

# Tri-County Forestry News



**Anderson, Oconee, Pickens, Greenville**

**Winter 2005**

## **Master Wildlifer Course Is Slated for Early 2005**

The Master Wildlifer course will be broadcast live over satellite from Clemson University's studio and delivered to downlink sites across the country in seven, three-hour sessions beginning Feb. 1-March 15, 2005. Information about the program, site locations, and coordinators is available at: [www.masterwildlifer.net](http://www.masterwildlifer.net).

The course is designed for landowners, land managers, and outdoor recreationists interested in including wildlife considerations into their current land management activities. Practicing land managers will find the course valuable in highlighting alternative management approaches for wildlife in forest and farm settings. Special emphasis is placed on wildlife species (game species) that currently offer landowners additional sources of income through recreational access fees. Videos and DVDs of the Master Wildlifer course will also be available after the live broadcast sessions.

### **Here are the dates/topics:**

- Feb. 1, 2005 - Introduction to Wildlife Management

- Feb. 8, 2005 - Biology and Management of Small Game
- Feb. 15, 2005 - Biology and Management of White-Tailed Deer
- Feb. 22, 2005 - Ecology and Management of Eastern Wild Turkey
- March 1, 2005 - Fish Pond Management
- March 8, 2005 - Managing Wetlands for Waterfowl and Other Wildlife
- March 15, 2005 - Income Opportunities from Wildlife on Private Lands

Call your local Extension office for more information: Greenville – 323-4431; Anderson – 226-1581; Pickens – 878-1394; Oconee 638-5889.

## **Tax Tips for Forest Landowners for the 2004 Tax Year**

*By Larry M. Bishop, Forest Management and Taxation Specialist, Region 8 and John L. Greene, Research Forester, Southern Region Station.*

Here is some information to keep in mind when you prepare your Federal income tax return for the 2004 tax year. This discussion is necessarily brief, and you should consult other sources for a

more comprehensive treatment of the issues. This information is current as of December 14, 2004, and supersedes Management Bulletin R8-MB 111.

### **Basis and Tax Records**

Part of the price you receive from a timber sale is taxable income, but part is also your investment (i.e., basis) in the timber sold. Allocate your total costs of acquiring purchased forestland—or the value of inherited forestland—among land, timber, and other capital accounts as soon as possible. Adjust this basis up for new purchases or investments and down for sales or other disposals. When you sell your timber, you can take a depletion deduction equal to  $(\text{Adjusted basis} / \text{Total timber volume just before the sale}) \times (\text{Timber volume sold})$ . Good records include a written management plan and a map of your forestland. Keep records that support current deductions 6 years beyond the date the return is due. Keep records that support your basis 6 years beyond your period of ownership. Report adjustments to basis and timber depletion on IRS Form T (Timber), Part II.

### **Passive Loss Rules**

The passive loss rules are too complex to cover in detail here, but what follows is a very brief summary. Under the passive loss rules, you can be classified in one of three categories: (1) investor, (2) passive participant in a trade or business, or (3) active participant (materially participating) in a trade or business.

The law's intent is that you are "materially participating" if your involvement is regular, continuous, and substantial; however, a low level of activity is adequate if that level is all that is required to sustain the trade or business. This means that record

keeping is very important! To show material participation, landowners will need to keep records of all business transactions related to managing their timber stands. Likewise, it would be a good idea to keep records of other business-related activities such as landowner meetings attended, odometer readings to and from meetings, cancelled checks for registration fees, and copies of meeting agendas. Generally, you will get the best tax advantage if you are "materially participating" in a timber business because all management expenses, property taxes, and interest on indebtedness are fully deductible against income from any source. However, if you are "materially participating," you must dispose of your timber under the provision of Section 631 to qualify for capital gains. (This means that you must sell your timber on a "pay-as-cut" or "cut and convert" basis, rather than lump sum.) **Note: Outright (lump sum) timber sales will qualify for capital gain treatment under Section 631 beginning next year (2005).**

### **Reforestation Tax Credit and Amortization**

If you reforested **before October 22, 2004**, you can claim a 10 percent investment tax credit for the first \$10,000 you spent for reforestation during that portion of the 2004 tax year. In addition, you can amortize (deduct) up to \$10,000 of your 2004 reforestation costs, minus half the tax credit taken, over 8 tax years (due to a half-year convention, you can only claim one-half of the amortizable portion the first tax year.) Any reforestation costs above the \$10,000 annual limit should be capitalized (entered into your timber account). You can recover (deduct) these costs when you sell your timber.

If you reforested **after October 21, 2004**, the rules are different. The American Jobs Creation Act of 2004 repealed the reforestation tax credit. However, you can now deduct outright the first \$10,000 of qualified reforestation expenses during this part of the 2004 tax year. In addition, you can amortize (deduct), over 8 tax years, **all** reforestation expenses in excess of \$10,000 incurred during this portion of the 2004 tax year (again, due to the half-year convention, you can only claim one-half of the amortizable portion the first tax year.)

Elect to take the reforestation tax credit on Form 3468 and transfer it to form 1040. Elect to amortize reforestation expenses on Form 4562. **This election to must be made on a timely filed return for the year in which you incur the expenses.** If you qualify as an investor, take the deduction on line 35 of Form 1040, the adjustments to total income line for 2004. Write “RFST” and the amount. If you are a sole proprietor and treat your forest holding as a business, take the deduction on the “Other expenses” line on the front of Form 1040, Schedule C. If you are a farmer, take the deduction on the “Other expenses” line of Schedule F, Form 1040.

A word of caution: the tax credit and amortization deductions are subject to recapture if you dispose of your trees—within 5 years of planting for the credit and within 10 years of planting for the amortization.

### **Capital Gains and Self-employment Taxes**

If you report your timber sale income as ordinary income, you could pay significantly more in taxes than you would if you report it 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 percent for self-employment income of \$400 or more. The rate consists of a 12.4 percent component for old age, survivors, and disability insurance (OASDI) and a 2.9 percent component for hospital insurance (Medicare). The maximum income subject to the OASDI component of the tax rate is \$87,900, while the Medicare component is unlimited. However, if wages subject to Social Security or Railroad Retirement tax are received during the tax year, the maximum is reduced by the amount of wages on which these taxes were paid. To qualify for long-term capital gains treatment, timber sold after December 31, 1997, must have been held longer than 12 months. The maximum long-term capital gains rate for 2004 is 15% for timber sold **after May 6, 2003**. (For taxpayers in the 10% or 15% ordinary income tax brackets, the long-term capital gains rate is 5% for timber sold **after May 6, 2003**.)

### **Cost-share Payments**

If you received cost-share assistance under one or more of the Federal or State cost-share programs during 2003, you may have to report some or all of it as ordinary income. You may have two options. You have the option to include it as income and then recover the part that you pay plus the cost-share payment through the amortization and reforestation tax credit already described. You also have the option to exclude the “excludable portion” from income if certain conditions are met. These conditions are (1) the cost-share program has to be approved for exclusion by the IRS and (2) the

maximum amount excludable per acre is the greater of: (a) the present value of \$2.50 per acre or (b) the present value of 10% of the average income per acre for the past 3 tax years. This second requirement gets rather complicated because you have to determine an appropriate interest rate to compute the present values. Programs approved for exclusion by the IRS include the Forestry Incentives Program (FIP), the Forest Stewardship Incentive Program (SIP), the Forest Land Enhancement Program (FLEP), the Wetlands Reserve Program (WRP), the Environmental Quality Incentive Program (EQIP), and the Wildlife Habitat Incentive Program (WHIP), plus several State programs (check with your State Forestry Agency for approved programs in your State).

If you harvested the tract within the last 3 years, it is likely that the full amount of the qualifying cost-shares will be excludable. You will have to determine whether it benefits you more to exclude or include qualifying cost-share payments in your income. Some taxpayers benefit more by excluding the payments; others benefit more by including them and making full use of the reforestation tax credit and amortization. Either way, **you must report all cost-share payments that you receive.** If you decide to exclude them, attach a statement to your return stating 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**

If you planted trees during 2004 under the Conservation Reserve Program (CRP), you must report your **annual payment** as ordinary income. During 2003, the IRS revised its position on

**CRP cost-share payments.** These payments are now excludable. To determine the “excludable portion” of your CRP cost-share payment, follow the procedures discussed above.

Farmers may treat expenditures for soil and water conservation on farmland as expenses in the year incurred, rather than capitalizing them (CRP expenditures qualify). However, the amount deductible in any year shall not exceed 25 percent of the gross income from farming.

### **Casualty Losses**

A casualty loss must result from some event that is (1) identifiable, (2) damaging to property, and (3) sudden and unexpected or unusual in nature. Examples include wildfire and storms. **Generally, your claim for casualty losses can be no more than the adjusted basis minus any insurance or other compensation.** A 1999 Revenue Ruling identified the depletion block—the unit you use to keep track of the adjusted basis of the affected timber—as the appropriate measure of the “single identifiable property damaged or destroyed” in calculating a casualty loss deduction.

The IRS has issued Revenue Rulings on southern pine beetle losses in timber stands, drought losses of planted seedlings, and casualty loss deductions. It ruled that beetle and drought losses generally do not qualify for a casualty loss deduction because they are not sudden. **They may, however, qualify for a business- or investment-loss deduction.**

### **Management and Maintenance Expenses**

Generally, your annual expenses for the management and maintenance of an

existing stand of timber can be expensed or capitalized. IRS Revenue Ruling 2004-62, issued this year, clarified that the cost of post-establishment fertilization is a deductible management expense. In most cases, you are better off to expense management costs during the tax year they are incurred, rather than capitalizing them. If it is not to your advantage to itemize deductions for 2004, you should capitalize these expenses. If you choose to itemize deductions, you can deduct these expenses, but the passive loss rules apply. You may not, however, capitalize carrying charges in any year your property is productive. Forest land is productive in any year in which income is produced from its use (such as from hunting leases).

### **Conclusion**

Congress provided these favorable tax advantages to stimulate increased productivity from the nation's privately owned forestlands. When you take advantage of these favorable provisions you avoid paying unnecessary income taxes, and you earn more income from your woodland operations.

*The new Farmer's Tax Guides, for use on preparing your 2004 returns, are now available in your local County Extension Office.*

### **Tax Information on the Internet**

USDA Forest Service publications are available at: [www.fs.fed.us/spf/coop](http://www.fs.fed.us/spf/coop)

IRS publications and forms are available at: [www.irs.gov](http://www.irs.gov)

National Timber Tax Site is located at: [www.timbertax.org](http://www.timbertax.org)

## **Pruning 101**

**By Mark Chisholm**

There are many myths about tree pruning that can confuse even the sharpest Tree Farmer. We will set the record straight on a few of the most widespread myths.

### **Myth 1: Topping a tree makes it safer.**

Topping or reducing a tree's height may temporarily help reduce the chances of failure, but it will also create more long-term problems for the tree and its surroundings—some of which may be uncorrectable. Topping a tree reduces its ability to produce energy through photosynthesis. It also creates large zones of decay in the upper portion of the canopy. It will trigger regrowth that is denser, grows at a faster rate and is attached more weakly than the parent stems. All of this adds up to more maintenance and liability.

### **Myth 2: Severe pruning invigorates a weak tree.**

This myth likely comes from the thick, dense foliage that often grows after severe pruning is performed, perhaps making the tree more beautiful than it's ever been—before it dies the next year. How can this be? Trees store energy in many of their cells for later use. When a tree becomes distressed to the point that its life is in the balance, it draws on this stored energy as a last attempt to survive. The stored energy is mainly used to produce more leaves that are often larger and greener. The trees do this to try to produce more energy. If unsuccessful, the tree has zero resources to draw upon and dies.

### **Myth 3: Tree paint should always be used to seal a cut.**

In most cases, tree paint should not be applied after pruning. Studies have shown that tree paint or sealant does not increase a tree's ability to seal a wound or slow decay. Some have even been proven harmful to a tree, and may speed up decay by sealing in moisture and protecting decay-causing organisms from the elements.

**Myth 4: Always prune in the spring (or fall).**

Generally, if pruning is for cosmetic or routine maintenance, consider the best timing for a given tree type. Certain types of trees should only be pruned under certain conditions and at certain times of the year. The exception to this rule is when deadwood is being removed or if a hazardous situation arises, in which case safety becomes the primary factor.

Some tree types such as maples, birches and elms should not be pruned during late winter or early spring. Since sap flow is greater during this period, it may be unsightly or disruptive to an area of the yard. More importantly, certain diseases and insects also affect these tree types. Pruning during this time may increase vulnerability and elevate the impact of such afflictions. Pruning of certain flowering trees such as crabapple, flowering cherry, pear, peach, dogwoods and others should be avoided after July. After that time flower buds become set and pruning will affect their survival and display for the following season. It is also usually recommended to not prune just before or during flowering.

Disease may also be spread through pruning at the wrong time of the year. For example, pruning a live oak in the spring and summer will pose a greater risk of it contracting or spreading oak

wilt. If you are unsure of the type of tree you want to prune or what ailments may be a factor for your pruning, seek a professional opinion.

This is just a quick overview of basic pruning principles and there are many more variable and disciplines to learn before one could be considered a "pro." When in doubt, ask a tree care professional. For more information on pruning techniques, refer to the American National Standards Institute's A300 Pruning Standards ([www.ansi.org](http://www.ansi.org)).

**SC Wood Magic Forest Fair Session Held**

South Carolina's Wood Magic Forest Fair attracted over 1,900 fourth graders, teachers and parents from 35 schools this year. The Fair was conducted on the following schedule:

- Sept. 21-24 -- Upstate Piedmont Forestry Center, Salem, SC
- Oct. 18-22 -- Midlands Harbison Environmental Education Center, Columbia, SC
- Nov. 15-19 -- Lowcountry Sewee Visitor & Environmental Education Center, Awendaw, SC

The Fair's purpose: to provide information to students and teachers about the sustainable management of forest resources and the role of forests and forest products in their daily lives. Now in its sixth season, the Fair is sponsored by more than 30 organizations including the SC Forestry Foundation. For additional information, teachers can call (803) 896-8893 or visit [www.state.sc.us/forest/wmfair.htm](http://www.state.sc.us/forest/wmfair.htm).

**US Takes New Tack In Canadian Lumber Dispute**

*Lumber leaders re-argued the US case before the ITC in October*

Undeterred by an international trade panel's ruling against the US, the American lumber industry and its forestland owner allies have launched a new effort to show that they stand to be injured by imports of subsidized lumber from Canada.

US industry leaders are taking their case back to the US International Trade Commission (ITC), but this time will be aiming for a favorable ruling from the World Trade Organization to thwart an unfavorable finding from a panel formed under auspices of the North American Free Trade Agreement (NAFTA).

The latest action came in response to a ruling by a NAFTA panel in August which held there was no justification for the 2002 finding by the US Trade Commission that the American lumber industry is threatened with injury by lumber imported from Canada manufactured from subsidized logs. The Commission's finding is the basis for the 27 percent anti-dumping and countervailing duties that the US currently levies on softwood lumber imports from Canada.

With reluctance, the ITC bowed to the NAFTA panel and reversed its threat of injury determination.

"The NAFTA Panel's Decision and Order of August 31, 2004, can only be seen as a reversal of the Commission's affirmative determination of threat of material injury, despite the fact that the neither NAFTA nor US law gives the Panel authority to reverse the Commission's determination in these circumstances," ITC said in a formal statement.

"Because the Commission respects and is bound by the NAFTA dispute

settlement process, we issue a determination, consistent with the Panel's decision, that the US softwood lumber industry is not threatened with material injury by reason of subject imports from Canada," the US agency said. "In so doing, we disagree with the Panel's view that there is no substantial evidence to support a finding of threat of injury and we continue to view the Panel's decisions throughout this proceeding as overstepping its authority, violating the NAFTA, seriously departing from fundamental rules procedure, and committing legal error."

The Coalition for Fair Lumber Imports, the US industry group leading the fight against Canadian imports called for a US government appeal of the NAFTA ruling through an Extraordinary Challenge Committee.

"It is unconstitutional for a bi-national panel to dictate to an independent US government agency a finding contrary to US law," said Coalition Chairman Rusty Wood. "The US industry demands our government correct this injustice. Millions of landowners, tens of thousands of US workers, and hundreds of US businesses should not be forced to compete against unfairly traded imports due to a NAFTA 'kangaroo court.'"

The crux of the years-long US-Canada dispute is the source of the logs that supply Canadian lumber mills. The vast majority are grown in the Dominion's public forests and are provided to manufacturers through a system of stumpage fees that are far below the open-market value of logs grown in this country. The US government and industry contend the Canadian logging system constitutes an unfair government subsidy on lumber

shipped into the US. – F&W Forestry Letter, Fall 2004.

**Dacusville Man Arrested in Timber Deal**

SC Forestry Commission (SCFC) agents have arrested a Dacusville man for violation of the state's timber transaction laws. Andrew Grant Bridgeman, 31, faces two criminal charges associated with a timber deal in Pickens County.

According to SCFC agents, Bridgeman contracted to cut timber from a private tract in Pickens County. Under the agreement he was to cut the trees, haul them to the mill, and pay the landowner based on mill receipts.

Bridgeman cut the timber during July and August, 2004. Mill records show that he was paid for the timber, but agents say Bridgeman never gave the landowner his share of the proceeds. Under state law, failure to pay for timber is a criminal offense.

Agents also charged Bridgeman with failing to provide the landowner with mill receipts accounting for the timber.

This is the second time Bridgeman has faced charges under the mill receipt law. If convicted on both counts, Bridgeman could be fined up to \$1,200 and be required to pay full restitution.

Landowners are encouraged to report timber transaction violations to Forestry Commission law enforcement, 803/896-8820.

Sincerely,

Howard H. Hiller,  
County Extension Agent

D. Jason Caudill  
County Extension Agent