

TAXATION TIDBITS

Don't Get Stumped in a Sale of Standing Timber
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Most farmers will sell some timber during their farming career; however the infrequency of the sales can put the farmers at a comparative disadvantage with regard to knowledge of timber marketing and timber taxation. Research at the University of Missouri suggests significant price variation in timber contracts offered in the Midwest. Prior to selling any timber, professional assistance should be sought in determining the quantity and value of your timber, the best way for you to structure the sale of your timber, and the potential tax liability resulting from its disposal.

The two most common methods which farmers utilize in disposing of timber are lump-sum contracts and pay-as-cut contracts. With lump-sum contracts, the farmer is generally paid a lump-sum for the timber regardless of the quantity or tree selection harvested from a given tract of land. The pay-as-cut contract requires the timber purchaser to cut designated trees and to purchase them at an agreed upon unit price.

If the one-year holding period has been met, the tax act passed in 2004 provides that sales of standing timber by farmers or investors qualify for long-term capital gain treatment. Additionally, the income from the sale of timber will not be subject to self-employment tax.

From the tax standpoint, the most common and challenging issue involves determining the tax basis of the timber being sold. Tax basis, i.e. your cost basis, is subtracted from the sale proceeds to determine the amount of taxable gain or loss.

If land is acquired that has standing timber, a portion of the acquisition cost should be allocated to the timber, just as cost would be allocated to other improvements such as fences, water systems, or buildings.

Ideally, the timber basis was determined at the time of land acquisition. However, if it wasn't, contact your accountant and a forestry consultant to determine a justifiable and reasonable amount of the acquisition cost to be allocated to your timber account.

Timber taxation is an area of tax practice in which few tax professionals specialize. Thus, it is important you educate yourself as to the basics of timber taxation and to seek assistance from professionals that understand timber merchandizing and taxation.

An excellent online resource is "Timber Dispositions: A Primer on Obtaining Favorable Tax Treatment" <http://www.mobar.org/journal/2001/janfeb/schneider.htm>

Your area Department of Conservation forester can be reached at the following locations:

Columbia Forest District	573-882-9880
Clinton Forest District	660-885-6981
Lake Ozark Forest District	573-346-2210
Gasconade Forest District	573-368-2225
St. Joseph Forest District	816-271-3100