



# C California Tree Farm News

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

## U.S. Green Building Council (USGBC)

Many of you have been involved in the work of ATFS over the years to urge the U.S. Green Building Council (USGBC) to do more to encourage builders to use wood in their buildings and to recognize wood from American Tree Farm System certified forests in their widely-used LEED green building rating system. As the voice of family forest owners, the American Tree Farm System has made this a priority issue – we know family forest owners need healthy markets to keep their woodlands healthy. The green building market is growing by leaps and bounds, and it has great potential for Tree Farmers to sell their sustainably grown wood products

The U.S. Green Building Council (USGBC) recently announced a new pilot credit that recognizes wood from ATFS certified forests. Under Pilot Credit 43, builders and architects can get a point for using certified materials in non-structural products. Non-structural products can include furniture, flooring, windows, doors, etc. ATFS is included in a list of pre-approved certification systems that automatically qualify, as well as ATFS, SFI,

PEFC, FSC, and CSA. This means that builders and architects who use non-structural building materials made with wood from ATFS certified forests can apply to use the pilot credit to achieve LEED recognition levels.

Pilot 43 does not change the LEED forest certification credit, which only recognizes FSC certified wood, and builders still do not get credit for using structural wood products from ATFS certified forests. However, while it is still nowhere close to giving wood the recognition it deserves as a green building material, the new pilot credit is a very good step forward for wood products and a great recognition of the value of wood from ATFS certified forests.

This is in large part a result of the strong advocacy work Tree Farmers across the country – from our work with Congress, federal agencies, state governments working directly with USGBC. Your message is beginning to make a difference – wood should be an important part of the green building movement, and, in order to encourage builders and architects to use wood, USGBC will have to recognize multiple certification systems.



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# Income Tax Deduction for Timber Casualty Loss

Dr. Linda Wang  
National Timber Taxation Specialist, USDA Forest Service

Updated June 2011

Timber damaged by hurricane, fire, earthquake, ice, hail, tornado, high wind and other storms are “casualty losses” that may allow timberland owners to claim a deduction on their federal income tax returns. But in many cases the specific requirements on loss calculation set by the tax law and rules may actually result in low or no deductions.

**Tip:** It is important to weigh the cost of hiring professional forestry and/or appraisal services to establish the required tax records against the potential tax savings before proceeding.

## Determining the Amount of Casualty Loss

Deductible casualty loss for timber held for business or investment purpose is the smaller of *the adjusted basis of timber* and *the difference of the fair market value immediately before and after the casualty*. Salvage sale is reported separately.

### An Example

A tornado damaged your woodland tract. Before the tornado, the fair market value of the timber was \$10,000. But after the storm, the timber is worth only \$1,000. So the FMV loss of your timber is \$9,000 (\$10,000 - \$1,000). Assuming your timber basis is 5,000, *the amount of casualty loss deduction is only \$5,000, not \$9,000.*

## Calculating the Adjusted Basis

### The key

*for most cases is to figure out the adjusted basis of the standing timber. There is no deduction allowed if the basis is zero.*

The key for most cases is to figure out the “adjusted basis” of the timber. Generally, the cost of a property (standing timber here) is termed “basis” in tax. The “adjusted basis” is the original basis reduced or added by adjustments over the term of ownership (e.g., new purchase or timber sale).

The original basis for:

- purchased timber property is the purchase price and related costs (such as legal fee and timber cruises).
- gifted timber property is the donor’s adjusted basis in most instances.

- inherited timber property is the *fair market value* (or alternative value if so elected) on the date of death (or alternative valuation date).

If you have not determined the basis of your timber at the time of acquisition, you may use the current volume, growth over the years, and timber price at the time of acquisition to establish it retroactively ((IRS Timber Casualty Loss Audit Technique Guide). Use Form T to document your timber basis.

## What You Need from Your Forester

To establish the timber basis and appraise the fair market value loss of the timber immediately before and after the casualty, you may need to consult a professional forester to determine the relevant *timber volume* in thousand board feet, cords or tons and *timber prices*.

## “Single Identifiable Property”

Treasury regulations require that casualty loss is determined with respect to the “single identifiable property”. This can be the “timber block” (even if only a portion of it is actually damaged) if you keep the timber tax records (account) together for the block. For example, you own a tract with 100 MBF of pine sawtimber (\$4,000 basis) kept in one account. A fire destroyed 20 MBF. The adjusted basis for the casualty loss determination is \$4,000, not just \$800 (\$4,000 x 20 MBF/100 MBF). But the loss valuation must also be appraised for the entire tract/block, which can cost more.

## Where to Report the Casualty Loss

Casualty losses are claimed first on Form 4684. For timber investment property, the loss is then entered into Schedule A of Form 1040. For timber business property, the loss is entered on Form 4797. Form T should also be prepared, although you may or may not be required to file it (see filing instruction on Form T).

## What If a Net Gain Is Realized from Salvage Sale

You have a taxable gain when the salvage sale exceeds the adjusted basis of the timber and the sales expenses. But you may elect to postpone paying taxes on the gain if the proceeds is re-invested in timber such as planting trees, purchase of timberland and stock (at least 80%) of the timber corporations.



## Tax Pointers

### Appraisal Fee and the Cost of Photos:

- Appraisal fees and the cost of taking photos are not part of the casualty loss deduction. They are deductible expenses claimed as miscellaneous itemized deductions (subject to the 2% adjusted gross income reduction).
- Any cleanup costs after the casualty are not casualty loss.

### When to Claim the Loss:

- In general, you can deduct a casualty loss only in the tax year in which the casualty occurred.

- However, for federally declared disaster area, you may elect to apply the casualty loss in your prior year's tax return. Compare your current year and last year's tax bracket and any expenses in amending the prior year's tax return.

### Special Rules for Damage to Your House and Landscape Trees:

- The initial casualty loss deduction, first calculated as the smaller of the fair market value loss and the adjusted basis, is then reduced by \$100 per casualty event and 10% adjusted

gross income to arrive at the allowable amount of loss.

- Insurance, reimbursement and salvage value must be subtracted from the casualty loss.
- Report such casualty loss as an itemized deduction (Line 20, Schedule A of Form 1040, for 2010)
- If you don't take itemized deduction, a casualty loss on personal-use property such as your house and landscape trees is lost.

**Note:** Combine the house and the landscape trees as one property for calculating the loss (Reg. §1.165-7).

## Tips on Tax Records for Proof

- Gather information about the casualty (time, nature of the event and the area affected)
- Take photos as quickly as possible after the casualty
- Document the federal or state assistance or payment received
- Gather legal, insurance, and accounting papers, if necessary, from the court, title company, the bank, or the insurance company to establish ownership and possible insurance claims if any
- Forest management records such as management plan
- Carefully document the appraisals from the hired services by professional foresters and/or appraisers

***It is important that you have records that support your casualty loss deduction, but do not attach them to your return.***

## Recommended Readings

1. USDA Forest Service Publication: *Forest Landowners' Guide to the Federal Income Tax*, Chapter 5 (Cost Considerations), Chapter 6 (Income Considerations) and Chapter 8 (Casualties, Thefts and Condemnations), available free on-line by key words search using the book's title.
2. National Timber Tax Website: [www.timbertax.org/getstarted/casualty](http://www.timbertax.org/getstarted/casualty)
3. The IRS website: <http://www.irs.gov/taxtopics/tc515.html>
4. The IRS Timber Casualty Loss Audit Technique Guide, April 2011.
5. IRS Publication 547: *Casualties, Disasters, and Thefts*
6. IRS Publication 584: *Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)*
7. IRS Publication 584B: *Business Casualty, Disaster, and Theft Loss Workbook*
8. A tax preparation software can be an effective tool for casualty loss calculation and form selection, saving your time.



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## TREE FARMER QUIZ

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*By George Belden*

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1. The 2011 Northern Spotted Owl survey area is defined as the area extending 1.3 miles (radius) from the perimeter of the project area within the California Cascades and California Coast Range (DF/Mixed conifer). What is the NSO survey radius for the California Coast Range covering the redwood zone?

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2. “Woods words”. What is the “main squeeze”? \_\_\_\_\_

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3. Seed cones of Knobcone pine and McNab cypress have some thing in common. They are both? \_\_\_\_\_

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4. Vegetation that can cause physical discomfort to the working tree farmer, are the various “thorny” berry vines. Name two other plant species that can result in discomfort when in contact with the plant? \_\_\_\_\_

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5. You are searching for the corner of your forest property using a Garmin GPS unit. The corner was visited by your forester last year and he noted the coordinates as follows:

N41°-12'-12" and W121°-39'-05". Upon checking your GPS you read:

N41°-12'-12" and W121°-38'-55".

What direction is your corner from where you are standing and what is the approximate distance? \_\_\_\_\_

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6. If you needed to walk one-tally, how far would that be? \_\_\_\_\_

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## 2011 Required Inspections

Below is a list of required inspections for 2011. The committee receives reimbursement for every required inspection that the secretary has entered into the data base by November 1, 2010. The inspections require a field visit. These inspections are **REQUIRED** to maintain our third party certification and are a critical component of the Tree Farm program. Because of the critical nature of these inspections Tree Farms not inspected by November 1, 2011 will be decertified.

<b>Tree Farm</b>	<b>Owner</b>	<b>County</b>	<b>Inspector</b>
2225	Louis Paterson	Butte	Scott Worden
2318	Dave Sansome	El Dorado	Steve Andrews
2379	William Meissner	Shasta	Gabe Schultz
2453	Kenneth Dorris	Nevada	Pete Walden
2508	Gary Young	Shasta	Jim Chapin
315	Ross Forry	Sonoma	Nick Kent
378	Stevenson Brown	Mendocino	Jim Gamble
446	Ruth Reese	Humboldt	Dan Cohoon
152	Allen Edwards	Placer	Steve Andrews
2655	Brian Sutton	El Dorado	Steve Andrews
2658	Elizabeth Airola	Calaveras	Bill Solinsky
2682	California Reforestation	Lassen	Leon Manich
2683	California Reforestation	Lassen	Leon Manich
387	Mark Fox	Santa Cruz	Jill Butler
412	Dunn Family Tree Farm	Humboldt	Mike Atkins
419	Stover Ranch	Humboldt	Jim Able



## SAVE THIS DATE – SATURDAY- SEPTEMBER 10, 2011

Visit the Tree Farm of Ron and Nancy Knaus near Nevada City in Nevada County. They have been certified Tree Farmers since 1978! We hope to visit Malakoff Diggings State Park for lunch and perhaps another Tree Farm. Visit [forestlandowners.org](http://forestlandowners.org) for registration information as the date nears.

### RECEIVING THE TREE FARMER ELECTRONICALLY

The Tree Farm Committee can save money on both printing and postage, if we can send the newsletter electronically. If you would like to receive your newsletter via the computer, please send your e-mail address to: [loda@frontiernet.net](mailto:loda@frontiernet.net)

## CALIFORNIA TREE FARM COMMITTEE

Committee Secretary  
Lois Kaufman  
30133 Amidon Ranch Road  
Oak Run, CA 96069

RETURN SERVICE REQUESTED



## **C**alifornia Tree Farm News

FOREST LANDOWNERS OF CALIFORNIA

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### CALIFORNIA TREE FARM COMMITTEE ADMINISTRATION

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#### **Chairman**

William E. Snyder  
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Sonora, CA 95370  
209-588-1920

Steve Andrews  
Applied Forest Management  
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Grass Valley, CA 95945  
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#### **Southern California District**

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#### **Redwood Region**

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#### **Mid-State Region**

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Ukiah, CA 95482  
707-463-0356



#### **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.