
The Florida Forest Steward



A Quarterly Newsletter for Florida Landowners and Resource Professionals

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Spring 2005

Happy 2005!

We hope you and yours had a great Holiday season and we would like to see more of you at our Forest Stewardship workshops and tours in 2005. This issue will include some important information for you to consider when preparing your income tax return for the 2004 year. We will also share the highlights of our workshops on invasive exotic plants and their control, along with the usual timber price update and upcoming events.

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Timber Tax Tips for 2004

Each year Larry Bishop and John Greene, USDA Forest Service Taxation Specialist and Research Forester, provide us with an updated summary of tax tips for forest landowners. It was discovered that the first version of these tax tips for the 2004 year, released on December 10, did not list FLEP as an excludable federal cost-share program.

That version was corrected on December 14, and the Timber Tax Tips now list the Forest Land Enhancement Program is listed as an excludable cost-share program.

The Bishop and Greene summary is intended to inform you of some of the things to keep in mind when preparing your Federal income tax return for the 2004 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.

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



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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 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 landowner 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. *Note: Lump sum timber sales will qualify for capital gain*

treatment under section 631 beginning in 2005.

Reforestation Tax Credit and Amortization

If you reforested before October 22, 2004, you can claim a 10% investment tax credit for the first \$10,000 spent for reforestation. You can also deduct (amortize) all of your 2004 reforestation costs, up to \$10,000.00, minus half the tax credit taken, over the next 8 tax years.

If you reforested after October 21, 2004, the rules are now different. The American Jobs Creation Act of 2004 repealed the reforestation tax credit, but you can now deduct the first \$10,000 of qualified reforestation expenses incurred after October 21. You can also amortize over the next 8 years all reforestation expenses in excess of \$10,000 incurred after October 21, 2004.

Elect to take the reforestation tax credit on Form 3468, transfer it to Form 1040, and elect to amortize reforestation expenses on Form 4562. 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.

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 2004 is 15.3%

for self-employed income of \$400.00 or more. To qualify for long-term capital gains treatment, timber sold after December 31, 1997 must have been held longer than one year.

Cost-share Payments

All or part of the cost-share payments received in 2004 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 include the Forestry Incentives Program, Stewardship Incentives Program, Forest Land Enhancement Program, Wetlands Reserve Program, 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 2004 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.

Management and Maintenance Expenses

An IRS Revenue Ruling issued this year (2004-62) clarified that the cost of post-establishment fertilization is a deductible management expense. It is usually best to itemize your annual management expenses 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 2004 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 2004 Year”, and other publications on-line at the USDA Forest Service Forest Taxation Web site at www.fs.fed.us/spf/coop/programs/loa/tax.shtml.

See the National Timber Tax Web Site for a comprehensive treatment of timber taxes at www.timbertax.org.

IRS publications and forms are available at www.irs.gov.

Workshop Highlights: Invasive Exotic Plants and Their Control

Last summer we held a workshop series focusing on invasive exotic plants and how to control them. As with most of our Stewardship workshops, we tried to reach different parts of the state with this program since different regions have varying problems with pest plants. Several species, like cogongrass, are a big problem everywhere.

The Problem

An exotic plant is one that was introduced, purposefully or accidentally, to a location outside of its natural range. Invasive exotic plants are those that are expanding their range in native plant communities. Without the predators that control their expansion in their home

range, they are rapidly taking over many natural areas, reducing biodiversity and wildlife habitat and altering ecological systems. An estimated 1.5 million acres of Florida’s remaining natural areas are threatened by invasive exotic plants. Needless to say, these plants pose a significant challenge to landowners trying to conserve or restore native plant communities on their properties.

Control Strategies

Well, Jackson County Extension Agent, Clyde Smith, put it best when he said, “Kill them! Kill them all!” It’s a hard pill to swallow but the only way out of a problem with invasive exotic plants is to get rid of them. In many cases this is easier said than done because these plants are hardy and some treatments you think might work actually could make the problem worse!

Mechanical Treatments:

- Removing plants, seeds or other reproductive structures by hand can be effective but this is usually excessively labor intensive and only feasible for small problems.
- Shredding and mulching can provide access but usually does not lead to long-term control. This will often spread the plants and leave roots to resprout.
- Tillage can control several species but will spread others (like cogongrass), unless tillage is combined with other treatments.

Fire:

- Prescribed burning may help with access but favors many invasive species (like

cogongrass!). Know the plants you are trying to control and their tolerance of fire.

Chemical Treatments:

Herbicide treatments are commonly the most effective means to control the most troublesome invasive exotic plants but follow-up treatments and continuous monitoring are usually required for success.

Application methods:

- *Foliar* – usually low concentrations of herbicide on the foliage.
- *Stem injection (hack and squirt)* – for larger stems, 1 hack per 2-3 inches of diameter, higher concentrations of herbicide, 1 squirt per hack.
- *Basal treatment* – for many small stems, spray stem with higher concentration of herbicide with penetrating oil and dye.

Biological Control:

Biological control is the science of introducing the specialized natural enemies that often limit the density of invasive exotic plants in their native ranges. This process involves surveys in the plant's area of origin to discover candidate natural enemies, studies on their biology and host specificity, release and evaluation of their impacts on the target plant. The U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) is responsible for controlling introductions of species brought into the United States for biological control of plants, in accordance with the requirements of several plant quarantine laws, the National Environmental Policy Act, and the Endangered Species Act. Much

testing is necessary to be sure the introduced "solution" is not a problem for native species.

- Some have been released and shown some success: snout beetle and melaleuca psyllid for melaleuca control, Brazilian peppertree seed wasp for control of that plant.
- Some have had success in experimental trials: Bipolaris fungus on cogongrass, tropical soda apple leaf beetle and flower bud weevil.

What Are the Worst Plants and How Do You Get Rid of Them?

It was concluded at these workshops that the biggest current threat to natural areas in the Southeast is probably posed by cogongrass. It loves mechanical treatments and fire and requires multiple herbicide treatments to control. Space will not allow us to include every invasive exotic plant we discussed, but here are five of the worst and how to control them*.

Cogongrass

- This weed is listed as one of the top 10 worst in the world and can spread rapidly, covering expansive areas if left unchecked. Early detection and aggressive control is our best strategy to keep this invasive exotic grass from dominating Florida's natural landscape.
- Foliar spray 1% Arsenal or Chopper in the fall.
- The uptake of the herbicide can be enhanced by mowing 6 weeks to 2 months before application. Be certain to thoroughly clean and wash any mowers or other

equipment in a safe area, before using them in other places.

- Follow-up treatments will likely be needed in 1 or 2 subsequent years. Spot treatments of small patches or strips along road rights-of-way can save greatly on future costs.

Japanese climbing fern

- Foliar spray with 2% Accord, or 1% Arsenal AC, or 1-2 dry oz Escort per acre in July – October.

Kudzu

- Foliar spray with 2% Roundup or 3 oz/acre Escort when actively growing; or 2% Garlon 3A in early spring.
- For vines < 2 inches in diameter, basal spray Garlon 4 as a 20% solution in oil mix in January-April.
- Graze or mow for access and increased chemical uptake.

Air Potato

- Pick up or dig up bulbils (“potatoes”) in winter, cut and remove vines.
- Foliar spray 1-2% Roundup + Escort.
- Cut stem and apply 50% Garlon 3A or 10% Garlon 4.
- Basal spray stems with 10% Garlon 4.

Tropical soda apple

- On non-crop land, foliar spray 2% Garlon 4 or 2% Arsenal AC.
- On pastures, foliar spray 2% Remedy.
- Foliar spray 3% Roundup.
- Collect and destroy fruit if possible.

*Reference to commercial products or trade names is made with the understanding that no discrimination is intended against other products that may also be suitable and appropriately labeled. Treatment recommendations involve general herbicide prescriptions that have yielded acceptable levels of control in field trials. Always follow the herbicide label.

The list of invasive exotic plants is very long and seems to be growing. We will be dealing with this problem for a very long time, if not indefinitely. However, resources abound on the Internet and through the various state and Federal organizations that are cooperating to address this problem. A valuable, and virtually exhaustive, resource available to all with a computer is the CD-ROM, “Invasive Plants of the Eastern United States: Identification and Control”. It includes hundreds of plant descriptions, background, and control prescriptions. This product is free and can be ordered by calling the USDA Forest Service Forest Health Technology Enterprise Team at 304-285-1566. Much of the information in this package is available on-line at www.invasive.org/.

Many thanks to all the cooperators who made this workshop series possible, especially Andrea Van Loan, Florida Division of Forestry; Dr. Ken Langeland, UF-IFAS Department of Agronomy; Clyde Smith, UF-IFAS Jackson County Cooperative Extension Service; Dr. James Cuda, UF-IFAS Department of Entomology and Nematology; Dr. Paul Pratt, USDA Agricultural Research Service Invasive Plants Research Lab, and all the County Extension Faculty and Staff involved.

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 included in parentheses after the price per cord.

Stumpage price ranges reported across Florida in the 4th Quarter 2004 Timber Mart-South (TMS) report were:

- Pine pulpwood: \$14-\$28/cord (\$5-\$11/ton), ↓ from 3rd Quarter 2004
- Pine C-N-S: \$59-\$77/cord (\$22 - \$29/ton), ↑
- Pine sawtimber: \$94 - \$123/cord (\$35 - \$46/ton), ↑
- Pine plylogs: \$106 - \$122/cord (\$40 - \$45/ton), ↓
- Hardwood pulpwood: \$10 - \$21/cord (\$3 - \$7/ton), ↓

A more complete summary of 4th Quarter 2004 stumpage prices is available at your County Extension office. See forest2market.com for weekly, South-wide, per-ton price updates for the major pine and hardwood timber products.

Trend Report

The best news in the 4th Quarter was the price of sawtimber, for which south-wide average prices increased 4.5 percent from the 3rd Quarter 2004. The rest of the products stayed about the same or decreased significantly. Florida's average hardwood pulpwood price had the largest decrease, dropping about 21% from the 3rd Quarter. This

was not in line with the south-wide hardwood pulpwood average as wet weather in the western part of the region resulted in higher prices there.

Need a Forest Management Plan?

Many forestry, natural resource conservation, and wildlife seniors at the University of Florida take Dr. Doug Carter's Integrated Forest Management class, a capstone course that provides a hands-on opportunity to write multiple-use forest management plans. For the last few years, Dr. Carter's students have been assigned the task of writing Stewardship Management Plans for private landowners in conjunction with valuable assistance from Dave Conser, Alachua County Forester and the FWC Stewardship Biologist. An article about this appeared in a past issue of the Florida Forest Steward (vol. 8, no. 2). This has been a valuable practical experience for students and the landowners have benefited by having a high-quality Stewardship Plan written on a very timely basis. Dr. Carter notes that "this is the best opportunity seniors have to take the full complement of what they have learned at UF and put it into practice." If you have property in north central Florida and would like to have a student-prepared Forest Stewardship Management Plan written for your property, contact Dr. Carter at 352-846-0893 or drcart@ufl.edu.

Upcoming Events

Workshop in Alabama- Renewing the Forest: Hurricane Recovery; Ag-Science Center Building, Brewton, AL; February 17, 2005; 3:00 PM CST. This program is designed to provide

information to aid landowners in the process of recovery and renewal of forests following the 2004 hurricane season which resulted in extensive damage in Florida and Alabama. To Register, Call or email Bessie Buchanon in Alabama (334-844-1002, buchabz@auburn.edu) or Robin Vickers in Florida (850-983-5216 x113, rvickers@ufl.edu) to register by February 14, 2005. Program cost of \$10 will cover the cost of meal and materials. CFE's will be offered for foresters.

April 21, 2005: UF-IFAS North Florida Research and Education Center in Quincy, FL. Call the REC at 850-875-7115 to register.

May 5, 2005: UF-IFAS Suwannee County Cooperative Extension Office in Live Oak. Call the Suwannee County Extension Office 386-362-2771 to register.

Forest Stewardship Property Tour, February 18, 2005, at the forest property of James Pochurek, Marion County. Announcement is in the mail. Contact Chris Demers at 352-846-2375 or cdemers@ifas.ufl.edu to register.



Forest Stewardship Workshop Series: Vegetation Management for Multiple Objectives. Focus will be on herbicide uses. Announcements with more details will be mailed. Questions about the program can be directed to Chris at 352-846-2375. Mark your calendars:

April 19, 2005: UF-IFAS West Florida Research and Education Center in Milton and Jay, FL. Call Robin Vickers at 850-983-5216 x.113 to register.

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

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