Timber Tax

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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:

$1,000 – 2% x $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
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
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
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
“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:
  
  \[ \text{Depletion unit} \times \text{Cords sold} \]
  
  \[ = \left( \frac{\$32,408}{2,320 \text{ cord}} \right) \times 1,000 \text{ cords} \]
  
  \[ = \$13.97 \text{ per cord} \times 1,000 \text{ cords} = \$13,970 \]

- Calculate your adjusted timber basis:

  \[ \text{Original basis} - \text{Depletion deduction} \]
  
  \[ = \$32,408 - \$13,970 = \$18,438 \]

- Report them on Form T (Timber), Part II
## Form I (Timber) (Rev. 12-2006)

### 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)

   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.

<table>
<thead>
<tr>
<th></th>
<th>Quantity</th>
<th>Cost or other basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>2,000 cd</td>
<td>$32,408</td>
</tr>
</tbody>
</table>

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**:

4. **Addition for growth (number of years covered)**:

   - **2**
   - **320 cd**

5. **Transfers from premerchantable timber account**:

6. **Transfers from deferred reforestation account**:

7. **Timber acquired during tax year**:

8. **Addition to capital during tax year**:

9. **Total at end of tax year, before depletion. Add lines 2 through 6**:

   - **2,320 cd**
   - **32,408**

10. **Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a)**:

   - **13.97/cd**

11. **Quantity of timber cut during tax year**:

12. **Depletion for the current tax year. Multiply line 8 by line 9**:

   - **1,000 cd**

13. **Quantity of standing timber sold or otherwise disposed of during tax year**:

   - **1,000 cd**

14. **Allowable as basis of sale. Multiply line 8 by line 11**:

   - **13,700**

15. **Quantity of standing timber lost by fire or other cause during tax year**:

16. **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)**:

17. **Total reductions during tax year**:

   - **a**
   - **b**

18. **Quantity of cut timber that was sold as logs or other rough products**:

### 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)**:

- **b Are you revoking your section 631(a) election (see instructions)**:

  **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 - 350
  Net taxable sale proceeds $ 680

- 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)

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Name of block and title of account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Location of property (by legal subdivisions or map surveys)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3a</td>
<td>Purchaser's name and address</td>
<td>(Buyer's name and address)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Amount received:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4a</td>
<td>In cash</td>
<td></td>
<td>15,000</td>
</tr>
<tr>
<td>5a</td>
<td>Amount of other consideration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5b</td>
<td>Explain the nature of other consideration and how you determined the amount shown on line 5a:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Total amount received for property. Add lines 4a, 4b, 4c, and 5a.</td>
<td></td>
<td>15,000</td>
</tr>
<tr>
<td>7</td>
<td>Cost or other basis of property:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7a</td>
<td>Forested land</td>
<td>Acre</td>
<td></td>
</tr>
<tr>
<td>7b</td>
<td>Nonforested land</td>
<td>Acre</td>
<td></td>
</tr>
<tr>
<td>7c</td>
<td>Improved land (describe)</td>
<td>Acre</td>
<td></td>
</tr>
<tr>
<td>7d</td>
<td>Merchable 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.</td>
<td>Cord</td>
<td>1,000</td>
</tr>
<tr>
<td>7e</td>
<td>Premerchable timber.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7f</td>
<td>Improvements (list separately)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7g</td>
<td>Mineral rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7h</td>
<td>Total cost or other basis. Add lines 7a through 7g</td>
<td></td>
<td>13,970</td>
</tr>
<tr>
<td>7i</td>
<td>Direct sale expenses (cruising, marking, selling)</td>
<td></td>
<td>350</td>
</tr>
<tr>
<td>8</td>
<td>Profit or loss. Subtract the sum of lines 7h and 7i from line 6</td>
<td></td>
<td>680</td>
</tr>
</tbody>
</table>
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
### Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

**Note:** You must check one of the boxes below. Complete a separate Form 8949, page 2, for each box that is checked.

*Caution:* Do not complete column (b) or (g) until you have read the instructions for those columns (see the Instructions for Schedule D (Form 1040)). Columns (b) and (g) do not apply for most transactions and should generally be left blank.

- **(A) Long-term transactions reported on Form 1040 (Schedule D)**
- **(B) Long-term transactions reported on Form 1040 (Schedule D)**
- **(C) Long-term transactions for which Form 1040-B with basis reported to the IRS**
- **(D) Long-term transactions for which Form 1040-B but basis not reported to the IRS**
- **(E) Long-term transactions for which you cannot check box A or B**

#### 3 Description of property
- **1,000 cords pulpwood stumps**

<table>
<thead>
<tr>
<th>(a) Code, if any, for column (g)</th>
<th>(b) Date acquired (Mo., day, yr.)</th>
<th>(c) Date sold (Mo., day, yr.)</th>
<th>(d) Sales price (see instructions)</th>
<th>(e) Cost or other basis (see instructions)</th>
<th>(f) Adjustments to gain or loss, if any</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>02/01/2009</td>
<td>08/15/2011</td>
<td>15,000</td>
<td>14,320</td>
<td></td>
</tr>
</tbody>
</table>

#### 4 Totals. Add the amounts in columns (e) and (f). Also, combine the amounts in column (g). Enter here and include on Schedule D, line 8 (if box A above is checked), line 9 (if box B above is checked), or line 10 (if box C above is checked).
**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.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Short-term totals from all Forms 8949 with box A checked in Part I</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Short-term totals from all Forms 8949 with box B checked in Part I</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Short-term totals from all Forms 8949 with box C checked in Part I</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4 Short-term gain from Form 8252 and short-term gain or (loss) from Forms 4684, 6781, and 8824

5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1

6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions

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

**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.

<p>| | | | | |</p>
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Long-term totals from all Forms 8949 with box A checked in Part II</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Long-term totals from all Forms 8949 with box B checked in Part II</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Long-term totals from all Forms 8949 with box C checked in Part II</td>
<td>15,000</td>
<td>14,300</td>
<td>690</td>
</tr>
</tbody>
</table>

11 Gain from Form 4797, Part I; long-term gain from Forms 2459 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824

12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1

13 Capital gain distributions. See the instructions

14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions

15 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (h). Then go to Part III on the back

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

- Participants in a business report a capital gain from an outright sale of timber on Form 4797.
  - 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.
  - 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.
Form 4797
Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

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).

2. 
<table>
<thead>
<tr>
<th>Description of property</th>
<th>Date acquired</th>
<th>Date sold</th>
<th>Gross sales price</th>
<th>Depreciation allowable since acquisition</th>
<th>Cost or other basis, plus improvements and expense of sale</th>
<th>Gain or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000 cd pulpwood stumpage</td>
<td>02/01/2009</td>
<td>08/15/2011</td>
<td>15,000</td>
<td>14,320</td>
<td>680</td>
<td></td>
</tr>
</tbody>
</table>

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:
   - Individuals, partnerships, 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.
   - Nonrecaptured net section 1231 losses from prior years (see instructions).

8. Subtract line 8 from line 7. If zero or less, enter 0.

9. 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 31.

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

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

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

16. Combine lines 10 through 16.

17. 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 29, column (b)(2), 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.
**Schedule D (Form 1040)**

**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, 4, 5, 6, 7, 8, 9, and 10.*

<table>
<thead>
<tr>
<th>Name(s) shown on return</th>
<th>Your social security number</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Your Name)</td>
<td>XXX-XX-XXXX</td>
</tr>
</tbody>
</table>

### 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.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>(e) Sales price from Form (a) 8949, line 2, column (e)</th>
<th>(f) Cost or other basis from Form (a) 8949, line 2, column (f)</th>
<th>(g) Adjustments to Gain or loss from line 2, column (g)</th>
<th>(h) Gain or (loss) Combine columns (e), (f), and (g)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Short-term totals from all Forms 8949 with box A checked in Part I</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Short-term totals from all Forms 8949 with box B checked in Part I</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Short-term totals from all Forms 8949 with box C checked in Part I</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1</td>
<td></td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions</td>
<td></td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>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.</td>
<td></td>
<td></td>
<td></td>
<td>7</td>
</tr>
</tbody>
</table>

### 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.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>(e) Sales price from Form (a) 8949, line 4, column (e)</th>
<th>(f) Cost or other basis from Form (a) 8949, line 4, column (f)</th>
<th>(g) Adjustments to Gain or loss from line 4, column (g)</th>
<th>(h) Gain or (loss) Combine columns (e), (f), and (g)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Long-term totals from all Forms 8949 with box A checked in Part II</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Long-term totals from all Forms 8949 with box B checked in Part II</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Long-term totals from all Forms 8949 with box C checked in Part II</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>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</td>
<td></td>
<td></td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1</td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Capital gain distributions. See the instructions</td>
<td></td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions</td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Net long-term capital gain or (loss). Combine lines 8 through 14 in column (h). Then go to Part III on the back.</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
</tbody>
</table>

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

Cat. No. 11339H

Schedule D (Form 1040) 2011
“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.
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 -2,200
  Net taxable sale proceeds $5,830

- 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**

<table>
<thead>
<tr>
<th>b. <strong>Date of sale</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>08/15/2011</td>
</tr>
</tbody>
</table>

4. **Amount received:**
   - a. In cash .................................................. $22,000
   - b. In interest-bearing notes .............................. $
   - c. In non-interest-bearing notes .......................... $
   - d. In other consideration ................................. $

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:**

<table>
<thead>
<tr>
<th>Unit</th>
<th>Number of units</th>
<th>Cost or other basis per unit</th>
<th>Total cost or other basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Forested land</td>
<td>Acre</td>
<td>1,000</td>
<td>13.97 / Cord</td>
</tr>
</tbody>
</table>
| b. Nonforest land | Acre | $
| c. Improvised 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 | | $6,820 |
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
Sales and Other Dispositions of Capital Assets

Form 8949

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

Note: You must check one of the boxes below. Complete a separate Form 8949, page 1, for each box that is checked.

*Caution: Do not complete column (b) or (g) until you have read the instructions for those columns (see the Instructions for Schedule D (Form 1040)). Columns (b) and (g) do not apply for most transactions and should generally be left blank.

<table>
<thead>
<tr>
<th></th>
<th>(A) Short-term transactions reported on Form 1099-B with basis reported to the IRS</th>
<th>(B) Short-term transactions reported on Form 1099-B but basis not reported to the IRS</th>
<th>(C) Short-term transactions for which you cannot check box A or B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Description of property</td>
<td>Code, if any, for column (g)</td>
<td>Date acquired (Mo., day, yr.)</td>
</tr>
<tr>
<td></td>
<td>(e)</td>
<td>(f)</td>
<td>(c)</td>
</tr>
<tr>
<td>1,000 cords pulpwood stompage</td>
<td></td>
<td></td>
<td>02/01/2009</td>
</tr>
</tbody>
</table>

2 Totals. Add the amounts in columns (e) and (f). Also, combine the amounts in column (g). Enter here and include on Schedule D, line 1 (if box A above is checked), line 2 (if box B above is checked), or line 3 (if box C above is checked).

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

**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.

**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.

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.

5. Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.

6. Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions.

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.

### 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.

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.

12. Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.

13. Capital gain distributions. See the instructions.

14. Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions.

15. Net long-term capital gain or (loss). Combine lines 8 through 14 in column (h). Then go to Part III on the back.

---

*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 

  - 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)*

**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)**

<table>
<thead>
<tr>
<th>Description of property</th>
<th>Date acquired (m., d., y.)</th>
<th>Date sold (m., d., y.)</th>
<th>Gross sales price</th>
<th>Depreciation allowed or allowable since acquisition</th>
<th>Cost or other basis, plus improvements and expense of sale</th>
<th>Gain or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000 cd pulpwood stumppage</td>
<td>02/01/2009</td>
<td>08/15/2011</td>
<td>22,000</td>
<td></td>
<td>16,170</td>
<td>5,830</td>
</tr>
</tbody>
</table>

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

4 Section 1231 gain from installment sales from Form 6252, line 28 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:

**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 26, 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 .
# Capital Gains and Losses

**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.

<table>
<thead>
<tr>
<th></th>
<th>(e) Sales price from Form(s) 8949, line 2, column (a)</th>
<th>(f) Cost or other basis from Form(s) 8949, line 2, column (f)</th>
<th>(g) Adjustments to gain or loss from Form(s) 8949, line 2, column (g)</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Short-term totals from all Forms 8949 with box A checked in Part I</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Short-term totals from all Forms 8949 with box B checked in Part I</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Short-term totals from all Forms 8949 with box C checked in Part I</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>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</td>
<td>7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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<table>
<thead>
<tr>
<th></th>
<th>(e) Sales price from Form(s) 8949, line 4, column (a)</th>
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<tbody>
<tr>
<td>8</td>
<td>Long-term totals from all Forms 8949 with box A checked in Part II</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Long-term totals from all Forms 8949 with box B checked in Part II</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Long-term totals from all Forms 8949 with box C checked in Part II</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>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</td>
<td>11</td>
<td>5,830</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Capital gain distributions. See the instructions</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Net long-term capital gain or (loss). Combine lines 8 through 14 in column (h). Then go to Part III on the back</td>
<td>15</td>
<td>5,830</td>
<td></td>
</tr>
</tbody>
</table>

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"I'll be honest with you — the government can't get by on what you're making."

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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.
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
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
**Form T (Timber) (Rev. 12-2005)**

**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 acre, name the log rule used. If another unit of measure is used, provide details.

<table>
<thead>
<tr>
<th>(a) Quantity</th>
<th>(b) Cost or other basis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Estimated quantity of timber and cost or other basis returnable through depletion at end of the preceding tax year  

<table>
<thead>
<tr>
<th>2,000 cd</th>
<th>32,408</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Increase or decrease of quantity of timber required by way of correction

<table>
<thead>
<tr>
<th>320 cd</th>
<th>--</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4a. Addition for growth (number of years covered) 2

<table>
<thead>
<tr>
<th>2,320 cd</th>
<th>32,408</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

b. Transfers from premerchantable timber account

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

c. Transfers from deferred reforestation account

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Timber acquired during tax year

<table>
<thead>
<tr>
<th>1,000 cd</th>
<th>13,970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Addition to capital during tax year

<table>
<thead>
<tr>
<th>2,320 cd</th>
<th>32,408</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Total at end of tax year, before depletion. Add lines 2 through 6

<table>
<thead>
<tr>
<th>1,320 cd</th>
<th>18,438</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a)

<table>
<thead>
<tr>
<th>1,000 cd</th>
<th>13,970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. Quantity of timber cut during tax year

<table>
<thead>
<tr>
<th>1,000 cd</th>
<th>13,970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. Depletion for the current tax year. Multiply line 8 by line 9

    | 2,320 cd | 32,408 |
    |----------|--------|
    |          |        |

11. Quantity of standing timber sold or otherwise disposed of during tax year

    | 1,000 cd | 13,970 |
    |----------|--------|
    |          |        |

12. Allowable as basis of sale. Multiply line 8 by line 11

    | 2,320 cd | 32,408 |
    |----------|--------|
    |          |        |

13. Quantity of standing timber lost by fire or other cause during tax year

    | 1,000 cd | 13,970 |
    |----------|--------|
    |          |        |

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)

    | 1,000 cd | 13,970 |
    |----------|--------|
    |          |        |

15. Total reductions during tax year:

   a. In column (a), add lines 9, 11, and 13

    | 1,000 cd | 13,970 |
    |----------|--------|
    |          |        |

   b. In column (b), add lines 10, 12, and 14

    | 1,320 cd | 18,438 |
    |----------|--------|
    |          |        |

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

    | 1,000 cd | 18,438 |
    |----------|--------|
    |          |        |

17. Quantity of cut timber that was sold as logs or other rough products

    | 1,000 cd | 18,438 |
    |----------|--------|
    |          |        |

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)

   b. Are you revoking your section 631(a) election (see instructions)?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
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: -13,970
  - Sec. 1231 gain: $5,830

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

Page 49
**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

   b. In interest-bearing notes

   c. In non-interest-bearing notes

   **22,000**

5a. Amount of other consideration

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

5b. **22,000**

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

**22,000**

7. Cost or other basis of property:

   a. Forested land

   b. Nonforested land

   c. Improved land (describe)

   **13,970**

   d. Merchandable timber. Estimate in detail the quantity of merchandable 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.

   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**

   o. Profit or loss. Subtract the sum of lines 7h and 7i from line 6

   **5,830**

Form T (Timber) (Rev. 12-2005)
Form 4797
Sales of Business Property

(Also Involuntary Conversions and Recapitulate Amounts Under Sections 179 and 2618(b)(2))

Attach to your tax return. See separate instructions.

Name(s) shown on return

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).

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) | Subtotal 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 4884, line 39.

4. Section 1231 gain from installment sales from Form 6252, line 28 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 if 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 9, 10, 11, and 12 below.

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

8. 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).

Part II Ordinary Gains and Losses (see instructions)

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

10. 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 4884, line 35, column b(iii), 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.

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 13086L Form 4797 (2011)
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 - 25,000
  Ordinary income $ 200

• 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.
**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.**

### Part I Income

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

### Part II Expenses

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

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Advertising</td>
</tr>
<tr>
<td>9</td>
<td>Car and truck expenses (see instructions)</td>
</tr>
<tr>
<td>10</td>
<td>Commissions and fees</td>
</tr>
<tr>
<td>11</td>
<td>Contract labor (see instructions)</td>
</tr>
<tr>
<td>12</td>
<td>Depreciation and section 179 expense deduction (not included in Part III) (see instructions)</td>
</tr>
<tr>
<td>13</td>
<td>Travel, meals, and entertainment:</td>
</tr>
<tr>
<td>14</td>
<td>Employee benefit programs (other than on line 19)</td>
</tr>
<tr>
<td>15</td>
<td>Insurance (other than health)</td>
</tr>
<tr>
<td>16</td>
<td>Interest:</td>
</tr>
<tr>
<td>16a</td>
<td>Mortgage (paid to banks, etc.)</td>
</tr>
<tr>
<td>16b</td>
<td>Other</td>
</tr>
<tr>
<td>17</td>
<td>Legal and professional services</td>
</tr>
<tr>
<td>18</td>
<td>Office expense (see instructions)</td>
</tr>
<tr>
<td>19</td>
<td>Pension and profit-sharing plans</td>
</tr>
<tr>
<td>20</td>
<td>Rent or lease (see instructions):</td>
</tr>
<tr>
<td>20a</td>
<td>Vehicles, machinery, and equipment</td>
</tr>
<tr>
<td>20b</td>
<td>Other business property</td>
</tr>
<tr>
<td>21</td>
<td>Repairs and maintenance</td>
</tr>
<tr>
<td>22</td>
<td>Supplies (not included in Part III)</td>
</tr>
<tr>
<td>23</td>
<td>Taxes and licenses</td>
</tr>
<tr>
<td>24</td>
<td>Entertainment (see instructions)</td>
</tr>
<tr>
<td>24a</td>
<td>Travel</td>
</tr>
<tr>
<td>24b</td>
<td>Deductible meals and</td>
</tr>
<tr>
<td>25</td>
<td>Utilities</td>
</tr>
<tr>
<td>26</td>
<td>Wages (less employment credits)</td>
</tr>
<tr>
<td>27a</td>
<td>Other expenses (from line 48)</td>
</tr>
<tr>
<td>27b</td>
<td>Reserved for future use</td>
</tr>
</tbody>
</table>

### Total expenses before expenses for business use of home. Add lines 8 through 27a

28

### Total expenses for business use of your home. Add lines 8 through 27a

29

### Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere above.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

### Net profit or (loss). Subtract line 30 from line 29.

31

### Tentative profit or (loss). Subtract line 28 from line 7.

29

### Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere above.

30

### If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2.

31

### 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).

32a

### All investment is at risk.

32b

### Some investment is not at risk.

For Paperwork Reduction Act Notice, see your tax return instructions.
**Part III  Cost of Goods Sold (see instructions)**

33 Method(s) used to value closing inventory:  
   a  []  Cost  
   b  []  Lower of cost or market  
   c  []  Other (attach explanation)  

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory?  
   If "Yes," attach explanation  
   Yes  [ ]  No  

35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation  

36 Purchases less cost of items withdrawn for personal use  

37 Cost of labor. Do not include any amounts paid to yourself  

38 Materials and supplies  

39 Other costs  

40 Add lines 35 through 39  

41 Inventory at end of year  

42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4  

**Part IV  Information on Your Vehicle.** Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562:

43 When did you place your vehicle in service for business purposes? (month, day, year)  

44 Of the total number of miles you drove your vehicle during 2011, enter the number of miles you used your vehicle for:  
   a  Business  
   b  Commuting (see instructions)  
   c  Other  

45 Was your vehicle available for personal use during off-duty hours?  
   Yes  [ ]  No  

46 Do you (or your spouse) have another vehicle available for personal use?  
   Yes  [ ]  No  

47a Do you have evidence to support your deduction?  
   Yes  [ ]  No  

b If "Yes," is the evidence written?  
   Yes  [ ]  No  

**Part V  Other Expenses.** List below business expenses not included on lines 8–26 or line 30:

48 Total other expenses. Enter here and on line 27a  

Schedule C (Form 1040) 2011
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
"After federal, state, and local taxes, you get one-third of a wish."