

---

---

# The Florida Forest Steward



A Quarterly Newsletter for Florida Landowners and Resource Professionals

---

---

Volume 10, No. 4

Winter 2004

## Timber Tax Tips for 2003

Happy 2004! Tax time will be upon us very soon; so, adhering to first-issue-of-the-year tradition, we are including some tax tips to help you through the process of making sense of your tax forms in March. The following is a summary of “Tax Tips for Forest Landowners for the 2003 Tax Year” by Larry Bishop, Forest Management and Taxation Specialist with the U.S. Forest Service. This is intended to inform you of some of the things to keep in mind when preparing your Federal income tax return for the 2003 tax year, particularly if you incurred any costs, revenues or cost-share payments associated with timberland management. This is not exhaustive and we strongly recommend consulting other sources for a more comprehensive treatment of this topic. Some useful on-line resources are provided at the end.

### In this issue:

- ▶ Timber Tax Tips for 2003
- ▶ New Landowner Incentive Program
- ▶ Stewardship of Cultural Resources
- ▶ New Strategic Plan for Marketing Forest Products
- ▶ Timber Price Update
- ▶ Upcoming Programs

## Your Basis and Tax Records

Part of the price you receive from a timber sale is taxable income and part is your investment, or basis, in the timber sold. The original cost of purchased timberland, or the value of inherited land, should be allocated to land, timber, and other capital accounts. Then, adjust the basis in each of the accounts up for new purchases or investments and down for sales or disposals. Keep good records, including a written management plan, map, and documents supporting current deductions six years beyond the date the return is due. The basis and timber depletion should be reported on IRS Form T (timber), Part II. Note that Form T was recently revised – be sure to use the new form.

## Passive Loss Rules

Under passive loss rules you can be classified in 1 of 3 categories: (1) investor, (2) passive participant in a trade or business, or (3) active participant (materially participating) in a



UNIVERSITY OF  
FLORIDA

IFAS



trade or business. You are materially participating if your involvement is regular, continuous, and substantial. Generally, active participants get the best tax treatment of deductible expenses, but you must show this with thorough records. Keep records of all business transactions related to managing your timber stands and other business activities such as landowner meetings. Odometer readings to and from meetings, canceled checks for registration fees, and copies of meeting agendas are some examples of documentation of meeting attendance.

If you are an active participant in a timber business you must dispose of your timber under the provisions of Section 631 to qualify for capital gains. This means that timber must be sold on a pay-as-cut or “cut and convert” basis rather than lump sum.

### **Reforestation Tax Credit and Amortization**

The reforestation tax credit and 7-year amortization is among the best tax advantages for forest landowners. If you reforested during 2003 you can claim a 10% investment tax credit for the first \$10,000 spent for reforestation. You can also deduct (amortize) all of your 2003 reforestation costs, up to \$10,000.00, minus half the tax credit taken, over the next 8 tax years. You can amortize reforestation expenses on Form 4562, but the election to amortize must be made on a timely tax return for the year in which the reforestation expenses were incurred. Passive owners may not be eligible for this credit and amortization. Reforestation expenses exceeding \$10,000.00 can be capitalized.

*Caution:* the credit and 7-year amortization are subject to recapture if you dispose of your trees within 5 years of planting for the credit; and within 10 years of planting for the amortization.

### **Capital gains and Self-employment Taxes**

You could pay significantly more in taxes if you report timber sale income as ordinary income rather than as a capital gain. Also, capital gains are not subject to the self-employment tax, as is ordinary income. The net self-employment tax rate for 2003 is 15.3% for self-employed income of \$400.00 or more.

### **Cost-share Payments**

All or part of the cost-share payments received in 2003 under any of the Federal or State cost-share programs must be reported. Here are the options:

1 - Include the payments as income and then recover the part that you pay plus the cost-share payment through the amortization and reforestation tax credit described above.

2 - Exclude the “excludable portion” from income if certain conditions are met:

- a - the cost-share program has to be approved for exclusion by the IRS and
- b - the maximum amount excludable per acre is the greater of the present value of \$2.50 per acre or the present value of 10% of the average income per acre for the past 3 tax years.

Cost-share programs approved for exclusion by the IRS are the Wetlands Reserve Program, the Environmental Quality Incentive Program, and the Wildlife Habitat Incentive Program. If

you decide to exclude, you must attach a statement to your return that states specifically what cost-share payments you received, that you choose to exclude some or all of them, and how you determined the excludable amount.

### **Conservation Reserve Program (CRP)**

If you planted trees during 2003 under CRP you must report your *annual payment* as ordinary income, but *cost-share payments* are now excludable. Follow the procedures above to determine the “excludable portion” of your CRP cost-share payment.

### **Casualty Losses**

A casualty loss must result from an event that is identifiable, damaging to the property, and sudden or unexpected or unusual in nature (e.g., wildfires and storms). Your claim for casualty losses cannot exceed the adjusted basis minus any insurance or other compensation. Note that the IRS has ruled that losses resulting from drought or beetles generally do not qualify for a casualty loss deduction because they are not sudden, but they may qualify for a business- or investment-loss deduction.

### **Management and Maintenance Expenses**

Your annual expenses for the management of an existing timber stand can be itemized during the tax year they are incurred, although the amounts that can be deducted depend on your tax category (investor, active, passive). If it is not to your advantage to itemize deductions for 2003 you should capitalize these expenses.

Proper tax planning is a tedious but important part of timberland management. We strongly recommend

contacting a professional tax advisor to help you with this task if you are uncertain of the procedures.

### **Timber Tax Resources on the Internet**

“The Forest Landowners Guide to the Federal Income Tax” (Ag. Handbook No. 718) provides a thorough overview of timber taxes. You can access this, “Tax Tips for Forest Landowners for the 2003 Year”, and other publications online at the bottom of the Southern Region Forestry Extension page at [sref.info/](http://sref.info/)

See the National Timber Tax Web Site for a comprehensive treatment of timber taxes at [www.timbertax.org](http://www.timbertax.org)

IRS publications and forms are available at [www.irs.gov](http://www.irs.gov).

### **Florida Landowner Incentive Program**

by Chris Wynn, Florida Fish and Wildlife Conservation Commission

Florida is widely recognized as one of North America's most important reservoirs of biological diversity. Species at risk in Florida include 110 vertebrates, 8 invertebrates, and 542 plant species. Key to the conservation of these species is the recognition that their well being is largely dependant upon habitats that currently exist and, in many cases, are being managed on private lands.

The Florida Fish and Wildlife Conservation Commission (FWC) is cooperating with the U.S. Fish and Wildlife Service to implement a new private landowner assistance program called the Landowner Incentives Program (LIP). Florida's LIP is a

voluntary program designed to provide technical and financial support to those private landowners interested in improving habitat conditions on their properties for species at risk. There are no acreage limitations and any private (non-governmental) landowner is eligible to receive up to \$20,000 in cost-shares for approved habitat improvement practices. Cost-shares require a 50% non-federal match and are reimbursed based on established flat rates for each approved practice.

Applications will be accepted on a continuous basis; however, applications will be batched at two-month intervals for the purpose of evaluation and ranking. Batched applications will be evaluated for natural resource value using Geographic Information System (GIS) databases available to the FWC. The resulting natural resource value score will be used to rank applications. FWC biologists will assess project needs on the highest ranked, or priority, properties first, and will recommend appropriate qualified practices to landowners based on the GIS analysis and site visit.

Landowners will have twelve months to complete approved practices in accordance with practice standards. Six-month extensions may be approved on a case-by-case basis. Landowners will be reimbursed for approved practices completed in accordance with practice standards following performance evaluations conducted by a FWC biologist. To receive reimbursement, landowners must complete the approved practice as specified in the practice standards and submit invoices and/or documentation supporting total expenditures for each practice.

For more information on the Landowner Incentive Program, visit the Commission's LIP website at [www.wildflorida.org/lip/](http://www.wildflorida.org/lip/) or contact Chris Wynn at 850-488-3831.

## **Stewardship of Florida's Cultural Resources**

by Brenda Swann, Florida Division of Historical Resources, Bureau of Archaeological Research

Florida is home to a rich variety of cultural resources. They include 12,000 year-old Native American sites, the remains of early European settlements, and more recently, Mediterranean Revival homes and Art Deco buildings. Although many significant cultural resources are in public ownership, private landowners own significantly more, and thus, are able to preserve these tangible remains of Florida's past for the future. The tradition of stewardship for private property is well developed in our society, especially among owners of large tracts. Landowners have little difficulty extending their customary care of natural resources to cultural resources once they understand where the resources are and how they can be protected.

### **What are "Cultural Resources"?**

"Cultural Resources" are those resources that represent a culture or society, either past or present, and may include landscapes, structures, and/or archaeological sites. Typically cultural resources that are protected are those from past cultures, such as colonial European and Native American, because these cultures are irreplaceable.

### **Why Protect Cultural Resources on My Property?**

Protecting cultural resources has several advantages. To begin with, tax benefits are possible through certain methods of resource protection. Secondly, cultural resource protection on private lands may enhance your community's educational and recreational resources. Finally, preservation and protection of the past provides a legacy for future generations.

### **Best Management Practices**

Taking care of archaeological sites on private lands is much like caring for other resources. The basic principles and techniques have been organized into a series of best management practices. The Florida Bureau of Archaeological Research has produced publications on best management practices for landowners. You can order printed copies online at

*[dhr.dos.state.fl.us/culturalmgmt/orderform.cfm](http://dhr.dos.state.fl.us/culturalmgmt/orderform.cfm)*

or contact the Florida Bureau of Archaeological Research at (850) 245-6444.

### **Stewardship Programs for Cultural Resources**

The Florida Bureau of Archaeological Research has developed three stewardship programs to protect and maintain cultural resources: The Site Stewardship Agreement, The Stewardship Volunteer Program, and the Sitewatch Program. Each of these programs depends upon the voluntary cooperation of landowners, private citizens, non-profit organizations and the State.

By signing the Florida Site Stewardship Agreement, a property owner agrees to notify the State prior to initiating activities that may have a negative impact on the site or to report destructive acts such as dumping, unauthorized digging, or environmental degradation. The Site Stewardship Agreement

includes a statement of commitment by the State to provide guidance and technical assistance in site preservation. The agreement may allow regular site visits by a state archaeologist for the purposes of evaluating the site and the success of the agreement, and to offer assistance in site management.

The Bureau of Archaeological Research initiated the Stewardship Volunteer and Sitewatch Programs for the maintenance and protection of archaeological sites and historic buildings designed to complement the Florida Site Stewardship Agreement. Volunteers can be used on any site in need of protection and care. Stewardship Volunteers have the opportunity to assist professional archaeologists in various site maintenance activities.

Often using Site Stewardship Volunteers, the Sitewatch Program establishes individuals or groups as site monitors. Monitors formally agree to regularly visit and maintain a site. Monitors routinely fill out a site monitoring form to alert the site owner and the Bureau of Archaeological Research of site management needs. The monitors indicate on the form what the management concern is (looting, tree fall, trash dumping, etc.), and the form is then sent to the owner. Typically, the owner and the site monitors will work together to maintain the site.

The State's role in the volunteer-based stewardship programs is to assist property owners and land managers in coordinating site volunteers. The Florida Anthropological Society (FAS) is an organization made up of non-profit organizations throughout the state that raise awareness of archaeology and

archaeological site protection, and its members are often willing to volunteer on archaeology projects and serve as site monitors. For more information on FAS, visit their Web site at [cyber.acomp.usf.edu/~fas/](http://cyber.acomp.usf.edu/~fas/).

Additionally, the Bureau of Archaeological Research has worked with landowners to develop conservation easements (less than fee agreements) that include language to protect cultural resources. Types of conservation easements commonly used to protect cultural resources include historic preservation easements and open space or scenic easements. A conservation easement offers property owners flexibility in land management while at the same time protecting some of Florida's history. It can also afford property owners tax benefits.

The most protective measure for private landowners is outlined under the provisions of Chapter 267.11, *Florida Statutes*, which states that Division of Historical Resources can designate archaeological resources on private property as an Archaeological Landmark or Landmark Zone to recognize the significance and increase legal protection of privately owned archaeological sites under state law. Often without a State Archaeological Landmark or Landmark Zone designation, an owner's only legal protection against illegal or unwanted digging is the trespass law. With State designation, a permit is required from the Bureau of Archaeological Research to legally conduct archaeological investigations, allowing an owner to take legal action against non-permitted, illegal digging. An owner must give written consent to designate his or her

property as a State Archaeological Landmark or Landmark Zone. A designation does not convey ownership interest.

For more information about Stewardship Programs for Cultural Resources, visit the Cultural Resource Protection for Private Landowners site at [www.flheritage.com/culturalmgmt/](http://www.flheritage.com/culturalmgmt/) or contact the Bureau of Archaeological Research at 850-245-6444.

### **U.S. Forest Service to Develop New Strategic Plan for Marketing Southern Timber**

Shifts in global wood markets are impacting the management and utilization of the South's forest resource, which in turn impacts the general economic and environmental well-being across the Southern Region. The USDA Forest Service and Southern Group of State Foresters have begun a project focused on developing a strategic action plan to address these changes, specifically the need for utilizing and marketing southern timber resources. Efforts will include: identifying new and existing uses for low-value, small diameter, and otherwise underutilized trees; identifying alternative markets; and making recommendations for new research & development opportunities for value-added wood utilization across the 13-State Southern Region.

Tommy Loggins, of the U.S. Forest Service's Cooperative Forestry office in Atlanta, is coordinating the project. He can be reached at 404-347-2451 or [t\\_loggins@hotmail.com](mailto:t_loggins@hotmail.com).

### **Timber Price Update**

This information is useful for observing trends over time, but does not necessarily reflect current conditions at a particular location. Landowners considering a timber sale would be wise to let a consulting forester help them obtain the best current prices. Note that price per ton for each product is now included in parentheses after the price per cord.

Stumpage price ranges reported across Florida in the 4<sup>th</sup> quarter 2003 Timber Mart-South (TMS) report were \$17-\$32/cord (\$6-\$12/ton) for pine pulpwood, \$58-\$83/cord (\$21-\$31/ton) for pine C-N-S, \$79-\$115/cord (\$30-\$43/ton) for pine sawtimber, and \$96-\$125/cord (\$36-\$47/ton) for pine plylogs. On average, prices were down slightly, up, up and down slightly for these four products, respectively, from 3<sup>rd</sup> quarter 2003 prices. Hardwood pulpwood prices ranged from \$14-\$35/cord (\$5-\$12/ton), which was up slightly from those of the previous quarter. A more complete summary of 4<sup>th</sup> quarter 2003 stumpage prices is available at your County Extension office. See [www.forest2market.com](http://www.forest2market.com) for weekly, South-wide, per-ton price updates for the major pine and hardwood timber products.

### **Trend Report**

Florida's three-month stumpage price trends reflected those for the southern region overall, but our average pine C-N-S prices increased by a much higher margin than those of the region. Hardwood pulpwood prices remain at record highs and above pine pulpwood across the much of the south.

### **CCA Officially Phased Out**

As of December 31<sup>st</sup>, producers have phased out most of the Chromated Copper Arsenate (CCA) treatment for lumber. All new decking, fencing and playset construction will not use CCA pressure treated wood. Stores can sell remaining stocks and many manufacturers have switched to alternative treatments, which are sometimes more expensive and have been rated by some to offer protection inferior to CCA. This shift will likely provide South American competitors, who do not have the ban, with a price advantage over U.S. exports to the Caribbean. Also, consumers will incur additional costs to exterior home improvements.

### **Addition to Nursery List**

I inadvertently omitted one of our local nurseries in the last issue of the Steward (vol. 10, no. 3). Blanton's Longleaf Container Nursery is a reputable supplier located in Madison, Florida and can be reached at 850-973-2967. The Blantons are also working on having a supply of wiregrass plugs available for restoration projects in the future. I apologize for that omission and thank Blanton's for their support of Florida's Forest Stewardship Program. - *Chris*

### **Upcoming Programs**

**North Florida Prescribed Fire Council Meeting, April 21, 2004; State Office of the Florida Division of Forestry at 3125 Conner Boulevard in Tallahassee:**

If you are interested in learning more about prescribed fire or would like to become a certified burner you may wish to attend The North Florida Prescribed Fire Council's biannual meeting. The meeting is free and includes lunch but

you must preregister. To register go to The North Florida Prescribed Fire Council's web page at: [flame.fl-dof.com/Env/RX/councils/north/](http://flame.fl-dof.com/Env/RX/councils/north/)

**Forest Stewardship Workshop:  
Natural Stand Management, 3 dates  
and locations:**

**April 23, 2004; Austin Cary Memorial Forest (ACMF), Alachua County**, meet at ACMF at 8:00 AM ET; call Chris Demers at 352-846-2375 to register. *There will be a fee to cover lunch and breaks.*

**May 14, 2004; Archbold Biological**

**May 21, 2004; Jackson County Extension Office in Marianna**, meet at 8:00 AM CT; call the Jackson County Extension Office at 850-482-9620 to register. *There will be a fee to cover lunch and breaks.*

A schedule of Forest Stewardship Program activities for 2004 was mailed in December and is available for printing on-line at our Florida Forestry Information Bulletin Board: [www.sfrc.ufl.edu/Extension/ffws/bul.htm](http://www.sfrc.ufl.edu/Extension/ffws/bul.htm).

Contact Chris Demers at 352-846-2375 if you need a copy mailed.

For more information about Florida's Forest Stewardship Program and forest management visit the Florida Forestry Information Web site at [www.sfrc.ufl.edu/Extension/ffws/ffwshome.htm](http://www.sfrc.ufl.edu/Extension/ffws/ffwshome.htm)

**Station, Highlands County**, meet at

**A University of Florida Cooperative Extension Service and Florida Division of Forestry joint project:**

**Chris Demers** (editor), School of Forest Resources & Conservation, UF, P.O. Box 110410, Gainesville, FL 32611-0410, (352) 846-2375 or [cdemers@ifas.ufl.edu](mailto:cdemers@ifas.ufl.edu)

**Alan Long** (co-editor), School of Forest Resources & Conservation, UF, (352) 846-0891 or [ajl2@ufl.edu](mailto:ajl2@ufl.edu)

**Todd Groh** (co-editor), Florida Division of Forestry, 3125 Conner Blvd, Tallahassee, FL 32699-1650, (850) 414-9907 or [groht@doacs.state.fl.us](mailto:groht@doacs.state.fl.us)

**Chuck McKelvy** (co-editor), Florida Fish and Wildlife Conservation Commission, 3125 Conner Blvd, Tallahassee, FL 32699-1650, (850) 414-9911 or [mckelvc@fwc.state.fl.us](mailto:mckelvc@fwc.state.fl.us)

8:00 AM ET; call Penny at Archbold Biological Station at 863-465-2571 x.260 to register. *There will be a fee to cover lunch and breaks.*