 31. Estates and trusts, enter on **Form 1041, line 3**.
 - If you checked 32b, you **must** attach **Form 6198**. Your loss may be limited.

32a All investment is at risk.
32b Some investment is not at risk.

Sale of Cut Products

- **Report the timber-holding part of the transaction on Form 4797**

It will be combined with other sec. 1231 gains and losses, with a net gain treated as a long-term capital gain and a net loss treated as ordinary income

- **Report the sale of the cut products on a business schedule – Form 1040, Schedule C, for a business or Schedule F for a farm**

Sale of Cut Products

List the fair market value of the timber cut and the other costs associated with the harvest and sale as “other costs”

Give details about the cutting and sale using Form T, Parts II and III

Include information on how you estimated the fair market value of the timber cut

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"After federal, state, and local taxes, you get one-third of a wish."