



## USDA Forest Service Disaster Assistance

### Casualty Loss and Income Tax Deductions Related to Timber and Landscape Trees

Dr. Linda Wang  
National Timber Tax Specialist  
USDA Forest Service

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## Disclaimer

**Today's discussion is educational, not legal or accounting advice, since the facts and circumstances of each taxpayer's individual situation need to be taken into consideration for exact application of the tax law.**

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## Topics

- **Is the Timber Loss Deductible?**
- **Is Residential Landscape Tree Loss Deductible?**
- ✓ New tax laws

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## Definition of Casualty Loss

- For tax purpose, a casualty is a “sudden, unusual and unexpected” event that cause damage or destruction of property:
  - Hurricane
  - Tornado
  - Fire
  - Earthquake, etc.

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## Casualty Loss

### Investment or Business Property

#### Tax Rule

- Loss of timber from casualty is tax deductible
  - An investment means an income-producing property
  - A business means regular, active and continuous timber activity for profit-making purpose

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## Casualty Loss

### Investment or Business Property

#### Deduction Amount

- The amount of deduction is the *smaller* of:
  - the property's adjusted basis or
  - the decrease in its fair market value as a result of the casualty

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## Casualty Loss

### Investment or Business Property

#### An Example

- A tornado damaged Mr. Lee's 50-acre timber. Assuming:
  - The damage was \$8,000.
  - The adjusted basis of his timber was: \$4,000

The amount of casualty loss deduction is: \$4,000

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## Basis of Timber

### Purchased Property

- The cost of purchase of your timber is the adjusted basis
  - The cost for land and timber must be separately accounted for

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## Basis of Timber

### Example 1 for Purchased Property

- Six years ago, Mr. Lee purchased his timber property for a total of \$10,000.

Assuming:

- The fair market value of the land was 20%
- The fair market value of the timber was 80%.

His timber basis is: \$8,000 ( $\$10,000 \times 80\%$ ), 800 cords pulpwood

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## Basis of Timber

### Example 2 for Purchased Property

- Mr. Forrest bought a tract of woodland for a total of \$40,000.
- He also paid \$2,000 fee to his consulting forester.

What's his timber basis?

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## Fair Market Value

Asset	Fair Market Value (FMV)	Proportion of FMV
Land . . . . .	\$15,000	<b>34%</b>
Sawtimber . . .	\$19,000	<b>43%</b>
Pulpwood . . . .	\$10,000	<b>23%</b>
	<b>\$44,000</b>	<b>100%</b>

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## Land and Timber Basis

Land:           \$42,000 cost x **34%** = \$14,280

Sawtimber: \$42,000 cost x **43%** = \$18,060

Pulpwood: \$42,000 cost x **23%** = \$9,660

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## Basis of Timber

### Inherited Property

- The fair market value of the timber on the date of the decedent's death is the basis of inherited timber

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## Basis of Timber

### An Example of Inherited Property

- On June 2, 1998, you inherited the family woodland.
- Your forester provided a professional report that established the timber value and quantity on the date of the decedent's death:

800 cords of pulpwood at \$15 per cord

What is your timber basis?

**\$12,000** (\$15 x 800), **800 cords** of pulpwood

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## Basis of Timber

### Gifted Property

- For appreciated timber property, generally your timber basis is the donor's adjusted basis.

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## Quiz

- In 1999, your father gave you a 49-acre woodland that had timber with a FMV of \$16,000.
- His timber basis is \$2,000.

What is your timber basis?

- A) \$16,000
- B) \$2,000

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## Steps

- Work with a consulting forester
- Conduct salvage sale of timber if possible
- Set up your timber cost (basis)
- Figure out the value of loss
- Plan for replant

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## Casualty Loss

### Investment or Business Property

#### Tax Form

- Form 4684
  - Schedule A for investment
  - Form 4797 for business

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## Casualty Loss

### Investment or Business Property

#### When to Deduct

- Deduct the loss in the year the casualty loss occurred.
- For federally declared disaster areas, however, the loss may be deducted in the preceding year upon election

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## Casualty Loss

### Investment or Business Property

#### Salvage Sale

- If your salvage sale exceeds the adjusted basis of your timber, you may have a taxable gain
- You may postpone tax on the gain by acquiring qualified replacement property within the replacement period

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## Casualty Loss

### Investment or Business Property

#### Salvage Sale

- Replacement property:
  - Reforestation
  - Purchase of new timberland
  - Purchase of standing timber
  - Purchase of stock (at least 80 percent) of corporations that own timber or timberland
- Replacement period: generally 2 years after the close of the first tax year in which you realize the gains

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## Casualty Loss

### Investment or Business Property

#### Single Identifiable Property

- The appraisal of the FMV loss and the adjusted basis are determined on the basis of single identifiable property (SIP), not the actual timber damaged or destructed
- Use “Timber block” as the SIP measurement

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## Casualty Loss

### Personal-Use Property

#### Loss Deduction

- “Personal-use” property: your primary purpose of owning your woodland is for personal enjoyment, rather than producing timber income
- The personal-use property casualty loss rules apply to:
  - personal-use woodland and
  - residential landscape trees

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## Casualty Loss

### Personal-Use Property

#### Loss Deduction Limits

- \* New Law Change!

Effective for: 2018-2025 tax years

Casualty loss on personal-use property are deductible only when it is attributable to federally declared disasters

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## Casualty Loss

### Personal-Use Property

#### Loss Deduction Limits (Cont'd)

The casualty loss are subject to:

- \$100 reduction per casualty
- 10% of adjusted gross income reduction

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## Casualty Loss

### Personal-Use Property

#### Hurricane Disaster Tax Relief

For taxpayers affected by hurricanes Harvey, Irma, and Maria and

The 2016 and 2017 federally declared disasters:

- The \$100 limit is increased to \$500
- 10% of adjusted gross income reduction is waived

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## Casualty Loss

### Personal-Use Property

#### California wildfire Tax Relief

- The wildfire disaster areas are:

Areas with respect to which the President declared a major disaster between January 1, 2017, and January 18, 2018

- The \$100 limit is increased to \$500
- 10% of adjusted gross income reduction is waived

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## Casualty Loss

### Personal-Use Property

#### Reporting Loss

- Form 4684
- Schedule A \*

\*except for qualified hurricane disasters, qualified California wildfires, and qualified 2016 and 2017 disasters

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## Casualty Loss

### Personal-Use Property

#### When to Deduct

- Deduct the loss in the year the casualty loss occurred.
- For federally declared disaster areas, however, the loss may be deducted in the preceding year upon election

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## Record-Keeping Rules

#### What Records?

- The type of casualty
- The loss was a direct result of the casualty
- Ownership
- Claims for reimbursement
- Document loss appraisal and property's basis
- Cleanup records
- Photos

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## Summary

### Is the Timber Loss Deductible?

- ✓ “Casualty loss” must meet the “sudden, unexpected, and unusual” criteria
- ✓ Casualty loss deduction is generally limited to property’s basis

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## Summary (cont’d)

### Is Residential Landscape Tree Loss Deductible?

#### Personal-use property casualty loss:

- ✓ The loss is limited to federal declared disasters
- ✓ The loss is subject to \$100 and 10% of Adjusted Gross Income reduction
- ✓ Special tax relief apply to Hurricanes Harvey, Irma, and Maria, qualified California Wildfire, qualified 2016 and 2017 disasters

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## Federal Income Tax on Timber

### A Quick Guide for Woodland Owners

Dr. Linda Wang



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### Additional Tax Info and Resources

- ✓ Tax Guidance: *"Income Tax Deduction on Timber and Landscape Tree Loss from Casualty"*
- ✓ *"Tax Tips for Forest Landowners for the 2018 Tax Year"*
- ✓ USDA Forest Service Taxation Website
- ✓ National Timber Tax Website: [www.timbertax.org](http://www.timbertax.org)
- ✓ Tax Webinar and Workshops

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