

Sale of Timber

By [Gina L. Gwozdz, CPA](#)

Originally Published: March 29, 2007

Rusty asks:

I inherited some land back in the 80's. A logger would like to harvest the trees. He is going to pay me 8,000 for the trees. How would I treat this? Capital Gain? Is it all taxable? Part of it?

Thanks,
Rusty

My reply:

Timber sales are complex; thus it's best to have a qualified tax professional help you with this.

In order to report your gain or loss you must first determine the type of gain or loss you have. Standing timber is treated for income tax purposes as either a capital asset or a non-capital (ordinary) asset.

Proceeds from the sale of forest products other than standing timber are treated as ordinary income. This includes logs, lumber, pulpwood, poles, mine timbers, maple syrup, nuts, bark, Christmas greens and nursery stock. In addition, income from the sale of firewood or pulpwood produced from the limbs and tops of trees is ordinary income.

If you are in the business of selling timber then you would report your income/loss as either one or a combination of the following:

- Ordinary Income-Form 1040 as Other Income
- Capital Gains-Schedule D, Form 1040
- Timber income incidental to Farming-use Schedule F, Form 1040 for ordinary income and Schedule D, Form 1040 for capital gains

If you are in the business of selling timber (or timber related products), then you would report your income/loss on either or both of the following:

- Ordinary Income-Schedule C, Form 1040 if sole proprietorship
- Capital Gain-Form 4797 and Schedule D, Form 1040

You should probably take a look at Form T, from the [IRS website](#). As a matter of good business practice and record keeping, the appropriate sections of Form T such as purchases, sales, planting should be completed each year. If you claim a deduction for depletion of timber or for depreciation related to a timber account, you must complete and attach Form T to your tax return. Form T should be filed when a taxpayer sells or cuts standing timber or has a casualty claim.

The amount of your gain or loss is determined by taking your proceeds and reducing that amount by your basis in the trees and any other related expenses. Related expenses would include marking the timber for sale (which I'm guessing you didn't have to do), costs of inspecting the timber to determine the amount of lumber yield and paying for professional services directly related to the sale.

You stated that you inherited the land - I will assume that land included timber when inherited.

If so your basis is the fair market value or special use value that was reported on the federal estate tax return. If the land was not separately stated from the timber for this valuation you may have to go back to the appraiser in order to properly divide your basis.

Your gain is determined by subtracting your basis of the timber sold and any other expenses directly related to making the sale from the proceeds you receive. If only part of your timber is sold, your cost basis must be allocated or spread against the total timber potentially for sale.

The allocation of basis is called depletion. The depletion unit is the basis amount per unit (tree, cord of wood, board feet, etc.) in your timber. Depletion is determined by dividing the adjusted basis by the available quantity of timber.

For example, if it cost you \$2,500 to plant 4000 trees then the depletion unit per tree is \$.625/tree; $2500 / 400 = \$.625$. If instead of planting you inherited the trees and the fair market value of the timber as of the date you inherited it was \$10,000 and it was determined that there were 100,000 board feet of marketable timber at time of inheritance, then the depletion unit of the marketable timber at time of inheritance would be \$.10 per board foot; $\$10,000 / 100,000 = \$.10$.

Two side notes:

1. You should review how your land was zoned and taxed for property taxes. If you've received a reduced property tax rate for forest land, you might owe yield taxes on what you harvest.
2. You should also consider protecting yourself to ensure that the logger cleans up the property to meet state forestry standards and your own desires. This may include replanting, stream restoration and slash removal. You should request that he provide a bond large enough to cover the work pending your and state forestry sign-off. If you don't, then the state will require that you do the work.
3. Are you sure the \$8,000 a fair price?

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.