

## Timber Sales and Income

① [Link to The Sales Link 01 Timor 1.pdf](#) ② [Link to The Sales Link 02 Timor 2.pdf](#) ③ [Link to The Sales Link 03 Timor 3.pdf](#)

Ag. Handbook 718, pages 45-57

Updated for Economic Growth & Tax Relief Reconciliation Act of 2001 (EGTRRA), Jobs & Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), American Jobs Creation Act of 2004 (AJCA), and T.D. 9450

## Timber Income

- ▶ When you sell or exchange standing timber, both the amount and type of income you receive are important
- ▶ Amount: *Price – Expense of Sale – Timber Basis*
- ▶ Type: Ordinary income or capital gain

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## Type of Income is Important

- ▶ EGTRRA and JGTRRA set the tax rates for ordinary income at 10, 15, 25, 28, 33, or 35%, depending on income level
- ▶ JGTRRA set the tax rate for long-term capital gains to 15%, or 5% for amounts that would be in the bottom 2 brackets (0% for 2008)
- ▶ So there is a 5% to 20% tax rate differential favoring long-term capital gains

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## Type of Income is Important

- ▶ But type of income is important for other reasons
  - ✓ If your forest qualifies as a trade or business, any ordinary income you earn from timber is subject to self-employment taxes – at rates up to 15.3% – but capital gains are not

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### **Type of Income is Important**

- ✓ If you have large losses from capital investments you can only apply them against \$3,000 of ordinary income per year, but against any amount of capital gains
- ✓ If you are retired, capital gains do not count toward the amount of income you can earn before your Social Security benefits are reduced

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### **Qualifying for Capital Gains Treatment**

- ▶ Three factors determine whether income you receive for timber qualifies for capital gain treatment:
  - ✓ Your primary purpose for holding the timber
  - ✓ How long you held it
  - ✓ What method you use dispose of it

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### **Primary Purpose**

- ▶ Timber held for personal use or as an investment is sec. 1221 property
  - ✓ It is a capital asset in your hands
  - ✓ Any gain from a sale or exchange of the timber qualifies as a capital gain, regardless of what method you use

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### **Primary Purpose**

- ▶ Timber held for use in a trade or business is sec. 1231 property
  - ✓ It is *not* a capital asset in your hands
  - ✓ But gain from a sale or exchange if the timber *can* qualify for treatment as a capital gain

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## Holding Period

- ▶ The holding period for long-term treatment depends on how you acquired your timber:
  - ✓ By purchase: Over 12 months
  - ✓ By gift: Also over 12 months, but includes time the donor held it
  - ✓ By inheritance: No requirement
- ▶ The holding period is measured from the date of acquisition to the “date of disposal”

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## Method Used to Dispose of Timber

- ▶ Basically three ways:
  - ✓ Outright sale or exchange
  - ✓ Disposal with economic interest retained
  - ✓ Convert standing timber into products for sale
- ▶ Will cover individually

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## Outright Sale

- ▶ Direct sale of standing timber for a fixed total amount agreed upon in advance – for example, through a timber deed or sale contract
  - ✓ AKA “lump-sum” sale
  - ✓ Once the sale is complete, the buyer has title to the timber and bears all risk of loss
  - ✓ “Date of disposal” is the date ownership of the timber changes hands

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## Outright Sale

- ✓ Outright sale doesn’t necessarily mean a clearcut – all timber can be sold, or only certain species, sizes, or trees
- ✓ Here and in the other methods, the contract doesn’t have to be written as long as it is enforceable (that is, written)

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## Outright Sale

- ▶ Until recently, the outright sale of timber was pretty much limited to investors
- ▶ Income from the outright sale of timber held as an investment qualifies as a capital gain
  - ✓ Long-term if held for the required period
  - ✓ Short-term if not

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## Outright Sale

- ▶ Income from the outright sale of timber held for use in a trade or business did not qualify for capital gain treatment unless the owner could demonstrate they *did not* hold the timber primarily for sale to customers
  - ✓ Four tests determined whether the timber was a capital asset in their hands (CG) or held primarily for sale to customers (OI)

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## Four Tests

1. Purpose for acquiring and holding the timber:  
Investment (CG) or for sale (OI)
2. Number, continuity, and frequency of sales:  
Isolated events (CG) or frequent (OI)
3. Extent to which you solicit or promote sales:  
Wait for buyers (CG) or actively solicit (OI)
4. Facts and circumstances:  
Part of occupation, contribute to livelihood (OI)

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## Outright Sale

- ▶ Problem was the tests were not determinative – seemingly similar cases resulted in opposite court decisions
- ▶ But since Dec. 31, 2004, income from the outright sale of timber held primarily for sale to customers *can* qualify for treatment as a capital gain
  - ✓ Accomplished by a change in the wording of sec. 631(b) put in place by AJCA

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## Outright Sale

- ▶ **Disposing of timber under sec. 631(b) gives the seller – you – two important advantages:**
  - ✓ **First, any gain realized is treated as a capital gain regardless of whether you held the timber primarily for sale to customers – even if you are a dealer in standing timber**

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## Outright Sale

- ✓ **Second, timber qualifying under sec. 631(b) is sec. 1231 property**
  - The gain (or loss) from disposal of the timber is aggregated with other sec. 1231 gains and losses**
  - A net gain is treated as a long-term capital gain**
  - But a net loss is treated as ordinary income**

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## Outright Sale

- ▶ **An outright sale of timber under sec. 631(b) involves a few more definitions than under sec. 1221**
  - ✓ **Language in AJCA indicates that this case, “owner” is defined as the landowner who makes the original sale**
  - ✓ **The owner – you – has an investment in the timber and must look to its cutting for a return on that investment**

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## Outright Sale

- ✓ **“Timber” is defined as the parts of standing trees usable for wood products**
  - Includes evergreen (coniferous) trees more than 6 years old when cut and sold for ornamental purposes**
  - But not evergreen trees sold live, or the tops or other parts of standing trees used separately from the main stem**

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**EXAMPLE:** This January a timber buyer approaches you and offers to buy the older plantation for \$37,000, lump sum. You agree. Your only expense is \$350 to have your lawyer check the sale contract. Show how to calculate and report your proceeds from the sale.

**Reminder:** The Merchantable Sawtimber sub-account contains 590 cords and 112 MBF of volume basis and \$38,396 of value (cost) basis; the older stand being sold contains 390 cords of pulpwood and all 112 MBF of sawtimber.

## Solution

- ▶ Calculate your timber depletion allowance and adjust your timber basis:

Form T, Part II [FormLibrary\\_2009FC11a\\_FormTPartII.pdf](#)

## Solution

- ▶ Allocate sale proceeds:

Gross sale proceeds . . . . .	\$ 37,000
Minus cost of the sale . . . . .	- 350
Minus depletion allowance . . . . .	<u>- 34,379</u>
Sec. 1221 gain . . . . .	\$ 2,271

Form T, Part III [FormLibrary\\_2009FC11a\\_FormTPartIII.pdf](#)  
 Form 1040, Schedule D [FormLibrary\\_2009FC11a\\_ScheduleD.pdf](#)

## Outright Sale

- ▶ Investors report a capital gain from the outright sale of timber on Form 1040, Schedule D, as in this example
  - ✓ Long-term on Part II, short-term on Part I
  - ✓ Will be combined with other capital gains and losses and the net amount transferred to Form 1040
  - ✓ You can expect to receive a Form 1099-S

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## Outright Sale

- ▶ Participants in a trade or business report a capital gain (or loss) from the outright sale of timber on Form 4797
  - ✓ It will be combined with other sec. 1231 gains and losses, with a net gain treated as a capital gain and a net loss treated as ordinary income
  - ✓ You are required to file Form T, Parts II and III

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## Outright Sale

- ✓ You also can expect to receive a Form 1099-S
- ▶ Report any ordinary income from the outright sale of timber on a business form – Form 1040, Schedule C for a business or Schedule F for a farm, or other forms for partnerships, corporations, trusts, or estates

 [link\07TheSalesLink07.Timber4.ppt](#)

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## Disposal with Economic Interest Retained

- ▶ Disposal of timber under a contract that requires payment at a specified rate for each unit of timber that is actually cut and measured
  - ✓ AKA “pay-as-cut” contract
  - ✓ Technically a “disposal with an economic interest retained” which means the seller – you – typically retains title to the timber and bears risk of loss until it is cut

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### **Disposal with Economic Interest Retained**

✓“Date of disposal” is not the date the timber is actually cut, but when in the ordinary course of business, the volume of the cut timber is first definitely determined

This definition of “cut” may enable an owner who has held the timber for nearly the required period to qualify for long-term capital gain treatment

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### **Disposal with Economic Interest Retained**

But the time of measurement cannot be artificially delayed to get a tax advantage – that’s tax evasion

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### **Disposal with Economic Interest Retained**

▶ **Fine points**

✓ Contract can include penalties for not cutting certain trees, but only amounts up to the trees’ stumpage value is a capital gain

Anything over that amount is ordinary income

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### **Disposal with Economic Interest Retained**

✓ The volume of timber cut usually is determined by scaling, but also can be determined by a cruise of the standing timber (Rev. Rul. 78-104)

In this case, the amount disposed of is the cruise volume before the harvest, minus the cruise volume of any contract timber remaining after the harvest

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### **Disposal with Economic Interest Retained**

✓ Advance payments are permitted

May be a single sum or even a series of payments under a long-term contract, as long as the contract specifies that they are partial payments for the timber

But the contract *must* require adjustments to be made after cutting is completed, so the total amount paid is determined by the volume of timber actually cut

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### **Disposal with Economic Interest Retained**

If you include an advance payment from a disposal with economic interest retained as a capital gain on your return and the cutting right expires, is terminated, or abandoned before all the timber paid for is cut, you must file an amended return – payment for the amount of timber actually cut remains a capital gain, but any additional amount you are allowed to keep is ordinary income

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### **Disposal with Economic Interest Retained**

▶ Until enactment of AJCA a disposal with economic interest retained was the only method to dispose of standing timber recognized under sec. 631(b)

✓ Owners who held timber primarily for sale to customers had to use this method to ensure their timber income qualified for treatment as a capital gain

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### **Disposal with Economic Interest Retained**

▶ A sec. 631(b) disposal with economic interest retained involves some additional definitions:

✓ “Owner” is any person or legal entity who – before entering into the 631(b) contract – has the right to cut the timber for sale or use on their own account

Can be the holder or a sublease or cutting contract, as long as they meet the holding requirement

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### Disposal with Economic Interest Retained

- ✓ Owner – you – again has an investment in the timber and must look to the cutting for a return from that investment
- ✓ “Timber” again is the parts of standing trees usable for wood products, including ever-green (coniferous) trees more than 6 years old when cut and sold for ornamental purposes

**EXAMPLE:** Say that instead of accepting the timber buyer’s offer, you decide to take bids for your timber. A consulting forester solicits the bids, structures the sale as a sec. 631(b) disposal with economic interest retained, and administers it for 10% of the proceeds. The best bid you receive is \$295 per MBF and \$25 per cord. Show how to calculate and report the adjustments to your timber basis and your proceeds from the sale.

### Solution

▶ Allocate basis between pulpwood and sawtimber:

	Fair Market Value (FMV)	Proportion of FMV
Pulpwood . . .	\$14,750	0.3086
Sawtimber . .	\$33,040	0.6914
	\$47,790	1.0000

### Solution

	Proportion of FMV	Portion of Basis
Pulpwood . . .	0.3086	\$ 11,849
Sawtimber . .	0.6914	26,547
	1.0000	\$ 38,396

### Solution

- ▶ Calculate pulpwood depletion unit:

$$\$11,849 \div 590 \text{ cords} = \$20.08 \text{ per cord}$$

- ▶ Calculate sawtimber depletion unit:

$$\$26,547 \div 112 \text{ MBF} = \$237.03 \text{ per MBF}$$

- ▶ Calculate depletion allowance:

$$(\$20.08 \text{ per cord} \times 390 \text{ cords}) +$$
$$(\$237.03 \text{ per MBF} \times 112 \text{ MBF}) = \$34,379$$

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### Solution

- ▶ Update value basis:

$$\$38,396 - \$34,379 = \$4,017$$

- ▶ Update pulpwood volume basis:

$$590 \text{ cords} - 390 \text{ cords} = 200 \text{ cords}$$

- ▶ Update sawtimber volume basis:

$$112 \text{ MBF} - 112 \text{ MBF} = 0 \text{ MBF}$$

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Form T, Part II [Link to The Salses Link to Form T](#)

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### Solution

- ▶ Calculate sec. 1231 gain:

Gross sale proceeds . . . . .	\$ 42,790
Minus cost of the sale . . . . .	- 4,279
Minus depletion allowance . . . . .	<u>- 34,379</u>
Sec. 1231 gain . . . . .	\$ 4,132

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**Form T, Part III\*** [Link to 07 The Sales Link 09 Form T.pdf](#)  
**Form 4797** [Link to 07 The Sales Link 10 Form 4797.pdf](#)

\* Include a note that your income is reported on Form 4797

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## Disposal with Economic Interest Retained

- ▶ Investors report a capital gain from a disposal of timber with economic retained on Form 1040, Schedule D, as before
- ▶ Participants in a trade or business report a capital gain (or loss) from a sec. 631(b) disposal of timber with economic interest retained on Form 4797, Part I, as in this example

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## Disposal with Economic Interest Retained

- ✓ If the result is a net gain, it will be treated as a net long-term capital gain and transferred to Part II of Form 1040, Schedule D, to be combined with other long-term capital gains and losses
- ✓ But if it is a net loss, it will be treated as ordinary income and transferred to Form 4797, Part II, to be combined with other ordinary gains and losses

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## Disposal with Economic Interest Retained

- ✓ You should file Form T, Parts II and III to support your status as a participant in a trade or business
- ✓ And again, you can expect to receive a Form 1099-S from the buyer

© [Link to 07 The Sales Link 11 Form T.pdf](#)

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### Convert Standing Timber into Products

- ▶ If you cut standing timber and convert it into logs or other products for sale, all the income that results will be ordinary income unless you have a sec. 631(a) election in effect

If you do, then the income that results from holding the timber will be a capital gain – just as if you had sold it outright – and the value added by converting the timber into products for sale will be ordinary income

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### Convert Standing Timber into Products

NOTE: Profit that results from converting standing timber into products for sale is *always* ordinary income – it is *never* a capital gain

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### Convert Standing Timber into Products

- ▶ If you have a sec. 631(a) election in effect and you have met the sec. 631(a) holding period, report a conversion of standing timber into products for sale in two parts:

- ✓ Report the difference between your adjusted basis in the timber that was cut and its fair market value as a sec. 631(a) gain

It will be aggregated with other sec. 1231 gains and losses, with a net gain treated as ...

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### Convert Standing Timber into Products

... a long-term capital gain and a net loss treated as ordinary income

- ✓ Report the profit from conversion of the standing timber as ordinary income

Determine the profit just as you would for any business operation: income received from the sale of the products, minus the fair market value of the timber and cost of conversion

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## Convert Standing Timber into Products

▶ Definition requires 5 more definitions:

- ✓“Owner” is the same as with a sec. 631(b) disposal with economic interest retained

So again, can be the holder of a sublease or cutting contract

But not the holder of a cutting service contract who is obligated to deliver the logs to you or to a buyer you specify – even if ...

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## Convert Standing Timber into Products

... your contract with them uses terms like “buy,” “sell,” or “stumpage charge”

- ✓“Timber” also means the same as in a sec. 631(b) disposal with economic interest retained

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## Convert Standing Timber into Products

- ✓“Timber cut by taxpayer” includes timber cut by other persons at your direction as well as timber you cut yourself

The products the timber is converted into can be rough – for example, logs, pulpwood, or firewood – or finished – for example, lumber, wooden toys, or furniture

But they must be for sale or for use in your trade or business, not for personal use

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## Convert Standing Timber into Products

- ✓“Holding period” runs from the date you acquired the timber – or the contract right to cut it – to the date it is considered “cut”

As with a sec. 631(b) disposal this is when, in the ordinary course of business, the volume of the timber cut is first definitely determined

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### Convert Standing Timber into Products

✓“Fair market value” is the price at which the timber would have changed hands in a transaction between a willing, informed buyer and a willing, informed seller on the *first day of the tax year* in which it is cut

The timber must be valued as it existed on that day regardless of any change that occurs to it or the timber market between that day and the time it is cut

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### Convert Standing Timber into Products

Best indicator is the actual price paid for similar timber, in the same area, at the same time of year, adjusted for differences in quality, quantity, accessibility and markets, discounted to the first day of your tax year

A general average price is not sufficient

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### Convert Standing Timber into Products

If you only cut a small amount of timber, information from local mill operators and timber buyers may suffice

But if you cut a large amount, you need to use a qualified timber appraiser

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### Convert Standing Timber into Products

▶ Make a sec. 631(a) election by checking the YES box on Form T, Part II, line 18a

✓ You must make the election on an original, timely filed return (including extensions)

You cannot make it on an amended return

✓ A sec. 631(a) election is binding on all timber cut and converted into products in the year you make the election and all later years

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## Convert Standing Timber into Products

- ✓ Under AJCA owners who cut timber under a sec. 631(a) election made before Jan. 1, 2005, can revoke it one time without IRS consent

This provision chiefly benefits forest industry firms, but will also help non-industrial owners who would benefit because of their particular tax situation

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## Convert Standing Timber into Products

- ✓ Revoke a sec. 631(a) election by checking the YES box on Form T, Part II, line 18b
- ✓ No consent is required to reinstate a sec. 631(a) election
- ✓ Any further revocation requires IRS consent, but remember you can dispose of standing timber by either of the other methods at any time

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**EXAMPLE:** Say that instead of selling your timber as stumpage, you hire a master logger to harvest it, cut it into sawlogs and pulpwood, and deliver the cut products to a sawmill that you specify. The consultant charges you \$600 for soliciting the bids; from them you know the standing timber was worth \$295 per MBF and \$25 per cord. The master logger charges you \$22,500. You receive \$390 per MBF and \$60 per cord for the delivered products. Show how to calculate and report your gains.

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## Solution

- ▶ Calculate your timber depletion allowance and adjust your timber basis:

Form T, Part II [Link:07TheSales.Link13Form07.pdf](#)  
Sec. 631(a) election on line 18a

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### Solution

- ▶ Calculate sec. 1231 gain from holding the timber:

Fair market value as of Jan. 1 . . . . .	\$ 42,790
Minus consultant charges . . . . .	- 600
Minus depletion allowance . . . . .	<u>- 34,379</u>
Sec. 1231 gain . . . . .	\$ 7,811

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Form T, Part III [Link to Form T, Part III](#)

Form 4797 [Link to Form 4797](#)

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### Solution

- ▶ Calculate gain from selling the converted sawlogs and pulpwood:

Sale proceeds . . . . .	\$ 67,080
Minus FMV of the timber . . . . .	- 42,790
Minus master logger charge . . . . .	<u>- 22,500</u>
Ordinary income . . . . .	\$ 1,790

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Form 1040, Schedule C\*  
[Link to Form 1040, Schedule C](#)

\* List the FMV of the timber cut and other costs associated with the harvest and sale as “other costs” on page 2

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## Convert Standing Timber into Products

- ▶ Converting standing timber into products for sale is inherently a business operation
  - ✓ Report the timber-cutting part of the transaction on Form 4797
- It will be combined with other sec. 1231 gains and losses, with a net gain treated as a long-term capital gain and a net loss treated as ordinary income

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## Convert Standing Timber into Products

- ✓ Report the conversion part on a business schedule – Form 1040, Schedule C for a business or Schedule F for a farm
- List the fair market value of the timber cut and the other costs associated with the harvest and sale as “other costs”

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## Convert Standing Timber into Products

- Give details about the cutting and sale using Form T, Parts II and III
- Include information on how you estimated the fair market value of the timber cut

 [Link to The Sides Link 13 Form T.pdf](#)

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## About the Revised Form T

[Link to The Sides Link 13 Form T.pdf](#)   [Link to The Sides Link 25 Form T.pdf](#)

- ▶ Form T was revised in Dec. 2005 to make it more compatible with electronic filing
  - ▶ The “Who Must File” section addresses the confusion with earlier versions about who must file Form T and when
- You must file Form T if you claim a timber depletion deduction, sell timber outright under sec. 631(b), or make or use a sec. 631(a) election – all of which involve only Part II

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## About the Revised Form T

- ▶ If you do an activity covered by any other part of Form T you should fill out the associated part(s):
  - ✓ Part I if you buy timber, cutting contracts or forest land
  - ✓ Part III if you sell timber of forestland
  - ✓ Part IV if you do silvicultural practices
  - ✓ Part V if you adjust your land account

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## About the Revised Form T

- ▶ But what you do with them depends:
  - ✓ If you claim a timber depletion deduction, sell timber outright under sec. 631(b), or make or use a sec. 631(a) election, file Part II, plus the part(s) associated with other forest-related activities you did during the year
  - ✓ If not, keep the part(s) associated with forest-related activities you did during the year as part of your records

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## About the Revised Form T

- ▶ The “Who Must File” section also includes the only written guidance available from the IRS on what constitutes an occasional timber sale:

“... one or two sales every 3 or 4 years ...”

So a sale every 2 or 3 years qualifies as an occasional sale
- ▶ Owners who only have occasional timber sales are not required to file Form T – although IRS foresters think it would be prudent to do so

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## Information Returns

- ▶ For some years, timber buyers in a sec. 631(b) disposal have been required to file a Form 1099-S, unless the seller is a corporation
- ▶ T.D. 9450 similarly requires timber buyers in a lump-sum sale to file a Form 1099-S, effective for timber sold after May 28, 2009

⑧ [Link to The Sales Link 31, Tued 8, 2009](#)

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**Tax Forms: Form T, Part II**  
**Form T, Part III**  
**Form 1040, Schedule D**  
**Form T, Part II**  
**Form T, Part III**  
**Form 4797**  
**Form T, Part II, line 27**  
**Form T, Part III**  
**Form 4797**  
**Form 1040, Schedule C**  
**Form T, Instructions**

# **Tax Forms and Examples**



## **Timber Sales and Income**

**EXAMPLE 1:** This January a timber buyer approaches you and offers to buy the older plantation for \$37,000, lump sum. You agree. Your only expense is \$350 to have your lawyer check the sale contract. Show how to calculate and report your proceeds from the sale.

As a reminder, the Merchantable Sawtimber Subaccount contains 590 cords and 112 MBF of volume basis and \$38,396 of value (cost) basis; the older stand being sold contains 390 cords of pulpwood and all 112 MBF of sawtimber.

- a. Calculate your timber depletion allowance and adjusted basis
  - 1) Your timber depletion allowance is \$34,379; see the Section 631(b) disposal example, below, for how to calculate it and adjust your timber basis
  - 2) Also see the Section 631(b) disposal example for how to report the adjustments on Form T, Part II

b. Allocate your sale proceeds

1) Calculation:

$$\begin{array}{r} \$ 37,000 \text{ Gross sale proceeds} \\ - 350 \text{ Cost of the sale} \\ \hline - 34,379 \text{ Timber depletion allowance} \\ \hline \$ 2,271 \text{ Section 1221 gain} \end{array}$$

- 2) Report the sale on Form T, Part III, and Form 1040, Schedule D

**Part II Timber Depletion** (see instructions)

**1** Name of block and title of account ▶ .....

If you express timber quantity in thousand board feet (MBF), log scale, name the log rule used. If another unit of measure is used, provide details ▶ ..... ..... .....		
	(a) Quantity	(b) Cost or other basis
<b>2</b> Estimated quantity of timber and cost or other basis returnable through depletion at end of the preceding tax year . . . . .		
<b>3</b> Increase or decrease of quantity of timber required by way of correction . . . . .		
<b>4a</b> Addition for growth (number of years covered ▶ ..... ) . . . . .		
<b>b</b> Transfers from premerchantable timber account . . . . .		
<b>c</b> Transfers from deferred reforestation account . . . . .		
<b>5</b> Timber acquired during tax year . . . . .		
<b>6</b> Addition to capital during tax year . . . . .		
<b>7</b> Total at end of tax year, before depletion. Add lines 2 through 6 . . . . .		
<b>8</b> Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a) . . . . .		
<b>9</b> Quantity of timber cut during tax year . . . . .		
<b>10</b> Depletion for the current tax year. Multiply line 8 by line 9 . . . . .		
<b>11</b> Quantity of standing timber sold or otherwise disposed of during tax year. . . . .		
<b>12</b> Allowable as basis of sale. Multiply line 8 by line 11 . . . . .		
<b>13</b> Quantity of standing timber lost by fire or other cause during tax year . . . . .		
<b>14</b> Allowable basis of loss plus any excess amount where decrease in FMV (before and after the casualty) exceeds the standard depletion amount, but not the block basis (see instructions) . . . . .		
<b>15</b> Total reductions during tax year:		
<b>a</b> In column (a), add lines 9, 11, and 13 . . . . .		
<b>b</b> In column (b), add lines 10, 12, and 14 . . . . .		
<b>16</b> Net quantity and value at end of tax year. In column (a), subtract line 15a from line 7. In column (b), subtract line 15b from line 7 . . . . .		

**17** Quantity of cut timber that was sold as logs or other rough products . . . . .

**18 Section 631(a):**

**a** Are you electing, or have you made an election in a prior tax year that is in effect, to report gains or losses from the cutting of timber under section 631(a)? (see instructions) . . . . .  Yes  No

**b** Are you revoking your section 631(a) election (see instructions)? . . . . .  Yes  No

Effective date ▶

**Part III Profit or Loss From Land and Timber Sales** (see instructions)

**1** Name of block and title of account

**(Your Name) Timber Account**

**2** Location of property (by legal subdivisions or map surveys)

**(Legal description)**

<b>3a</b> Purchaser's name and address <b>(Buyer's name and address)</b>	<b>b</b> Date of sale  <b>MM/DD/YY</b>
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<b>4</b> Amount received: <b>a</b> In cash . . . . .	<b>37,000</b>
<b>b</b> In interest-bearing notes . . . . .	--
<b>c</b> In non-interest-bearing notes. . . . .	--

<b>5a</b> Amount of other consideration . . . . .	--
<b>b</b> Explain the nature of other consideration and how you determined the amount shown on line 5a: .....	

<b>6</b> Total amount received for property. Add lines 4a, 4b, 4c, and 5a. . . . .	<b>37,000</b>
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<b>7</b> Cost or other basis of property:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
<b>a</b> Forested land . . . . .	Acre			
<b>b</b> Nonforested land . . . . .	Acre			
<b>c</b> Improved land (describe) ▶ .....	Acre			
<b>d</b> Merchantable timber. Estimate in detail the quantity of merchantable timber on the date of sale or exchange. Include the quantity of timber in each species of timber by diameter at breast height (DBH) classes. State the log rule used if the unit of measure is thousand board feet (MBF), log scale. If another unit of measure is used, provide details. ▶ <u>Doyle</u> ..... ..... ..... .....	<b>Cord</b>	<b>390</b>	<b>\$20.08 / Cord</b>	<b>7,832</b>
	<b>MBF</b>	<b>112</b>	<b>\$237.03 / MBF</b>	<b>26,547</b>
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<b>e</b> Premerchantable timber. . . . .				--
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				--
<b>f</b> Improvements (list separately) ..... ..... .....				--
				--
				--
				--
<b>g</b> Mineral rights . . . . .				--
<b>h</b> Total cost or other basis. Add lines 7a through 7g . . . . .				<b>34,379</b>
<b>i</b> Direct sale expenses (cruising, marking, selling). . . . .				<b>350</b>
<b>8</b> Profit or loss. Subtract the sum of lines 7h and 7i from line 6 . . . . .				<b>2,271</b>



**SCHEDULE D  
(Form 1040)**

**Capital Gains and Losses**

OMB No. 1545-0074

**2009**

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).  
▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

Attachment  
Sequence No. **12**

Name(s) shown on return

Your social security number

**Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1					
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .					
3 <b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .					
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					
6 Short-term capital loss carryover. Enter the amount, if any, from line 10 of your <b>Capital Loss Carryover Worksheet</b> on page D-7 of the instructions . . . . .					( )
7 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .					

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8 <b>Merchantable timber</b>	<b>MM/DD/YY</b>	<b>MM/DD/YY</b>	<b>37,000</b>	<b>34,729</b>	<b>2,271</b>
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .					
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .					
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					
13 Capital gain distributions. See page D-2 of the instructions . . . . .					
14 Long-term capital loss carryover. Enter the amount, if any, from line 15 of your <b>Capital Loss Carryover Worksheet</b> on page D-7 of the instructions . . . . .					( )
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					

**EXAMPLE 2:** Say that instead of accepting the timber buyer's offer, you decide to take bids for your timber. A consulting forester solicits the bids, structures the sale as a Section 631(b) disposal with economic interest retained, and administers it for 10% of the proceeds. The best bid you receive is \$295 per MBF and \$25 per cord. Show how to calculate and report the adjustments to your timber basis and your proceeds from the sale.

- a. Allocate the value (cost) basis in your Merchantable Timber Subaccount between pulpwood and sawtimber:

Capital Account	Fair Market Value (FMV)	Proportion of Total FMV	Proportion of Basis
Pulpwood (590 cords x \$25 ea.) .....	\$ 14,750	0.3086	\$ 11,849
Sawtimber (112 MBF x \$295 ea.) .....	33,040	0.6914	26,547
Total.....	\$ 47,790	1.0000	\$ 38,396

- b. Calculate your depletion allowance and adjusted basis

- 1) Pulpwood depletion unit:  $\$11,849 \div 590 \text{ cord} = \$20.08 \text{ per cord}$
- 2) Sawtimber depletion unit:  $\$26,547 \div 112 \text{ MBF} = \$237.03 \text{ per MBF}$
- 3) Depletion allowance:  $(\$20.08 \text{ per cords} \times 390 \text{ cords}) + (\$237.03 \text{ per MBF} \times 112 \text{ MBF}) = \$34,379$
- 4) Update value basis:  $\$38,396 - \$34,379 = \$4,017$
- 5) Update pulpwood volume basis:  $590 \text{ cd} - 390 \text{ cd} = 200 \text{ cd}$
- 6) Update sawtimber volume basis:  $112 \text{ MBF} - 112 \text{ MBF} = 0 \text{ MBF}$
- 7) Form T, Part II

- c. Calculate your Section 1231 gain

- 1) Calculation:

\$ 42,790	Gross sale proceeds
- 4,279	Cost of the sale
- 34,379	Timber depletion allowance
<u>\$ 4,132</u>	Section 1231 gain

- 2) Form T, Part III; include a note that the income is reported on Form 4797

- 3) Form 4797

**Part II Timber Depletion** (see instructions)

**1** Name of block and title of account ▶ (Your Name) Merchantable Sawtimber Subaccount: Disposal of timber with economic interest retained

If you express timber quantity in thousand board feet (MBF), log scale, name the log rule used. If another unit of measure is used, provide details ▶		
	(a) Quantity	(b) Cost or other basis
<b>2</b> Estimated quantity of timber and cost or other basis returnable through depletion at end of the preceding tax year . . . . .	<b>590 cd, 112 MBF</b>	<b>38,396</b>
<b>3</b> Increase or decrease of quantity of timber required by way of correction . . . . .	--	
<b>4a</b> Addition for growth (number of years covered ▶ <u>0</u> ) . . . . .	--	
<b>b</b> Transfers from premerchantable timber account . . . . .	--	--
<b>c</b> Transfers from deferred reforestation account . . . . .	--	--
<b>5</b> Timber acquired during tax year . . . . .		--
<b>6</b> Addition to capital during tax year . . . . .		--
<b>7</b> Total at end of tax year, before depletion. Add lines 2 through 6 . . . . .	<b>590 cd, 112 MBF</b>	<b>38,396</b>
<b>8</b> Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a) . . . . .		<b>20.08/cd, 237.03/M</b>
<b>9</b> Quantity of timber cut during tax year . . . . .	--	
<b>10</b> Depletion for the current tax year. Multiply line 8 by line 9 . . . . .		--
<b>11</b> Quantity of standing timber sold or otherwise disposed of during tax year . . . . .	<b>390 cd, 112 MBF</b>	
<b>12</b> Allowable as basis of sale. Multiply line 8 by line 11 . . . . .		<b>34,379</b>
<b>13</b> Quantity of standing timber lost by fire or other cause during tax year . . . . .	--	
<b>14</b> Allowable basis of loss plus any excess amount where decrease in FMV (before and after the casualty) exceeds the standard depletion amount, but not the block basis (see instructions) . . . . .		--
<b>15</b> Total reductions during tax year:	<b>390 cd, 112 MBF</b>	
<b>a</b> In column (a), add lines 9, 11, and 13 . . . . .		
<b>b</b> In column (b), add lines 10, 12, and 14 . . . . .		<b>34,379</b>
<b>16</b> Net quantity and value at end of tax year. In column (a), subtract line 15a from line 7. In column (b), subtract line 15b from line 7 . . . . .	<b>200 cd</b>	<b>4,017</b>
<b>17</b> Quantity of cut timber that was sold as logs or other rough products . . . . .		
<b>18 Section 631(a):</b>		
<b>a</b> Are you electing, or have you made an election in a prior tax year that is in effect, to report gains or losses from the cutting of timber under section 631(a)? (see instructions) . . . . .	<input type="checkbox"/> Yes	<input type="checkbox"/> No
<b>b</b> Are you revoking your section 631(a) election (see instructions)? . . . . .	<input type="checkbox"/> Yes	<input type="checkbox"/> No
	Effective date ▶	

**Part III Profit or Loss From Land and Timber Sales** (see instructions)

**1** Name of block and title of account

**(Your Name) Timber Account**

**2** Location of property (by legal subdivisions or map surveys)

**(Legal description)**

<b>3a</b> Purchaser's name and address <b>(Buyer's name and address)</b>	<b>b</b> Date of sale  MM/DD/YY
<b>4</b> Amount received: <b>a</b> In cash . . . . .	<b>42,790</b>
<b>b</b> In interest-bearing notes . . . . .	--
<b>c</b> In non-interest-bearing notes. . . . .	--

<b>5a</b> Amount of other consideration . . . . .	--
<b>b</b> Explain the nature of other consideration and how you determined the amount shown on line 5a: .....	

**6** Total amount received for property. Add lines 4a, 4b, 4c, and 5a. . . . . **42,790**

<b>7</b> Cost or other basis of property:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
<b>a</b> Forested land . . . . .	Acre			
<b>b</b> Nonforested land . . . . .	Acre			
<b>c</b> Improved land (describe) ▶ .....	Acre			
<b>d</b> Merchantable timber. Estimate in detail the quantity of merchantable timber on the date of sale or exchange. Include the quantity of timber in each species of timber by diameter at breast height (DBH) classes. State the log rule used if the unit of measure is thousand board feet (MBF), log scale. If another unit of measure is used, provide details. ▶ <u>Doyle</u> ..... ..... ..... .....	<b>Cord</b>	<b>390</b>	<b>\$20.08 / Cord</b>	<b>7,832</b>
	<b>MBF</b>	<b>112</b>	<b>\$237.03 / MBF</b>	<b>26,547</b>
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<b>e</b> Premerchantable timber. . . . .				--
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<b>f</b> Improvements (list separately) ..... ..... .....				--
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				--
<b>g</b> Mineral rights . . . . .				--
<b>h</b> Total cost or other basis. Add lines 7a through 7g . . . . .				<b>34,379</b>
<b>i</b> Direct sale expenses (cruising, marking, selling). . . . .				<b>4,279</b>
<b>8</b> Profit or loss. Subtract the sum of lines 7h and 7i from line 6 . . . . .				<b>4,132</b>

**Sales of Business Property**  
**(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))**

▶ Attach to your tax return. ▶ See separate instructions.

Name(s) shown on return

Identifying number

(Your Name)

NNN-NN-NNNN

**1** Enter the gross proceeds from sales or exchanges reported to you for 2009 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) . . . . . **1** --

**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

<b>2</b>	<b>(a)</b> Description of property	<b>(b)</b> Date acquired (mo., day, yr.)	<b>(c)</b> Date sold (mo., day, yr.)	<b>(d)</b> Gross sales price	<b>(e)</b> Depreciation allowed or allowable since acquisition	<b>(f)</b> Cost or other basis, plus improvements and expense of sale	<b>(g)</b> Gain or (loss) Subtract (f) from the sum of (d) and (e)
	Merchantable Timber	MM/DD/YY	MM/DD/YY	42,790	--	38,658	4,132

**3** Gain, if any, from Form 4684, line 43 . . . . . **3**

**4** Section 1231 gain from installment sales from Form 6252, line 26 or 37 . . . . . **4**

**5** Section 1231 gain or (loss) from like-kind exchanges from Form 8824 . . . . . **5**

**6** Gain, if any, from line 32, from other than casualty or theft. . . . . **6**

**7** Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: . . . . . **7**

**Partnerships (except electing large partnerships) and S corporations.** Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

**Individuals, partners, S corporation shareholders, and all others.** If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

**8** Nonrecaptured net section 1231 losses from prior years (see instructions) . . . . . **8**

**9** Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions) . . . . . **9**

**Part II Ordinary Gains and Losses** (see instructions)

**10** Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):


**11** Loss, if any, from line 7 . . . . . **11** ( )

**12** Gain, if any, from line 7 or amount from line 8, if applicable . . . . . **12**

**13** Gain, if any, from line 31 . . . . . **13**

**14** Net gain or (loss) from Form 4684, lines 35 and 42a . . . . . **14**

**15** Ordinary gain from installment sales from Form 6252, line 25 or 36 . . . . . **15**

**16** Ordinary gain or (loss) from like-kind exchanges from Form 8824. . . . . **16**

**17** Combine lines 10 through 16 . . . . . **17**

**18** For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:

**a** If the loss on line 11 includes a loss from Form 4684, line 39, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions . . . . . **18a**

**b** Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14 . . . . . **18b**



**EXAMPLE 3:** Say that instead of selling your timber as stumpage, you hire a master logger to harvest it, cut it into sawlogs and pulpwood, and deliver the cut products to a sawmill that you specify. The consultant charges you \$600 for soliciting the bids; from them you know the standing timber was worth \$295 per MBF and \$25 per cord. The master logger charges you \$22,500. You receive \$390 per MBF and \$60 per cord for the delivered products. Show how to calculate and report your gains.

- a. Calculate your timber depletion allowance and adjusted basis
  - 1) See the Section 631(b) disposal example, above, for how to calculate your timber depletion allowance and adjust your timber basis
  - 2) Form T, Part II (Note lines 10–26 are a little different from the Section 631(b) disposal example; make your Section 631(a) election, Lines 27)
- b. Calculate your Section 1231 gain from holding the timber

1) Calculation:

<i>\$ 42,790 Timber FMV as of Jan. 1</i>
<i>– 600 Consultant charges</i>
<i><u>– 34,379 Timber depletion allowance</u></i>
<i>\$ 7,811 Section 1231 gain</i>

2) Form T, Part III

3) Form 4797

- c. Determine your gain from selling sawlogs and pulpwood

1) Calculation:

<i>\$ 67,080 Sale proceeds</i>
<i>– 42,790 Timber FMV</i>
<i><u>– 22,500 Master logger charges</u></i>
<i>\$ 1,790 Ordinary income</i>

2) Form 1040, Schedule C

**Part II Timber Depletion** (see instructions)

**1** Name of block and title of account ▶ (Your Name) Merchantable Sawtimber Subaccount: Cut standing timber and convert into products for sale (section 631(a) transaction)

If you express timber quantity in thousand board feet (MBF), log scale, name the log rule used. If another unit of measure is used, provide details ▶		
	(a) Quantity	(b) Cost or other basis
<b>2</b> Estimated quantity of timber and cost or other basis returnable through depletion at end of the preceding tax year . . . . .	<b>590 cd, 112 MBF</b>	<b>38,396</b>
<b>3</b> Increase or decrease of quantity of timber required by way of correction . . . . .	--	
<b>4a</b> Addition for growth (number of years covered ▶ <u>0</u> ) . . . . .	--	
<b>b</b> Transfers from premerchantable timber account . . . . .	--	--
<b>c</b> Transfers from deferred reforestation account . . . . .	--	--
<b>5</b> Timber acquired during tax year . . . . .		--
<b>6</b> Addition to capital during tax year . . . . .		--
<b>7</b> Total at end of tax year, before depletion. Add lines 2 through 6 . . . . .	<b>590 cd, 112 MBF</b>	<b>38,396</b>
<b>8</b> Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a) . . . . .		<b>20.08/cd, 237.03/M</b>
<b>9</b> Quantity of timber cut during tax year . . . . .	<b>390 cd, 112 MBF</b>	
<b>10</b> Depletion for the current tax year. Multiply line 8 by line 9 . . . . .		<b>34,379</b>
<b>11</b> Quantity of standing timber sold or otherwise disposed of during tax year . . . . .	--	
<b>12</b> Allowable as basis of sale. Multiply line 8 by line 11 . . . . .		--
<b>13</b> Quantity of standing timber lost by fire or other cause during tax year . . . . .	--	
<b>14</b> Allowable basis of loss plus any excess amount where decrease in FMV (before and after the casualty) exceeds the standard depletion amount, but not the block basis (see instructions) . . . . .		--
<b>15</b> Total reductions during tax year:	<b>390 cd, 112 MBF</b>	
<b>a</b> In column (a), add lines 9, 11, and 13 . . . . .		
<b>b</b> In column (b), add lines 10, 12, and 14 . . . . .		<b>34,379</b>
<b>16</b> Net quantity and value at end of tax year. In column (a), subtract line 15a from line 7. In column (b), subtract line 15b from line 7 . . . . .	<b>200 cd</b>	<b>4,017</b>
<b>17</b> Quantity of cut timber that was sold as logs or other rough products . . . . .		<b>390 cd, 112 MBF</b>
<b>18 Section 631(a):</b>		
<b>a</b> Are you electing, or have you made an election in a prior tax year that is in effect, to report gains or losses from the cutting of timber under section 631(a)? (see instructions) . . . . .	<input checked="" type="checkbox"/> <b>Yes</b>	<input type="checkbox"/> <b>No</b>
<b>b</b> Are you revoking your section 631(a) election (see instructions)? . . . . .	<input type="checkbox"/> <b>Yes</b>	<input type="checkbox"/> <b>No</b>
Effective date ▶		



**Part III Profit or Loss From Land and Timber Sales** (see instructions)

**1** Name of block and title of account

**(Your Name) Timber Account**

**2** Location of property (by legal subdivisions or map surveys)

**(Legal description)**

<b>3a</b> Purchaser's name and address <b>(YOUR name and address)</b>	<b>b</b> Date of sale  01/01/YY
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<b>4</b> Amount received: <b>a</b> In cash . . . . .	<b>42,790</b>
<b>b</b> In interest-bearing notes . . . . .	--
<b>c</b> In non-interest-bearing notes . . . . .	--

<b>5a</b> Amount of other consideration . . . . .	--
<b>b</b> Explain the nature of other consideration and how you determined the amount shown on line 5a: .....	

<b>6</b> Total amount received for property. Add lines 4a, 4b, 4c, and 5a. . . . .	<b>42,790</b>
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<b>7</b> Cost or other basis of property:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
<b>a</b> Forested land . . . . .	Acre			
<b>b</b> Nonforested land . . . . .	Acre			
<b>c</b> Improved land (describe) ▶ .....	Acre			

<b>d</b> Merchantable timber. Estimate in detail the quantity of merchantable timber on the date of sale or exchange. Include the quantity of timber in each species of timber by diameter at breast height (DBH) classes. State the log rule used if the unit of measure is thousand board feet (MBF), log scale. If another unit of measure is used, provide details. ▶ <u>Doyle</u> ..... ..... .....	<b>Cord</b>	<b>390</b>	<b>\$20.08 / Cord</b>	<b>7,832</b>
	<b>MBF</b>	<b>112</b>	<b>\$237.03 / MBF</b>	<b>26,547</b>
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<b>e</b> Premerchantable timber. . . . .				--
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<b>f</b> Improvements (list separately) ..... ..... .....				--
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<b>g</b> Mineral rights . . . . .				--
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<b>h</b> Total cost or other basis. Add lines 7a through 7g . . . . .	<b>34,379</b>
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<b>i</b> Direct sale expenses (cruising, marking, selling). . . . .	<b>600</b>
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<b>8</b> Profit or loss. Subtract the sum of lines 7h and 7i from line 6 . . . . .	<b>7,811</b>
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**Sales of Business Property**  
**(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))**

▶ **Attach to your tax return.** ▶ **See separate instructions.**

Name(s) shown on return <b>(Your Name)</b>	Identifying number <b>NNN-NN-NNNN</b>
---	--

**1** Enter the gross proceeds from sales or exchanges reported to you for 2009 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) . . . . . **1** --

**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	<b>Merchantable Timber</b>	<b>MM/DD/YY</b>	<b>01/01/YY</b>	<b>42,790</b>	--	<b>34,979</b>	<b>7,811</b>

3 Gain, if any, from Form 4684, line 43 . . . . .	<b>3</b>
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37 . . . . .	<b>4</b>
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824 . . . . .	<b>5</b>
6 Gain, if any, from line 32, from other than casualty or theft. . . . .	<b>6</b>
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: . . . . .	<b>7</b>
<p><b>Partnerships (except electing large partnerships) and S corporations.</b> Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.</p> <p><b>Individuals, partners, S corporation shareholders, and all others.</b> If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.</p>	
8 Nonrecaptured net section 1231 losses from prior years (see instructions) . . . . .	<b>8</b>
9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions) . . . . .	<b>9</b>

**Part II Ordinary Gains and Losses** (see instructions)

**10** Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):


11 Loss, if any, from line 7 . . . . .	<b>11</b>	
12 Gain, if any, from line 7 or amount from line 8, if applicable . . . . .	<b>12</b>	
13 Gain, if any, from line 31 . . . . .	<b>13</b>	
14 Net gain or (loss) from Form 4684, lines 35 and 42a . . . . .	<b>14</b>	
15 Ordinary gain from installment sales from Form 6252, line 25 or 36 . . . . .	<b>15</b>	
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824. . . . .	<b>16</b>	
17 Combine lines 10 through 16 . . . . .	<b>17</b>	
18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:		
a If the loss on line 11 includes a loss from Form 4684, line 39, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions . . . . .	<b>18a</b>	
b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14	<b>18b</b>	

**SCHEDULE C  
(Form 1040)**

**Profit or Loss From Business  
(Sole Proprietorship)**

OMB No. 1545-0074

**2009**

Attachment  
Sequence No. **09**

Department of the Treasury  
Internal Revenue Service (99)

▶ **Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.**  
▶ **Attach to Form 1040, 1040NR, or 1041.** ▶ **See Instructions for Schedule C (Form 1040).**

Name of proprietor (Your Name) Social security number (SSN) XXX-XX-XXXX

A Principal business or profession, including product or service (see page C-2 of the instructions) **B** Enter code from pages C-9, 10, & 11 1 1 3 0 0 0

**Timber management for profit**

C Business name. If no separate business name, leave blank. D Employer ID number (EIN), if any

E Business address (including suite or room no.) (Your Address) City, town or post office, state, and ZIP code

F Accounting method: (1)  Cash (2)  Accrual (3)  Other (specify)

G Did you "materially participate" in the operation of this business during 2009? If "No," see page C-3 for limit on losses  Yes  No

H If you started or acquired this business during 2009, check here

**Part I Income**

1	Gross receipts or sales. <b>Caution.</b> See page C-4 and check the box if: <ul style="list-style-type: none"> <li>This income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, or</li> <li>You are a member of a qualified joint venture reporting only rental real estate income not subject to self-employment tax. Also see page C-3 for limit on losses.</li> </ul>	<input type="checkbox"/>	1	67,080
2	Returns and allowances		2	--
3	Subtract line 2 from line 1		3	67,080
4	Cost of goods sold (from line 42 on page 2)		4	65,290
5	<b>Gross profit.</b> Subtract line 4 from line 3		5	1,790
6	Other income, including federal and state gasoline or fuel tax credit or refund (see page C-4)		6	--
7	<b>Gross income.</b> Add lines 5 and 6		7	1,790

**Part II Expenses.** Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense	18	
9	Car and truck expenses (see page C-4)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see page C-6):		
11	Contract labor (see page C-4)	11		20a	a Vehicles, machinery, and equipment	20a	
12	Depletion	12		20b	b Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-5)	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest:			24	Travel, meals, and entertainment:		
16a	a Mortgage (paid to banks, etc.)	16a		24a	a Travel	24a	
16b	b Other	16b		24b	b Deductible meals and entertainment (see page C-6)	24b	
17	Legal and professional services	17		25	Utilities	25	
18	<b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27	18		26	Wages (less employment credits)	26	
19	Tentative profit or (loss). Subtract line 28 from line 7	19		27	Other expenses (from line 48 on page 2)	27	
20	Expenses for business use of your home. Attach <b>Form 8829</b>	20		28		28	--
21	<b>Net profit or (loss).</b> Subtract line 30 from line 29.	21		29		29	1,790
22	<ul style="list-style-type: none"> <li>If a profit, enter on both <b>Form 1040, line 12</b>, and <b>Schedule SE, line 2</b>, or on <b>Form 1040NR, line 13</b> (if you checked the box on line 1, see page C-7). Estates and trusts, enter on <b>Form 1041, line 3</b>.</li> <li>If a loss, you <b>must</b> go to line 32.</li> </ul>	22		30		30	--
23	<ul style="list-style-type: none"> <li>If you checked 32a, enter the loss on both <b>Form 1040, line 12</b>, and <b>Schedule SE, line 2</b>, or on <b>Form 1040NR, line 13</b> (if you checked the box on line 1, see the line 31 instructions on page C-7). Estates and trusts, enter on <b>Form 1041, line 3</b>.</li> <li>If you checked 32b, you <b>must</b> attach <b>Form 6198</b>. Your loss may be limited.</li> </ul>	23		31		31	1,790
32a	<input type="checkbox"/> All investment is at risk.	32a		32b	<input type="checkbox"/> Some investment is not at risk.	32b	

**Part III Cost of Goods Sold** (see page C-8)

33 Method(s) used to value closing inventory: a  Cost b  Lower of cost or market c  Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation  Yes  No

Table with 3 columns: Description, Line Number, and Amount. Rows include Inventory at beginning of year, Purchases less cost of items withdrawn for personal use, Cost of labor, Materials and supplies, Other costs (65,290), Add lines 35 through 39 (65,290), Inventory at end of year, and Cost of goods sold (65,290).

**Part IV Information on Your Vehicle.** Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-5 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ \_\_\_/\_\_\_/\_\_\_

44 Of the total number of miles you drove your vehicle during 2009, enter the number of miles you used your vehicle for: a Business \_\_\_\_\_ b Commuting (see instructions) \_\_\_\_\_ c Other \_\_\_\_\_

45 Was your vehicle available for personal use during off-duty hours?  Yes  No

46 Do you (or your spouse) have another vehicle available for personal use?  Yes  No

47a Do you have evidence to support your deduction?  Yes  No

b If "Yes," is the evidence written?  Yes  No

**Part V Other Expenses.** List below business expenses not included on lines 8-26 or line 30.

Table with 3 columns: Description, Line Number, and Amount. Multiple rows for listing other expenses.

48 Total other expenses. Enter here and on page 1, line 27 48

# Instructions for Form T (Timber)

(Rev. December 2005)

## Forest Activities Schedule

Section references are to the Internal Revenue Code unless otherwise noted.



Department of the Treasury  
Internal Revenue Service

## What's New

- If you are required to file Form T (see *Who Must File* below), you can elect to deduct a limited amount of qualifying reforestation costs (up to \$10,000 per qualified timber property per year) by entering an amount on Part IV, line 4a. For more information, see the instructions on page 3 and section 194.

Even if you are not required to file Form T, you can elect to deduct on your tax return up to \$10,000 of qualifying reforestation costs per year for each qualifying timber property. Attach a statement to your return for the year in which reforestation costs were paid or incurred and provide the following information.

1. The Unique Stand Identifier;
  2. The total number of acres reforested during the tax year;
  3. The nature of the reforestation treatments; and
  4. The total amounts of the qualified reforestation expenses eligible to be amortized under section 194(a) or deducted under section 194(b).
- Certain timber producers who hold not more than 500 acres of qualified timber property located in the Gulf Opportunity Zone for Hurricane Katrina, Rita, or Wilma are allowed an increased reforestation expense deduction. For more information, see Pub. 4492, *Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma*.
  - If you previously elected for any tax year ending before October 23, 2004, to treat the cutting of timber as a sale or exchange under section 631(a), you may revoke this election without the consent of the IRS for any tax year ending after October 22, 2004. The prior election (and revocation) is disregarded for

purposes of making a subsequent election.

If you are required to file Form T, you may revoke this election by checking the "Yes" box in Part II, line 18b. If you are not required to file Form T, attach a statement to your return.

- Outright sales of timber by landowners will qualify for capital gains treatment after 2004. For more information, see the instructions for Part III.

## General Instructions

### Purpose of Form

Use Form T (Timber), Forest Activities Schedule, to provide information on timber accounts when a sale or deemed sale under sections 631(a), 631(b), or other exchange has occurred during the tax year.

For additional information regarding federal income tax rules for reporting forest-related activities, see the following publications:

- Pub. 225, *Farmer's Tax Guide*,
- Pub. 535, *Business Expenses*, and
- Pub. 544, *Sales and Other Dispositions of Assets*.

### Who Must File

Complete and attach Form T to your income tax return **only** if you:

- Claim a deduction for depletion of timber,
- Elect under section 631(a) to treat the cutting of timber as a sale or exchange, or
- Make an outright sale of timber under section 631(b).

Complete Form T in accordance with sections 194, 611, 631, and 1231, and the related regulations.

**Exceptions.** You are not required to file Form T if you only have an occasional sale of timber (one or two

sales every 3 or 4 years). However, you must maintain adequate records of these transactions and other timber-related activities during the year, as discussed in *Recordkeeping*, below. These transactions may be treated as an investment for tax purposes if your property is not held for use in a trade or business.



*If you are required to file Form T for the current tax year (as discussed above under Who Must File), complete all the parts of the form that apply. However, if you are not required to file Form T but have other forest-related activities (reportable in Part I (Acquisitions), Part IV (Reforestation and Timber Stand Activities), or Part V (Land Ownership), complete and attach the appropriate tax form (for example, Form 4562 to claim depreciation) or statement to your income tax return to report these activities. Also, maintain adequate records as discussed in Recordkeeping, below.*

## Recordkeeping

**Maps.** Do not attach maps of your timber properties to Form T to substantiate any claimed deduction for depletion of timber. Instead, you are required to retain records sufficient to substantiate your right to claim the deduction, including a map (where necessary) to show clearly the location(s) of timber and land acquired, timber cut, and timber and land sold for as long as their contents may become material in the administration of any Internal Revenue law.

**Other business records.** You must also keep business records to support other items reported on your tax return such as expenses incurred during the tax year for road construction and for building drainage structures.

**Note.** Maintain separate cost accounts for road construction and drainage structures, such as ditches and canals. For example, for roads constructed for logging timber or to conduct management activities on fee land or land held under long-term cutting contracts, maintain records showing the number of miles constructed and how the total expenditures were either (a) capitalized, (b) amortized, or (c) claimed as an ordinary expense.

Keep separate records for each unique stand identifier, depletion account, block, tract, or geographic area tributary to a mill or mill complex. Also, keep records that verify the basis in property for as long as they are needed to figure the basis of the original or replacement property.

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## Specific Instructions

### Part I. Acquisitions

Complete this part if you acquired timber, timber-cutting contracts, or forest land during the tax year, whether the acquisition was by purchase, exchange, gift, or inheritance.

#### How to Report Acquisitions

Report acquisitions during the tax year (whether taxable or not) of timber, timber-cutting contracts, or forest land. Report separately each acquisition of \$10,000 or more.

You may combine acquisitions of less than \$10,000 for each account and omit lines 2 and 3. For an acquisition by gift or inheritance, skip lines 4 through 7.

For an acquisition or lease of timber-cutting rights on a pay-as-cut basis, except for those under which all cutting is completed within the tax year, do not complete lines 4 through 8. Instead, list the provisions of the purchase or lease agreement, including the number of years from the effective date to the expiration date, annual minimum cut or payment, and the payment rates for different kinds of timber and forest products. Follow the format of lines 1 through 9 on additional sheets if necessary.

### What Is Included in Each Account

You must include your timber in one or more accounts. Generally, each account must include all your timber that is located in one "block." A block may be:

1. An operational unit that includes all timber that would logically go to a single point of manufacture,
2. A logging unit that includes all timber that would logically be removed by a single logging development, or
3. An area established by the geographical or political boundaries of logical management areas. Timber acquired under a cutting contract may not be included in part of a block, but should be kept in a separate account.

For exceptional cases, the timber in a given block may be divided into two or more accounts. See Regulations section 1.611-3(d) for more information.

### Part II. Timber Depletion

Complete this part for each timber account that has changed in quantity or dollar amount. A timber account may change in quantity or dollar amount as a result of acquisitions, dispositions, the cutting of timber, capitalized expenditures, casualty or theft losses, corrections, additions for growth, and transfers from other accounts. Use this part to figure depletion for timber cut or the basis for timber sold or lost during the tax year. A depletion schedule is required to be maintained for all types of timber ownership.

#### Lines 1 through 6

Provide data for each timber account separately. Account for any changes that have occurred during the tax year. Attach as many additional pages as needed. If you deplete on a block basis, combine new purchases with the opening balances and use the average depletion rate shown on line 8, column (b), for all timber cut or sold, regardless of how long held.

#### Line 14, column (b)

The casualty loss limitation is determined by the decrease in fair market value (FMV) of the Single Identifiable Property (block) before

and after the casualty event, not to exceed the basis in the affected block. Keep FMV appraisals in your records to support the claimed loss (see *Recordkeeping*, earlier).

#### Line 18a

If you are making the 631(a) election, or have made the election in a prior tax year, check the "Yes" box on line 18a.

**Note.** The 631(a) election cannot be made on an amended return.

You must maintain the following records.

#### Adjusted basis for depletion.

Maintain records that show the adjusted basis for depletion, fair market value (FMV), and gain or loss for each sale or exchange of standing timber for which you have a section 631(a) election. The records must show the adjusted basis for depletion and the FMV of the timber as of the first day of the tax year in which timber was cut. The records must show these amounts by species and unit rates if these transactions are reported on a species basis. The gain or loss on standing timber is reported on Form 4797, Sales of Business Property.

**Date of acquisition.** The records must provide the date of acquisition of timber that was cut in the tax year, if acquired after March 1, 1913; the quantity of timber remaining (adjusted for growth, correction of estimates, changes in use, and any change in the log rule or other measure used); and the adjusted basis at the beginning of the tax year. The records must state the acreage cut, the amount of timber cut from the applicable block during the tax year, and the log rule or other method used to determine the quantity of timber cut. If depletion accounts are kept by separate tracts or purchases, give the information separately for each tract or timber purchase.

If an average depletion rate based on the average value or cost of a timber block was used in earlier years, the adjusted basis referred to in section 631(a) is the average basis shown on line 8, column (b), after adjustment.

**Characteristics of the timber.** The records must describe in detail the characteristics of the timber that



# Instructions for Form T (Timber)

(Rev. December 2005)

## Forest Activities Schedule

Section references are to the Internal Revenue Code unless otherwise noted.

### What's New

- If you are required to file Form T (see *Who Must File* below), you can elect to deduct a limited amount of qualifying reforestation costs (up to \$10,000 per qualified timber property per year) by entering an amount on Part IV, line 4a. For more information, see the instructions on page 3 and section 194.

Even if you are not required to file Form T, you can elect to deduct on your tax return up to \$10,000 of qualifying reforestation costs per year for each qualifying timber property. Attach a statement to your return for the year in which reforestation costs were paid or incurred and provide the following information.

1. The Unique Stand Identifier;
  2. The total number of acres reforested during the tax year;
  3. The nature of the reforestation treatments; and
  4. The total amounts of the qualified reforestation expenses eligible to be amortized under section 194(a) or deducted under section 194(b).
- Certain timber producers who hold not more than 500 acres of qualified timber property located in the Gulf Opportunity Zone for Hurricane Katrina, Rita, or Wilma are allowed an increased reforestation expense deduction. For more information, see Pub. 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma.
  - If you previously elected for any tax year ending before October 23, 2004, to treat the cutting of timber as a sale or exchange under section 631(a), you may revoke this election without the consent of the IRS for any tax year ending after October 22, 2004. The prior election (and revocation) is disregarded for

purposes of making a subsequent election.

If you are required to file Form T, you may revoke this election by checking the "Yes" box in Part II, line 18b. If you are not required to file Form T, attach a statement to your return.

- Outright sales of timber by landowners will qualify for capital gains treatment after 2004. For more information, see the instructions for Part III.

### General Instructions

#### Purpose of Form

Use Form T (Timber), Forest Activities Schedule, to provide information on timber accounts when a sale or deemed sale under sections 631(a), 631(b), or other exchange has occurred during the tax year.

For additional information regarding federal income tax rules for reporting forest-related activities, see the following publications:

- Pub. 225, Farmer's Tax Guide,
- Pub. 535, Business Expenses, and
- Pub. 544, Sales and Other Dispositions of Assets.

#### Who Must File

Complete and attach Form T to your income tax return **only** if you:

- Claim a deduction for depletion of timber,
- Elect under section 631(a) to treat the cutting of timber as a sale or exchange, or
- Make an outright sale of timber under section 631(b).

Complete Form T in accordance with sections 194, 611, 631, and 1231, and the related regulations.

**Exceptions.** You are not required to file Form T if you only have an occasional sale of timber (one or two

sales every 3 or 4 years). However, you must maintain adequate records of these transactions and other timber-related activities during the year, as discussed in *Recordkeeping*, below. These transactions may be treated as an investment for tax purposes if your property is not held for use in a trade or business.



*If you are required to file Form T for the current tax year (as discussed above under Who Must File), complete all the parts of the form that apply. However, if you are not required to file Form T but have other forest-related activities (reportable in Part I (Acquisitions), Part IV (Reforestation and Timber Stand Activities), or Part V (Land Ownership), complete and attach the appropriate tax form (for example, Form 4562 to claim depreciation) or statement to your income tax return to report these activities. Also, maintain adequate records as discussed in Recordkeeping, below.*

### Recordkeeping

**Maps.** Do not attach maps of your timber properties to Form T to substantiate any claimed deduction for depletion of timber. Instead, you are required to retain records sufficient to substantiate your right to claim the deduction, including a map (where necessary) to show clearly the location(s) of timber and land acquired, timber cut, and timber and land sold for as long as their contents may become material in the administration of any Internal Revenue law.

**Other business records.** You must also keep business records to support other items reported on your tax return such as expenses incurred during the tax year for road construction and for building drainage structures.

**Note.** Maintain separate cost accounts for road construction and drainage structures, such as ditches and canals. For example, for roads constructed for logging timber or to conduct management activities on fee land or land held under long-term cutting contracts, maintain records showing the number of miles constructed and how the total expenditures were either (a) capitalized, (b) amortized, or (c) claimed as an ordinary expense.

Keep separate records for each unique stand identifier, depletion account, block, tract, or geographic area tributary to a mill or mill complex. Also, keep records that verify the basis in property for as long as they are needed to figure the basis of the original or replacement property.

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## Specific Instructions

### Part I. Acquisitions

Complete this part if you acquired timber, timber-cutting contracts, or forest land during the tax year, whether the acquisition was by purchase, exchange, gift, or inheritance.

#### How to Report Acquisitions

Report acquisitions during the tax year (whether taxable or not) of timber, timber-cutting contracts, or forest land. Report separately each acquisition of \$10,000 or more.

You may combine acquisitions of less than \$10,000 for each account and omit lines 2 and 3. For an acquisition by gift or inheritance, skip lines 4 through 7.

For an acquisition or lease of timber-cutting rights on a pay-as-cut basis, except for those under which all cutting is completed within the tax year, do not complete lines 4 through 8. Instead, list the provisions of the purchase or lease agreement, including the number of years from the effective date to the expiration date, annual minimum cut or payment, and the payment rates for different kinds of timber and forest products. Follow the format of lines 1 through 9 on additional sheets if necessary.

### What Is Included in Each Account

You must include your timber in one or more accounts. Generally, each account must include all your timber that is located in one "block." A block may be:

1. An operational unit that includes all timber that would logically go to a single point of manufacture,
2. A logging unit that includes all timber that would logically be removed by a single logging development, or
3. An area established by the geographical or political boundaries of logical management areas. Timber acquired under a cutting contract may not be included in part of a block, but should be kept in a separate account.

For exceptional cases, the timber in a given block may be divided into two or more accounts. See Regulations section 1.611-3(d) for more information.

### Part II. Timber Depletion

Complete this part for each timber account that has changed in quantity or dollar amount. A timber account may change in quantity or dollar amount as a result of acquisitions, dispositions, the cutting of timber, capitalized expenditures, casualty or theft losses, corrections, additions for growth, and transfers from other accounts. Use this part to figure depletion for timber cut or the basis for timber sold or lost during the tax year. A depletion schedule is required to be maintained for all types of timber ownership.

#### Lines 1 through 6

Provide data for each timber account separately. Account for any changes that have occurred during the tax year. Attach as many additional pages as needed. If you deplete on a block basis, combine new purchases with the opening balances and use the average depletion rate shown on line 8, column (b), for all timber cut or sold, regardless of how long held.

#### Line 14, column (b)

The casualty loss limitation is determined by the decrease in fair market value (FMV) of the Single Identifiable Property (block) before

and after the casualty event, not to exceed the basis in the affected block. Keep FMV appraisals in your records to support the claimed loss (see *Recordkeeping*, earlier).

#### Line 18a

If you are making the 631(a) election, or have made the election in a prior tax year, check the "Yes" box on line 18a.

**Note.** The 631(a) election cannot be made on an amended return.

You must maintain the following records.

#### Adjusted basis for depletion.

Maintain records that show the adjusted basis for depletion, fair market value (FMV), and gain or loss for each sale or exchange of standing timber for which you have a section 631(a) election. The records must show the adjusted basis for depletion and the FMV of the timber as of the first day of the tax year in which timber was cut. The records must show these amounts by species and unit rates if these transactions are reported on a species basis. The gain or loss on standing timber is reported on Form 4797, Sales of Business Property.

**Date of acquisition.** The records must provide the date of acquisition of timber that was cut in the tax year, if acquired after March 1, 1913; the quantity of timber remaining (adjusted for growth, correction of estimates, changes in use, and any change in the log rule or other measure used); and the adjusted basis at the beginning of the tax year. The records must state the acreage cut, the amount of timber cut from the applicable block during the tax year, and the log rule or other method used to determine the quantity of timber cut. If depletion accounts are kept by separate tracts or purchases, give the information separately for each tract or timber purchase.

If an average depletion rate based on the average value or cost of a timber block was used in earlier years, the adjusted basis referred to in section 631(a) is the average basis shown on line 8, column (b), after adjustment.

**Characteristics of the timber.** The records must describe in detail the characteristics of the timber that



affect its value, such as total quantity, species, quality, quantity per acre, size of the average tree, logging conditions, and distance to markets.

**Valuation evidence.** The records must provide evidence in the form of actual sales of comparable timber as of the valuation date, along with other valuation evidence used. Include a computation showing the difference between the cost (excluding timber or stumpage cost) and value of the primary wood product (logs or other roundwood, chips, etc.) at the mill or plant. Give detailed evidence that permits a comparison with the timber on which you report a value.

**Additional information.** The records must include the following additional information:

1. Location of the sawmill, log market, or other point of delivery of the logs or wood to the user or buyer.
2. The total MBF, log scale, cords, or other units of timber cut, and the length and diameter of the average log or the average number of units per tree.
3. The percentage of rough lumber grades, by species, manufactured from the timber during the year, or, if cut timber is sold as logs, the percentage of log grades, by species.

**Timber owned or held under a contract right to cut.** Show the amount of timber owned, or held under a contract right to cut, for a period of more than 1 year. Show separately the quantity of timber cut that was held for less than 1 year. The scale of logs purchased during the year must be shown by species and quantity and excluded from the quantity shown as cut under section 631(a) in Part II, line 17. Also show the number, cost, and point of delivery of purchased logs by species and grade.

### Line 18b

If you are revoking your 631(a) election, check the "Yes" box.

If you made a section 631(a) election for any tax year ending before October 23, 2004, you can revoke that election without the consent of the IRS for any tax year ending after October 22, 2004. The prior election (and revocation) is

disregarded for purposes of making a subsequent election. Unless this special rule applies, or the election was made for a tax year beginning before 1987, you can only revoke a section 631(a) election with IRS consent.

## Part III. Profit or Loss From Land and Timber Sales

Complete this part to report all dispositions of timber, timber-cutting contracts, or forest land during the tax year (whether taxable or not). Do not report dispositions by gift or distributions made by an estate or to a beneficiary.

Report each sale involving total consideration of \$10,000 or more. You may combine sales of less than \$10,000 for each timber or land account and omit lines 2 and 3 for each combined small sale.

**Outright sales of timber after December 31, 2004.** New rules under section 631(b) allow the landowner to treat outright sales of timber after 2004 as capital gain. The new rules extending capital gains treatment to outright sales of timber are similar to certain disposals of timber under a contract with a retained economic interest. However, for outright sales, the date of disposal is not deemed to be the date timber is cut because the owner may elect to treat the payment date as the date of disposal. For more information, see section 631(b) and Pub. 544.

**Timber-cutting contract.** For a sale or lease of timber-cutting rights on a pay-as-cut basis, that will be paid for at intervals during the cutting period according to the number of units cut, complete lines 4, 7, and 8, only for accounts that must be reported on your current year income tax return.

Instead of completing lines 5a, 5b, and 6, briefly state the provisions of the sale or lease agreement, including the number of years from the effective date to the expiration date, annual minimum cut or payment, and the payment rates for the different kinds of timber and forest products. You may combine small sales or leases of timber-cutting rights on a pay-as-cut basis that were

completed within the tax year. Follow the format of lines 1 through 8 on additional sheets if necessary.

## Part IV. Reforestation and Timber Stand Activities

Summarize your expenditures for reforestation and timber stand activities during the tax year. Timber stand activities include all silvicultural prescriptions (such as burning, spraying, and thinning) applied to a timber stand regardless of age.

### Line 4a. Reforestation Expenses

By entering an amount on this line, you are indicating that you have elected to deduct qualifying reforestation expenses that were paid or incurred after October 22, 2004, for each qualified timber property under section 194(b). You must complete line 1 of Part IV listing the following:

- The account, block, tract, area or stand identification number for each qualified timber property (QTP);
- The kind of activity (burning, chopping, spraying, planting, seeding, thinning, pruning, fertilizing, etc.);
- The number of acres treated; and
- The total expenditures.

The aggregate amount of reforestation expenses which can be claimed on line 4a for any tax year cannot exceed \$10,000 (\$5,000 if your filing status is married filing separately) for each qualified timber property for any tax year. The remaining costs (line 4b) can be amortized over an 84-month period using the half-year convention under section 194(a). For more information on reforestation costs, see Pub. 535.

If you do not elect to deduct reforestation expenses under section 194(b), all reforestation expenses will be capitalized in a deferred timber depletion account.

Reforestation expenses are direct costs incurred for reforestation by planting or artificial or natural seeding. This includes costs for the preparation of the site, of seeds or seedlings, and for labor and tools, including depreciation of equipment such as tractors, trucks, tree planters,

and similar machines used in planting or seeding.

**Reimbursements under governmental reforestation cost-sharing programs.** If you have been reimbursed under any governmental reforestation cost-sharing program, you may not claim these expenses unless the amount reimbursed has been included in your income.

**Qualified timber property (QTP).** Any qualified timber property subject to section 194(b) may not be combined with any other qualified timber property account (depletion block) for which depletion is allowed or for casualty losses (that is, lines 13 and 14 of Part II) or other purposes. The qualified timber property account must be maintained until after the timber is disposed of through sale, harvest, or other transaction.

For each qualified timber property (QTP), keep detailed information to support reforestation costs, showing treatments and dates of application. Each qualified timber property is required to have a unique stand identifier. Retain this information for your records. Report expenses such as supplies, labor, overhead, transportation, tools, and depreciation on equipment.

**Site preparation.** Report all expenses incurred during the tax year for preparing the land for planting or seeding (including natural seeding). Include expenses for clearing the land of brush and culling trees by burning, disking, chopping, shearing and piling, spraying with herbicides, or other measures taken to aid successful site reforestation. Report this information separately for each unique stand identifier, depletion account, block, tract, or operating area tributary to a mill or mill

complex. Report contract work separately from your employees' work.

**Planting or seeding.** Report the expenses you incurred during the tax year for planting seedlings or sowing seed to reforest the land. Report this information separately for each unique stand identifier, depletion account, block, tract, or operating area tributary to a mill or mill complex. Report contract work separately from your employees' work.

**Other silvicultural activities.** Report all expenditures that must be capitalized and items that you elect to capitalize. Also, list on a separate attachment items that are treated as current deductions (including, but not limited to, weed control, pruning, fertilization, thinning, insect and disease control). Report this information separately for each unique stand identifier, depletion account, block, tract, or operating area tributary to a mill or mill complex. Report contract work separately from your employees' work.

For more information, see section 194 and Regulations section 1.194-3.

## Part V. Land Ownership

Complete this part to show all changes in your land account, including sales or exchanges, during the tax year. Attach as many additional sheets as needed, following the format of lines 1 through 6.

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### Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States.

You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Section 6109 requires return preparers to provide their identifying numbers on the return.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

<b>Recordkeeping</b> . . . . .	34 hr., 12 min.
<b>Learning about the law or the form</b> . . . . .	42 min.
<b>Preparing and sending the form to the IRS</b> . . . . .	1 hr., 17 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

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## Forest Activities Schedule

▶ **Attach to your tax return.**      ▶ **See separate instructions.**

For tax year ending ....., 20 .....

Identifying number

**Part I Acquisitions**

**1** Name of block and title of account

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**2** Location of property (by legal subdivisions or map surveys)

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**3a** Name and address of seller or person from whom property was acquired

**b** Date acquired

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**4** Amount paid: **a** In cash . . . . .

**b** In interest-bearing notes . . . . .

**c** In non-interest-bearing notes . . . . .

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**5a** Amount of other consideration . . . . .

**b** Explain the nature of other consideration and how you determined the amount shown on line 5a.

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**6** Legal expenses . . . . .

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**7** Cruising, surveying, and other acquisition expenses . . . . .

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**8** Total cost or other basis of property. Add lines 4a through 7 . . . . .

9 Allocation of total cost or other basis on books:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
<b>a</b> Forested land . . . . .	Acre			
<b>b</b> Other unimproved land . . . . .	Acre			
<b>c</b> Improved land (describe) ▶ .....	Acre			
<b>d</b> Merchantable timber. Estimate the quantity of merchantable timber present on the acquisition date (see Regulations section 1.611-3(e)). Details of the timber estimate, made for purposes of the acquisition, should be available if your return is examined.				
<b>e</b> Premerchantable timber. Make an allocation here only if it is a factor in the total cost or value of the land.				
<b>f</b> Improvements (list separately) ..... ..... ..... .....				
<b>g</b> Mineral rights . . . . .				
<b>h</b> Total cost or other basis (same amount as line 8). Add lines 9a through 9g . . . . .				

**Part II Timber Depletion** (see instructions)

**1** Name of block and title of account ▶ .....

If you express timber quantity in thousand board feet (MBF), log scale, name the log rule used. If another unit of measure is used, provide details ▶ ..... ..... .....		
	(a) Quantity	(b) Cost or other basis

**2** Estimated quantity of timber and cost or other basis returnable through depletion at end of the preceding tax year . . . . .

**3** Increase or decrease of quantity of timber required by way of correction . . . . .

**4a** Addition for growth (number of years covered ▶ ..... ) . . . . .

**b** Transfers from premerchutable timber account . . . . .

**c** Transfers from deferred reforestation account . . . . .

**5** Timber acquired during tax year . . . . .

**6** Addition to capital during tax year . . . . .

**7** Total at end of tax year, before depletion. Add lines 2 through 6 . . . . .

**8** Unit rate returnable through depletion, or basis of sales or losses. Divide line 7, column (b), by line 7, column (a) . . . . .

**9** Quantity of timber cut during tax year . . . . .

**10** Depletion for the current tax year. Multiply line 8 by line 9 . . . . .

**11** Quantity of standing timber sold or otherwise disposed of during tax year. . . . .

**12** Allowable as basis of sale. Multiply line 8 by line 11 . . . . .

**13** Quantity of standing timber lost by fire or other cause during tax year . . . . .

**14** Allowable basis of loss plus any excess amount where decrease in FMV (before and after the casualty) exceeds the standard depletion amount, but not the block basis (see instructions) . . . . .

**15** Total reductions during tax year:  
**a** In column (a), add lines 9, 11, and 13 . . . . .

**b** In column (b), add lines 10, 12, and 14 . . . . .

**16** Net quantity and value at end of tax year. In column (a), subtract line 15a from line 7. In column (b), subtract line 15b from line 7 . . . . .

**17** Quantity of cut timber that was sold as logs or other rough products . . . . .

**18 Section 631(a):**

**a** Are you electing, or have you made an election in a prior tax year that is in effect, to report gains or losses from the cutting of timber under section 631(a)? (see instructions) . . . . .  **Yes**  **No**

**b** Are you revoking your section 631(a) election (see instructions)? . . . . .  **Yes**  **No**

Effective date ▶

**Part III Profit or Loss From Land and Timber Sales** (see instructions)

**1** Name of block and title of account

**2** Location of property (by legal subdivisions or map surveys)

**3a** Purchaser's name and address **b** Date of sale

**4** Amount received: **a** In cash . . . . .  
**b** In interest-bearing notes . . . . .  
**c** In non-interest-bearing notes. . . . .

**5a** Amount of other consideration . . . . .  
**b** Explain the nature of other consideration and how you determined the amount shown on line 5a:  
 .....

**6** Total amount received for property. Add lines 4a, 4b, 4c, and 5a. . . . .

7 Cost or other basis of property:	Unit	Number of units	Cost or other basis per unit	Total cost or other basis
<b>a</b> Forested land . . . . .	Acre			
<b>b</b> Nonforested land . . . . .	Acre			
<b>c</b> Improved land (describe) ▶ .....	Acre			
<b>d</b> Merchantable timber. Estimate in detail the quantity of merchantable timber on the date of sale or exchange. Include the quantity of timber in each species of timber by diameter at breast height (DBH) classes. State the log rule used if the unit of measure is thousand board feet (MBF), log scale. If another unit of measure is used, provide details. ▶ .....				
<b>e</b> Premerchantable timber. . . . .				
<b>f</b> Improvements (list separately) ..... ..... .....				
<b>g</b> Mineral rights . . . . .				
<b>h</b> Total cost or other basis. Add lines 7a through 7g . . . . .				
<b>i</b> Direct sale expenses (cruising, marking, selling). . . . .				

**8** Profit or loss. Subtract the sum of lines 7h and 7i from line 6 . . . . .

**Part IV Reforestation and Timber Stand Activities** (see instructions)

Account, block, tract, area, or stand ID for each Qualified Timber Property (QTP)	Kind of activity (burning, chopping, spraying, planting, seeding, thinning, pruning, fertilizing, etc.)	Number of acres treated	Total expenditures
<b>1</b>			
<b>2</b> Total . . . . .			
<b>3</b> Total reforestation expenses . . . . .			
<b>4a</b> Amount to be expensed under section 194(b). (See instructions for limitations) . . . . .			
<b>b</b> Amount to be amortized under IRC 194(a), including remaining reforestation expenditures not expensed under section 194(b) . . . . .			

**Part V Land Ownership**

Show all changes in land accounts. Attach as many additional sheets as needed, following the format of lines 1 through 6.

1 Name of block and title of account ▶ ..... .....	Acres	Total cost or other basis. Give amount of March 1, 1913 appreciation, if included	Average rate per acre
<b>2</b> Balance at beginning of year . . . . .			
<b>3</b> Acquisitions during year. . . . .			
<b>4</b> Sales during year . . . . .			
<b>5</b> Other changes. . . . .			
<b>6</b> Balance at end of year. Add lines 2 and 3, subtract line 4 and add or subtract line 5 . . . . .			

**Additional Information.**

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