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Timber Sale Income Taxes

If you received money in 2011 for the sale of timber, the government expects taxes to be paid on that income. The amount of tax you pay on that income will depend upon the nature of the timber sale and how well you follow the rules to minimize the tax liability. Doing nothing will result in paying a higher tax (or perhaps penalties if you're caught under-reporting!).

The first step might be to visit the National Timber Tax website at www.timbertax.org. This resource is kept current with most recent changes in tax policy and provides access to forms and information. You'll want to download Form T, which is not a common form at the local library.

It may be worth your while to hire a professional tax preparer. Make certain the person knows about the timber sale income tax treatment. Some preparers do not. The IRS code is a bit obscure and there have been changes for the 2011 tax year.

The idea behind minimizing the tax bill is reducing the gross income to obtain a lower net income. There are three main ways to reduce the tax bill; 1) report income as capital gains, 2) calculate the timber basis and depletion, and 3) keep receipts for all out-of-pocket expenses related to the timber sale.

Check to learn if your timber sale income is eligible for capital gains tax rates, which are lower than ordinary income tax rates. Most timber sale income is eligible. You will need to have owned the timber for at least 12 months prior to sale. Also, capital gains income does not have to pay self-employment taxes, which is nearly 15 percent. You can save a lot with this tip.

Calculating basis and depletion values can be confusing. The basis is the monetary value of all your timber at the time it was purchased. Just the timber. Not the land. The depletion value is a portion of that basis and can be deducted from timber sale income based upon the percentage of total wood volume harvested. So, if you harvest half your wood volume; then half the basis value can be deducted from the timber sale income. If the entire forest was harvested, then the entire basis value can be deducted from the timber sale income. Working with a professional forester can help identify timber volumes and values. This calculation is especially helpful if you have owned your timber for less than 10 years or so.

Deductions are fairly easy to subtract from the gross timber sale income. You will need receipts. Some expenses can lie in a gray area of whether or not the expense was directly attributable to a timber sale. Expenses to hire a consulting forester, to set-up and administer the timber sale, is clearly a deduction. Building a graded road is debatable. Determinations might be best made with the help of a tax preparer that knows about timber sale taxation. For many forest owners, a timber sale is a once or twice in a lifetime event. So, the same is true for the taxation part. If you've had a timber sale in 2011, then take advantage of the IRS rules that minimize the tax bill. If you're contemplating a timber sale in the near future, you might want to take a look at these IRS rules before the sale. Planning ahead can sometimes save money.

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Additional information:

You can download the example-laden Tax Tips for 2011 at: <http://www.fs.fed.us/spf/coop/library/taxtips2011.pdf>