

NC STATE UNIVERSITY College of Natural Resources


Hurricane Helene Disaster Timber Tax Strategies for Landowners

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1

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Qualifier

This presentation is intended to be informational and serve as an educational resource for you and your tax advisor, but is not intended as financial, tax, or legal advice.

Please consult with your tax advisor concerning your unique tax situation.

2

Southern Appalachian Mountains

Historic and catastrophic flooding, sustained winds at this at **45 mph with gusts above 70 mph.**

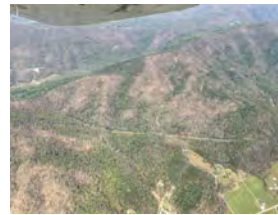
In addition, 6-12 inches of rain were predicted with local areas receiving more than **20 inches of precipitation.**

3

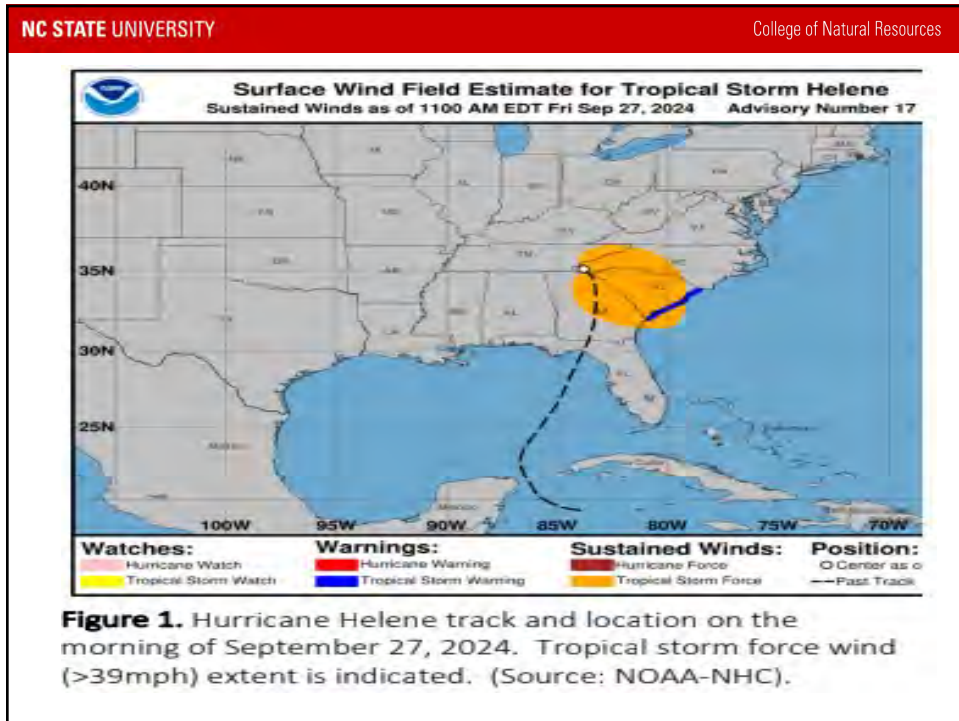
Damage distribution between land ownership was estimated to be:

- **21% public** (US Forest Service and other public ownerships)
- **78% private** (private individuals, corporations, and other ownerships)

*1% reserved lands (reserved areas such as park lands)



4



5

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In North Carolina

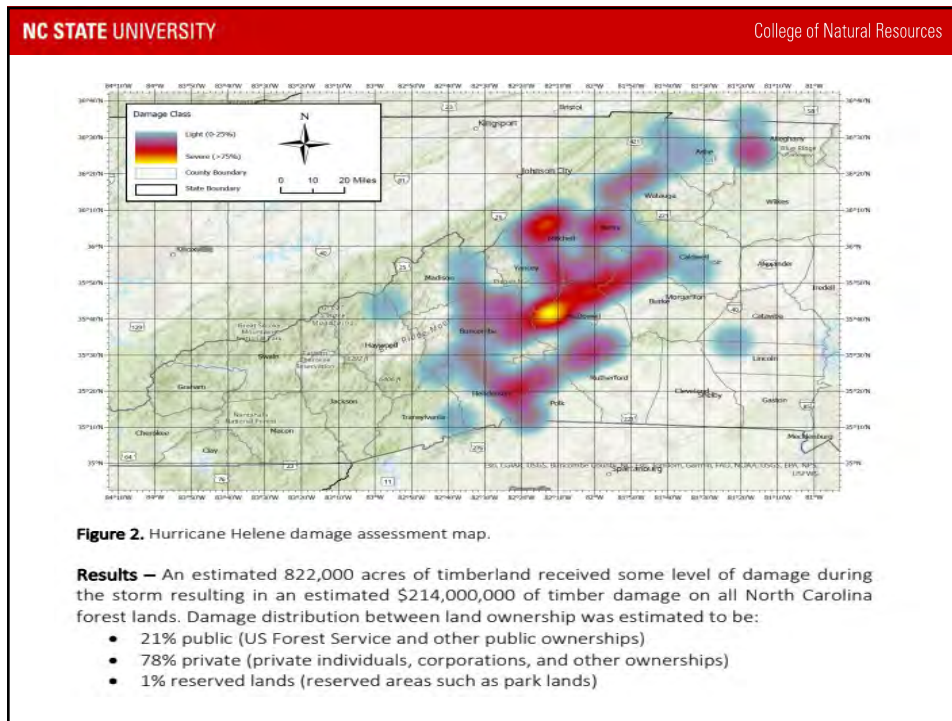
The most heavily impacted counties are **Avery, Buncombe, McDowell, Mitchell, Henderson, and Yancey**.

Table 1. Hurricane Helene timber damage estimation by ownership.

County	Public Ac.	Private Ac.	Reserve Ac.	Total Ac.	Public Land \$	Private Land \$	Reserve \$	Total Value
Alleghany	0	11,843	1,048	12,892	\$14,158.79	\$325,852.10	\$14,158.79	\$353,969.67
Ashe	2,174	48,397	0	50,571	\$381,872.72	\$9,184,945.33	\$0.00	\$9,546,818.06
Avery	17,486	56,951	0	74,437	\$1,755,495.84	\$12,572,746.28	\$0.00	\$16,328,241.90
Buncombe	24,805	64,635	0	89,440	\$5,402,468.16	\$13,892,060.98	\$0.00	\$19,294,529.14
Burke	12,071	32,557	1,127	45,755	\$2,857,454.60	\$7,514,047.27	\$211,663.30	\$10,583,165.18
Caldwell	14,589	38,143	0	52,732	\$3,170,057.89	\$8,151,577.43	\$0.00	\$11,321,635.32
Haywood	2,785	9,505	4,447	16,737	\$471,355.26	\$1,221,238.64	\$449,930.03	\$2,142,523.93
Henderson	13,461	43,562	0	57,023	\$3,094,292.04	\$12,648,591.47	\$0.00	\$16,642,883.52
Lincoln	0	28,925	0	28,925	\$0.00	\$4,742,073.77	\$0.00	\$4,742,073.77
Madison	24,526	13,683	1,586	39,764	\$4,723,735.12	\$2,590,435.39	\$304,757.10	\$7,618,927.62
McDowell	14,541	116,265	0	130,805	\$1,857,992.01	\$15,032,844.45	\$0.00	\$16,890,836.46
Mitchell	12,337	46,908	0	59,244	\$8,623,351.80	\$32,440,228.21	\$0.00	\$41,063,580.01
Polk	2,157	21,490	0	23,647	\$1,498,164.36	\$15,148,106.29	\$0.00	\$16,646,270.65
Rutherford	3,332	39,255	0	42,587	\$472,952.39	\$5,438,952.47	\$0.00	\$5,911,904.86
Transylvania	11,346	10,029	0	21,375	\$1,732,402.31	\$1,536,261.30	\$0.00	\$3,268,663.61
Watauga	973	12,066	0	13,039	\$271,587.49	\$3,608,233.77	\$0.00	\$3,879,821.26
Yancey	11,930	48,519	2,463	62,912	\$5,499,842.02	\$21,174,391.77	\$824,976.30	\$27,499,210.08
Total	168,532	642,733	10,641	821,906	\$44,727,182.60	\$107,202,406.91	\$1,805,485.52	\$213,735,075.04

*Reserved lands are those lands, such as dark lands, reserved from timber harvesting.

6



7

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Recovering from a Disaster: Things Forest Landowners Should Consider

- Recovering from storms can be difficult and stressful. Knowing what to consider can help reduce stress and make it more manageable to respond to damaged timber on your property.
- The first place to start after the storm is to contact a professional forester, such as a [consulting forester](#) or the [N.C. Forest Service County Ranger](#). They can provide you advice regarding storm-damaged timber, help you assess the damage to your timber, assist you in salvaging timber, and provide you guidance on current and future management of your property.

8

Evaluating Storm-Damage Timber

- It is important to assess the damage following a storm. Storm-damaged timber can often still be harvested and utilized following a storm, but to minimize the loss, assessment of the timber should be carried out as soon as possible following the storm.
- Prior to salvaging any storm-damage timber document the event and the damage incurred. Save a copy of a local newspaper and take photos of the storm-damage timber.
- Strongly recommends the use of a professional forester during this process.

Some Resources:

- NC State Extension Forestry - [Decision Making Guidelines for Storm-Damaged Trees](#)
- NC Forest Service - [List of Consulting Forester](#)

9

Timber Salvage

Selling salvaged timber following a storm is difficult due to the massive amount of damaged wood that enters the market and the difficult logging conditions, which drastically reduce loggers' productivity. The large volume of wood and difficult logging conditions often results in depressed prices. Remember to seek advice from a professional when making decisions.

Some Resources:

- NC State Extension Forestry - [Timber Sales: A Planning Guide for Landowners](#)
- NC Forest Service - [Timber Salvage Contract Suggestions](#)
- NC Forest Service - [List of Consulting Forester](#)

10

Priorities for Salvaging Storm Damaged Trees

- The trees that have the highest potential product value (in most cases sawtimber and veneer);
- The trees that are the easiest to cut (groups of trees blown or felled in one direction);
- The trees that are the most perishable (in most cases sawtimber and veneer). Sawtimber and veneer trees should be removed within 4-6 weeks before a blue stain fungus will degrade the quality of these high-valued trees.
- Trees being sold for pulpwood should be removed within eight to 12 months.

11

Recovery Assistance

Private Forest landowners may be eligible for assistance through the Emergency Forest Restoration Program (EFRP), a program administered by the USDA Farm Service Agency (FSA). EFRP provides up to 75% of the cost to implement emergency restoration practices.

Potential practices include:

- Debris removal, such as down or damaged trees, in order to establish a new stand or provide for natural regeneration;
- Site preparation, planting materials, and labor to replant forest stand;
- Restoration of forestland roads, fire lanes, fuel breaks, or erosion control structures;
- Fencing, tree shelters, and tree tubes to protect trees from wildlife damage; and
- Wildlife enhancement to provide cover openings and wildlife habitat.

Learn more about the program at the [USDA Farm Service Agency website](#).

12

Tax Considerations

There are tax considerations when timber is impacted by a natural disaster.

- The first thing one should do is document the damaged timber for tax purposes.
- Save a copy of a local newspaper and take photos of the storm-damage timber. This will be useful when filing one's taxes.
- Timber losses may fall under a **casualty loss** or **involuntary conversion**.
- Timber owners who are unable to salvage the timber can claim it as a **casualty loss**.
- If the damaged timber can be salvaged, it may be considered as an **involuntary conversion**.
- Tax rules governing how to handle storm-damage timber can be complex, and timberland owners are encouraged to seek the assistance from a tax professional.

Resources:

[National Timber Tax Website](#)

[National Timber Tax Education Series Webinars](#)

KEVIN BURKETT, CPA
EXTENSION ASSOCIATE
CLEMSON UNIVERSITY

TIMBER TAX: CAPTURING LOSS FROM HURRICANE HELENE & OTHER LANDOWNER ISSUES & CONSIDERATIONS

1

DISCLAIMER

- Solely for educational purposes
- Rules and laws can change quickly
- Each situation is based on facts and circumstances

2

RECORDKEEPING

- At the heart of a lot of issues
- More work on the front end but many benefits later
- What you decide to do with the records is up to you
- Best system is the one that you will use

3

RECORDKEEPING

- Document your property
- Before and after
- Include communications and news stories

4

Short-Term Contingency Plans LGPress - 1171



Short-Term Operating Plan *for farms and ranches*

Employees:

Name	Phone number	Frequency of Pay (hourly, weekly, etc.)	Payment Method (credit/debit, online, check)	Notes:

Utilities:

	Due Date	Payment Method (online, check, etc.)	Other Information (amount)
Water:			
Electric:			

Insurance:

Company	Agent:	Contact Information	Policy Type and Number

Local Contacts:

Name	Contact Information	Contact Type (doctor, veterinarian, veterinarian assistant, etc., etc.)

Additional Information:

- In case the landowner is unavailable
- List of important resources related to the activity
- At your discretion who you decide to share it with
- Estate and transition planning

5

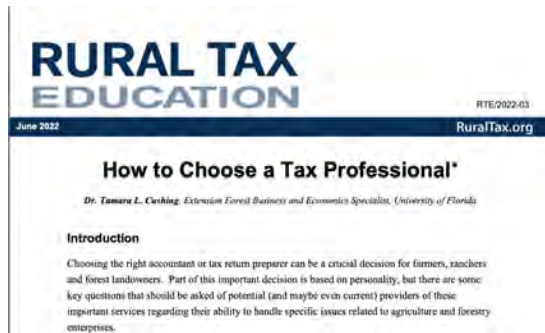


POLL QUESTION

6

Taxes

- Can be complex
- Landowner may leave money on the table
- Find a practitioner to work with
- RuralTax.org
“How to Choose A Tax Professional”



7

Issues

- Determining classification
- Basis
- Form T
- Disaster / Casualty Loss

8

Classification of Activity

- Hobby – primarily personal enjoyment
- Investor – expect a return over time
- Business – frequent activity

9

What is basis?

- Your amount of investment in an asset / piece of property
- IRS Publication 551 – Basis of Assets



10

What is basis?

- Determines:
 - a. Depreciation / depletion amounts
 - b. Gain or loss on the property
- Your basis depends on how you acquired the property

11

Purchased Land

- You bought land for \$100,000
- Later you sold the land for \$150,000
- What was your basis?
- How much was your gain?

12

POLL QUESTION

13

Purchased Land

- You bought land for \$100,000
- Later you sold the land for \$150,000
- What was your basis? **\$100,000**
- How much was your gain? **\$50,000**

14

Gifted Land

- You were gifted land the owner bought for \$50,000
- At time of the gift the fair market value was \$100,000

- Later you sold the land for \$150,000

- What was your basis?
- How much was your gain?

15

POLL QUESTION

16

Gifted Land

- You were gifted land the owner bought for \$50,000
- At time of the gift the fair market value was \$100,000

- Later you sold the land for \$150,000

- What was your basis? \$50,000
- How much was your gain? \$100,000

17

Inherited Land

- A family member passes land to you in an estate, they bought the land for \$50,000
- At time of inheritance the fair market value was \$100,000

- Later you sold the land for \$150,000

- What was your basis?
- How much was your gain?

18

POLL QUESTION

19

Inherited Land

- A family member passes land to you in an estate, they bought the land for \$50,000
- At time of inheritance the fair market value was \$100,000
- Later you sold the land for \$150,000
- What was your basis? **\$100,000**
- How much was your gain? **\$50,000**

20

Timber Property

Issues:

Basis *should be* determined
when property changes hands

Basis gets “lost”

There are multiple assets
with basis in a timber property
transaction

21

Timber Property

There are multiple assets in a timber property transaction

\$500,000 sale price

- a. Land
- b. Buildings
- c. Timber / products

Typically, this is not split out in the sale

22

POLL QUESTION

23

	FMV	% of FMV	Basis
Land	\$200,000	0.385	\$192,307.69
Timber (merchantable)	\$150,000	0.288	\$144,230.77
Timber (pre-merchant)	\$70,000	0.135	\$67,307.69
Buildings	\$100,000	0.192	\$96,153.85
	<u>\$520,000</u>	<u>1</u>	<u>\$500,000</u>

24

Inheritance & Gift Basis

Inheritance:

Can be determined at time of inheritance by FMV

Gift:

- a. historical records
- b. back cruise
- c. may not be worth it

25

Purchased

- An appraisal closely following the sale, then allocate sales price based on fair market values

- “Residual method” when only land and timber are acquired

\$500,000 sale price - \$300,000 land = \$200,000 timber

26

Basis

Can go up or down

- Depreciation / depletion (down)
- Improvements / capitalized costs (up)

It is then referred to as *adjusted basis*

Changes in basis affect other calculations

27

Form T

Acquisition costs (pg. 1)

Basis (pg. 2)

Sales (pg. 3)

Reforestation (pg. 4)

The image shows a portion of Form T (Timber) Forest Activities Schedule. The form is titled "Form T (Timber) Forest Activities Schedule" and includes the following sections:

- Part 1 Acquisitions:**
 - 1. Name of book and title of account
 - 2. Location of property (by legal subdivisions or map surveys)
 - 3a. Name and address of seller or person from whom property was acquired
 - 3b. Date acquired
 - 4. Amount paid:
 - a. In cash
 - b. In interest-bearing notes
 - c. In non-interest-bearing notes
 - 5a. Amount of other consideration
 - 5b. Explain the nature of other consideration and how you determined the amount shown on this line.
 - 6. Legal expenses
 - 7. Cruising, surveying, and other acquisition expenses
 - 8. Total cost or other basis of property. Add lines 4a through 7.
- Table 1:** Allocation of total cost or other basis on books. Columns include: Use, Number of acres, Cost or other basis per acre, and Total cost or other basis. Rows include:
 - a. Forested land (Acres)
 - b. Other unimproved land (Acres)
 - c. Improved land (described) (Acres)
- 2. Merchandise timber:** Estimate the quantity of merchandise timber present on the acquisition date (see Regulations section 1.611-2(d)). Details of the timber estimates made for purposes of the acquisition should be available if your return is examined.
- 3. Premerchandise timber:** Make an election here only if it is a factor in the total cost or value of the land.
- f. Improvements (if necessary):**

28

Form T

Required for someone in the business

Even if not required to be filed, good recordkeeping resource

29

Definition of a Casualty Loss

- Loss of property in an identifiable event and sustained during the tax year
- Must be *sudden, unexpected, and unusual*
- Tornado, ice, fire, hurricane qualify
- Disease, insects, and drought typically DO NOT qualify

30

Casualty Loss

- Deductible casualty losses for business or investment
- Smaller of:
 - The adjusted basis
 - or -
 - Decrease in fair market value before & after casualty

** Per Single Identifiable Property (SIP)

31

Casualty Loss

- If the basis is **zero**, you do not have a casualty loss
- Smaller of:
 - The adjusted basis
 - or -
 - Decrease in fair market value before & after casualty

Must decrease loss by amount of insurance or salvage value

32

Casualty Loss

Taxpayers qualifying for a casualty loss may take the loss in the current year

- or - prior year (if federally declared)

Taxpayers in an area qualifying for IRS disaster tax relief will receive extra time from the IRS to file returns and pay taxes

33

Casualty Loss – Business or Investment

First reported on Form 4684

- For investment, goes to Schedule A line 16 of Form 1040

- For business, goes to Form 4797

34

Casualty Loss – Personal Use

Timber Held for Personal Use:

- For 2018 – 2025, limited to losses from Federally declared disasters
- Subtract \$100 from loss amount
- A loss is deductible only if it exceeds 10% of AGI
- Form 4684 and ends up as itemized deduction on Schedule A line 15 of 1040

35

Involuntary Conversion / Taxable Gain

It could be that (insurance, payments, compensation) exceed the amount of casualty loss

There may be a reportable gain

Taxpayers can avoid this by purchasing qualified replacement property:

- Timber, timberland, reforestation, 80% stock of timber company

36

Other Important Code Sections

§631 allows capital gains treatment

- §631(a) for cut timber
- §631(b) for stumpage

§1221 Asset for investors

§1231 Asset for business

§126 Cost–Share Exclusion

§194 Reforestation Expenses

37

Wrap-Up

- Good recordkeeping
 - Document events
- Utilize resources
- Work with a preparer
- Qualified disaster loss
- Program payments

38

Resources

www.TimberTax.org

www.IRS.gov

Form 4684 & Instructions

Schedule A & Instructions

Form T & Instructions

Pub. 547 – Casualties, disasters, and thefts

Pub. 551 – Basis of assets

39

Questions and Contact



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40