



TAX TIPS FOR FOREST LANDOWNERS FOR THE 2007 TAX YEAR

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This guide is designed to assist owners of forest land with timber tax information. It is current as of October 1, 2007, and supersedes Management Bulletin R8-MB 128. It is strictly for educational purposes; consult your legal and tax professionals for advice on a specific tax situation.

Purpose for Owning Timber

Forest owners must classify their timber management activities into one of three categories for tax purposes:

- Trade or business
- Income-producing (or "investment")
- Personal use

The distinction is important in terms of how income, expenses and losses are treated and reported for tax purposes. For example, owners who are active participants in a timber business can fully deduct ordinary and necessary management expenses on Schedule C or F of Form 1040. In contrast, owners who hold timber for investment purposes must report these expenses as miscellaneous itemized deductions on Form 1040, Schedule A, where they are subject to income limitations. There is no tax advantage to holding timber for personal use.

Timber Planting Costs

Under IRC section 194 a taxpayer may elect to deduct outright up to \$10,000 per year of qualifying timber establishment

costs, and amortize any additional amount over 84 months (8 tax years, due to the half-year convention), rather than capitalizing and recovering them at the time of a timber sale.

Example 1: Mrs. Smith plants 40 acres of timber in 2007 at a cost of \$6,000. She can elect to deduct all \$6,000 of the cost on her 2007 income tax return because it is less than \$10,000.

Example 2: If Mrs. Smith's planting cost was \$14,000, her total deduction for 2007 would be the \$10,000 limit on deductions plus 1/14 of the amount over \$10,000, or \$287 (\$4,000 ÷ 14, due to the half year convention.) She can deduct \$571 (\$4,000 ÷ 7) on her returns for 2008 through 2013, and the final \$287 on her return for 2014. Note: Once Mrs. Smith has filed her income tax return for 2014, the contribution to her timber basis from the planting will be \$0. Elect to use this provision on Form 4562 (Part VI) on a timely filed return (including extensions).

If your timber property is located in a special hurricane zone (i.e., Gulf Opportunity Zone or the Rita or Wilma GO Zone) and you own no more than 500 acres of forest land altogether, *the \$10,000 deduction is increased to a maximum of \$20,000 per tax year from planting costs incurred through the end of 2007* (IRC section 1400N(i)(1)). The hurricane zone provisions are not available to publicly traded corporations or real estate investment trusts.

National Timber Tax Website: www.timbertax.org

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California Tree Farm News

FOREST LANDOWNERS OF CALIFORNIA

2008 Timberland Production Zone Values

(November 15, 2007 Administrative Consent Agenda)

Section 43.5 of the Revenue and Taxation requires that, by November 30 of each year, the Board certify to county assessors the current values of lands zoned for timberland production. Section 434.5 also specifies that the values, which vary according to defined sites within three regions, be determined based on a specified formula.

On the 2008 lien date, land zones for timberland production shall be valued per acre according to the following schedule. These 2008 values will be mailed to the county assessors after certification by the Board.

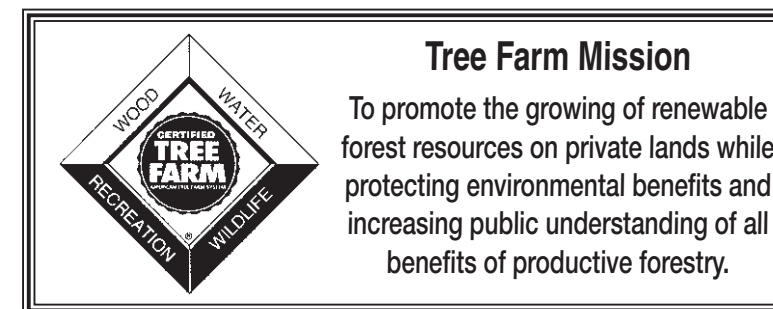
Redwood Region		Whitewood Region		Pine-Mixed Conifer Region	
Site I	\$250	Site I	\$177	Site I	\$137
Site II	\$203	Site II	\$131	Site II	\$97
Site III	\$177	Site III	\$110	Site III	\$74
Site IV	\$154	Site IV	\$82	Site IV	\$53
Site V	\$49	Site V	\$43	Site V	\$28

When the assessor, pursuant to Revenue and Taxation Code section 434, designates a timberland parcel or portion thereof as inoperable, such timberland parcel, or portion thereof, shall be valued as if it is Site V.

The 2008 values have all increased by \$0 to \$2 per acre due to a very slight increase in timber values over the past several years. Attached is a detailed analysis showing the calculations made to determine these values.

Receiving the Tree Farmer Newsletter Electronically

The Tree Farm Committee can save money on both printing and postage, if we can send it electronically. If you want the newsletter via the computer, please send your e-mail address to: lake1777@pacbell.net.



Tree Farm Mission

To promote the growing of renewable forest resources on private lands while protecting environmental benefits and increasing public understanding of all benefits of productive forestry.



California Tree Farm News

Dedicated to providing useful information to Tree Farmers and family forest owners.

2007 TREE FARMER OF THE YEAR

This year's Tree Farmer of the Year, Robert E. Kinsinger, resides in the community of Twain Harte, Tuolumne County. This mountain community was named in 1924 for two great writers of the California scene, Mark Twain and Bret Harte.

Mr. Kinsinger's tree farm contains 407 acres and has been under his ownership for the past 50 years. His Timber Management Plan promotes sustained yield while providing habitat for wildlife and other forest resources. Regarding his tree farm, Mr. Kinsinger's first thought is always, "What's good for the land..." To that end, he has employed the most environmentally sensitive logging techniques,

including cut-to-length and whole tree logging systems. He has also chipped and removed several thousand tons of biomass in pre-commercial thinning projects to help prevent catastrophic fire. Mr. Kinsinger has invested heavily in promoting a healthy forest and recently gathered his whole family together for a tour and forestry lesson to promote his commitment to long term tree farming.

Formal recognition of Mr. Kinsinger as "Tree Farmer of the Year for 2007" will take place at the Annual Meeting of Forest Landowners of California on May 2, 2008, at the Best Western Sonora Oaks Conference Center and Hotel in Sonora. We hope to see you there.

BIOMASS FROM FOREST THINNING

George E. Belden

Clip and Chip!

The continued interest of utilizing alternative energy to generate power, the desire to make our timberlands less prone to catastrophic wildfire and enhance commercial tree growth, has generated the spawning and expansion of biomass harvesting that has accelerated on both public and private timber lands.

The purpose of this article is to inform landowners of the technology and methods in use in 2007, for harvesting biomass used in co-generation plants. The project site used, as an example, is located in Modoc County within the Warner Mountains. The subject timberland is covered with Ponderosa Pine



The photo depicts the pine/juniper timber stand prior to pre-commercial thinning.

(Continued on page 2)



BIOMASS FROM FOREST THINNINGS

(Continued from page 1)



Timbco 445 D Model

Tubit Enterprises, Inc., in Burney, California. However, before commencing the pre-commercial thinning operation, a Fuelwood Exemption was filed with the California Department of Forestry and Fire Protection, as pre-commercial thinning constitutes Timber Operations under code 4527 of the Z'Berg-Nejedly Forest Practice Act.

Three feller buncher machines were put to work on this 120-acre project. The Timbco machines, 445 D Model,

and Western Juniper. The topography slopes from nearly flat to 40% and is spotted with volcanic rock.

The intentions of the landowner are to reduce the number of juniper and suppressed pine stems through pre-commercial thinning, in order to achieve the goals of release of the Ponderosa Pine, reduction of fuel loading, and overall esthetic enhancement of the property.

The contractor selected for this project is Doug Lindgren who owns



"Bundles" of trees waiting for grapple skidding.



are track mounted and cut and lay down the trees in bunches or "bundles" for further handling by grapple skidders.

Tree cutting production averaged 7 acres per day, per machine. The "bundles" of cut trees were grappled and skidded to the several landings. A Morbark Chipper with a mechanical arm grappled several trees at a time and fed them into the chipper. Chips were either blown directly into a chip truck or onto the landing. Chips blown onto the landing were loaded into vans with a 966 Cat front end loader. The advantage of chips on the landing is that they can be easily loaded if the chipper has moved to a different landing, and also, a dozen or more chip truck loads can be stored, depending on truck availability.



The pre-commercial thinning project generated approximately 7 to 8 dry tons of chips per acre. Green chips were delivered to Honey Lake Power near Susanville. Fresh or green chips have an average moisture content of 45%. However, each load of chips is sampled for moisture content at the delivery destination.

Results at the completion of the project are depicted on this photo. Cost of the operation was \$300 per acre.



Merry Christmas and Happy New Year From the Tree Farm Committee



TREE FARMER QUIZ

1. *The unconsolidated soil which soil is developed is called _____*
2. *What California law requires forest practices regulations to address archeological resources?*

3. *A scale of 1: 6,000 translates _____*
4. *If a Public SW1/4, SE1/4? _____*
5. *A rectangular piece of property? _____*
6. *What is the difference between DBH, DOB, and DIB?*

7. *The 1976 Forest Taxation _____*



ANSWERS: (1) Parent Material, (2) CEQA (3) 500 ft. (4) 10 acres (5) 102.6 acres (6) DBH - Diameter inside bark, both may be taken at any point along bole of tree, (7) Change from ad valorem to yield tax.