
Appendix D. Annotations for IRS Form T (Timber)

These annotations supplement the instructions included on Internal Revenue Service (IRS) Form T itself and in the accompanying IRS instructions for Form T. You should read those sources first. These annotations provide additional detail focusing on timber accounts.

Purpose. The purpose of IRS Form T is to provide information on timber accounts for your records and to be filed with your tax return when required. You are encouraged to complete Form T whether or not you are required to file it.

Who Must File. Complete and attach IRS Form T to your tax return only if you (1) claim a deduction for depletion of cut timber, or the allowable basis of timber disposed of on the stump under IRC section 631(b); (2) elect under IRC section 631(a) to treat the cutting of timber as a sale or exchange; or (3) make an outright sale of timber under section 631(b), that is, timber held for use in a trade or business, or primarily for sale to customers in the ordinary course of a trade or business.

Exceptions to Filing Requirement. If your timber is held as an investment, not as part of a business, you are not required to file IRS Form T. This will be the case if you only make an occasional sale of timber (one or two sales every 3 or 4 years). You are, however, required to maintain records which, at a minimum, provide the information included on Form T. Thus, it is recommended that you complete the applicable Parts of Form T even if you are not required to file it with your return for the current tax year. The completed form should be maintained in your records

Recordkeeping Requirements. The information entered on IRS Form T is summary information based on the detailed records you need to keep to justify the information entered on Form T. Records dealing with the basis of assets must be maintained for as long as you own the asset and at least three years after the assets are disposed of. If you plan on gifting your forest land your basis passes to the recipient. They will need your records to establish their accounts.

Entries on IRS Form T

Identification

Name(s) as shown on return

Enter the name of the taxpayer or business with which the forest land is associated. If the form is attached to IRS Form 1040 enter the taxpayer's name and that of the spouse if jointly owned. If the form is attached to a business schedule, enter the name of the business as recorded in IRS records and shown on the business tax return.

Identifying number

Enter the employer identification number for a business, or the social security number of the person whose name appears first in the "names" block.

Part I. Acquisitions

This part of IRS Form T is used to record the acquisition of timber, timber-cutting contracts, or forest land during the tax year, whether the acquisition was by purchase, exchange, gift, or inheritance. You should record how you acquired it, the accounts to which basis is assigned, and the amount of basis assigned to each account as its opening balance.

1. Name of block and title of account

The structure of your timber accounts is an important consideration when you acquire forest land. A block is a specific area of land identified on maps included in records. It could be a single tract, or multiple tracts. In general, all the tracts that are managed as a unit and feed into a specific timber marketing region constitute a single block. Note that on lines 9d and 9e, the timber account may include two subaccounts, the merchantable timber subaccount, and the premerchantable timber subaccount. These subaccounts may be further subdivided. You should use a separate Part I for each timber account within a block. Each merchantable timber account consists of two parts—dollar basis and associated timber volume. The following are possible account structures:

One block and one timber account

If all your timber is in one account then the block and timber account are the same. Enter a name that clearly indicates who

owns the timber and land. For example, you might refer to your land as the Jones Tree Farm, the Smith Timber Tract, etc. Be certain to use this name consistently in your records. Also, you are required to maintain separate accounts with a unique stand identifier (USI) for each qualified timber property (QTP) for which the reforestation expenses are deducted or amortized. USIs must be maintained even if the dollar basis is zero because the expenses were deducted or amortized.

One block and multiple timber accounts

All your timber may be in one block, but you have multiple subaccounts. For example, the block may consist of several tracts with individual merchantable timber subaccounts because of differences in timber type. You may also have multiple subaccounts for young growth.

Multiple blocks

If your timber is in multiple blocks you will have one or more timber accounts for each block.

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

Enter sufficient information to allow another person to find your property on a map, and then on the ground. At a minimum enter the State, county/parish, and township. You also can refer to the key number(s) used by the taxing jurisdictions to identify your ownerships. Your files should include a detailed legal description and a map of the general location of the tract(s) and more detailed maps of each tract.

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

Purchase—Enter the name and address of the seller as of the date of the purchase.

Inherit—Enter the name and legal address of the deceased as of date of death.

Gift—Enter the name(s) of the person(s) making the gift and their address on the date of the gift.

3b. Date acquired

Enter the date you took title to the property.

4. Amount paid

If you inherited the property or received it as a gift skip this line and lines 5 through 7.

4a. In cash

Enter the amount you paid in cash from your own account and any amount borrowed from a third party, such as a bank. If you purchased the property at less than fair market value, a bargain sale, report the amount paid in cash or notes. Most likely this will be your total original basis.

4b. In interest-bearing notes

Enter the amount you paid in the form of a loan from the seller that requires the payment of interest.

4c. In non-interest bearing notes

Enter the amount you paid in the form of a loan from the seller that does not require you to pay interest on the amount borrowed.

5a. Amount of other consideration

Report the value of any property you owned that you transferred to the seller to cover in whole or in part the sales price of the property you received.

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

Describe the property transferred and how you determined its value. Maintain in your records documents justifying this value. If the property is not traded in an established market for which prices are reported on a regular basis, such as publicly traded stock, a professional appraisal may be needed.

6. Legal expenses

Enter fees paid for legal advice and services, transfer taxes, recording fees and any other costs incurred to take title to the property.

7. Cruising, surveying, and other acquisition expenses

Enter nonlegal costs incurred to determine the value of the property acquired, cost to cruise the timber to determine its volume and value, and for allocation of the original basis.

Note that because lines 4 through 7 do not apply to property acquired by gift or inheritance, legal and other costs associated with taking ownership of such property are treated as “other expenses,” which may either be deducted or capitalized. Expenses you elect to capitalize are shown on Part II of IRS Form T, line 6, discussed in the following section.

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

The total cost of acquiring the timber or forest land, including cash and/or notes paid, other consideration given, and costs directly related to the acquisition.

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

This section is used to report the assets you acquired by purchase or inheritance. If you received the property as a gift your basis is the donor's basis on the date of the gift with potentially an adjustment for gift tax paid. If the donor never allocated their basis among the assets you may be able to justify making an allocation of the donor's total basis. You will need to do the calculations separately and report the results on lines 9a to 9h. Be certain to keep in your records the worksheets used to make the calculations, or a printout of the spreadsheet or calculations from the National Timber Tax Web site.

9a. Forested land

Forested land is the acreage containing existing stands of timber, cutover forest land, or land upon which you will establish stands of timber.

9b. Other unimproved land

Other unimproved land is crop, pasture, or land managed strictly for wildlife habitat.

9c. Improved land (describe)

Improved land is the land associated with buildings, including that associated with a residence. The land for improved roads and drainage systems should be included in the acreage for the forest land, or other unimproved land that they are on.

9d. Merchantable timber

Merchantable timber is timber for which a market value could be established on the date of acquisition. If you use average depletion, that is, all merchantable timber in one account, then enter the total volume of timber on 1 line. If you establish subaccounts enter each subaccount on a separate line. Subaccounts may be used if your forest land is to be managed as more than 1 timber stand or other management unit. You also may have separate subaccounts for pulpwood, sawtimber, poles, or other product classes of merchantable timber.

9e. Premerchantable timber

You are required to allocate basis to any acreage that contained timber that existed on the date of acquisition, but was not big enough to be merchantable. One example is acreage with one or more plantations that have not reached merchantable size; but if premerchantable naturally seeded timber in a nonplantation stand contributes to the overall value of the stand an allocation should be made for it, as well. The unit for premerchantable timber is acres.

9f. Improvements (list separately)

Enter separately each improvement on the property acquired. Include both depreciable and nondepreciable improvements, such as storage buildings and garages for equipment, drainage structures, fences, and roads. If your primary or secondary residence and associated buildings are included in the acquisition you should be certain that they are listed separately.

9g. Mineral rights

List only if the acquisition included proven reserves or working interests in oil or gas, hard minerals, sand and gravel, or other minerals. Professional assistance will be needed to appraise such interests.

9h. Total cost or other basis (same amount as line 8). Add lines 9a through 9g

The total allocated to all the assets reported must add to the total amount of the basis shown on line 8.

Part II. Timber Depletion

This part of IRS Form T is used to show changes to your merchantable timber accounts, determine the depletion unit needed to claim an allowance for depletion for a disposal, how timber was disposed of, and elect Internal Revenue Code (IRC) section 631(a) treatment on timber you cut yourself. Other timber accounts, such as premerchantable timber, deferred reforestation, and amortization are maintained separately in your books.

1. Name of block and title of account

Enter the name of the block and title of the timber account to be reported. You will need a separate Part II for each separate timber account. Show the units used to record volumes.

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

The preceding instruction applies literally if you make annual adjustments to your timber accounts. If you make adjustments only as needed, then enter the quantity and basis as of the last year you adjusted the account. In this case, when the term “year” is used in the discussion in the following paragraphs, it means since the last year the account was adjusted for volume, or for additions to or recovery of basis.

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

You will have an entry here only if you determine that it is necessary to make a correction because the volume previously reported was estimated incorrectly. Note that this correction will affect the depletion unit but cannot be used to change the original basis allocated to the timber accounts except in very unusual circumstances.

4a. Addition for growth (number of years covered > _____)

Your forester may have provided you with an estimate of the annual growth for the timber in each of your timber accounts. More commonly, however, your forester will estimate the total volume of timber in the account for the year in which the depletion unit is needed. In this case, the amount entered will be the difference between the volume on line 2, and the current volume.

4b. Transfers from premerchantable timber account

If the timber on tracts of premerchantable timber to which basis was assigned in a young growth account becomes large enough to be merchantable, the basis assigned is transferred to either a new merchantable timber account, or to an existing account if average depletion is used. It will be necessary to estimate the volume of timber on the tract so that you can adjust the quantity (column a) as well as the basis (column b). This is because the unit for young growth accounts is acreage.

4c. Transfers from deferred reforestation account

If you capitalized reforestation costs instead of recovering them by deduction or amortization, and the timber on the reforested tract became of merchantable size since the last adjustment to the merchantable timber account, the basis is transferred to the merchantable timber account for average depletion (see glossary, “Average depletion unit”), or a new merchantable timber

account. It is necessary to estimate the volume of timber so that the quantity (column a) as well as the basis (column b) can be entered.

5. Timber acquired during tax year

If additional forest land with merchantable timber was acquired and you use average depletion, enter the quantity of merchantable timber and the allocated basis for this timber. Separate merchantable timber accounts could be established for newly acquired tracts in a given block.

6. Addition to capital during tax year

Enter the amount of any expenses incurred to improve the timber if the expense was not deducted in the tax year incurred. An example would be the cost of a precommercial thinning, pruning, or timber stand improvement if you elected to capitalize these costs instead of deducting them in the year they occurred. Carrying costs that were capitalized instead of expensed also would be entered.

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

These are the total volume and dollar basis used to calculate the depletion unit for the year.

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

This amount is the depletion unit. The phrase “returnable through depletion” refers to the use of the depletion unit to determine the depletion allowance for timber cut by the owner or under a contract with a logger that constitutes a logging service contract, but not a contract right to cut. The term “basis of sales or losses” refers to the use of the depletion unit to determine the basis of timber you dispose of on the stump for a lump-sum amount, or under a “pay as cut contract,” or that is subject to an involuntary conversion such as fire, tornado or hurricane. The calculations are the same for depletion and basis allowable, but the statutory authority for the recovery of the basis allowable is different than for depletion.

9. Quantity of timber cut during the tax year

For timber that you owned outright or had a contract right to cut, report the volume that you cut yourself or using your employees, or cut by a logger under a logging service contract. A logging services contract is used by loggers who function as

independent contractors that cut timber that you own. The logger does not become the owner of the timber itself or the logs he produces, that is, he has no contract right to cut the timber for his own account.

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

This amount is the depletion allowance for the timber you cut yourself or under a logging services contract.

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

Report the volume of standing timber sold under a lump-sum contract, under a pay-as-cut contract, or for which you granted a logger or other party a contract right to cut the timber for their own account.

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

The basis allowable for the sale or other disposal is the depletion unit, times the units disposed of lump sum or under a pay-as-cut contract.

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

Report the volume of timber that was destroyed by fire, tornado, hurricane or other casualty. The volume of timber damaged but not destroyed should not be included here, but recorded and kept in your records. Timber destroyed is not salvageable, but damaged timber usually can be sold if it is of merchantable size. The services of a consulting forester generally are needed to make this determination.

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)

The rules for determining the amount you can claim as the allowable basis for a casualty loss may exceed the amount obtained by multiplying the depletion unit by the units destroyed. This will be the case if the change in the fair market value (FMV) of the timber destroyed is less than the adjusted basis of the timber for the entire block in which the timber destroyed is included.

15. Total reductions during the tax year

15a. In column (a), add lines 9, 11, and 13

This amount is the total volume of timber cut, sold or involuntarily converted during the year. In 1 year, the timber in the same block or timber account can of course be disposed of in a number of different ways.

15b. In column (b), add lines 10, 12, and 14

Add the total amount of basis recovered for the year.

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

The volume and value at the beginning of the year or since the last adjustment is reduced by the volume and value recovered this year.

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

If you cut your timber yourself, or with a logging services contract, report the volume of logs or other timber-based products that you actually sold during the year. Any volume of cut products not sold is carried over to the next year as inventory in a separate inventory account.

18. Section 631(a)

18a. 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

It may be to your advantage to report the cutting of your timber in two parts: the gain on the FMV of the timber cut, and the ordinary income from the processing of the timber cut. If you made this election in a previous year you must report any timber cut this year under IRC section 631(a) unless you revoke this treatment on line 18b.

18b. Are you revoking your section 631(a) election (see instructions)? Yes/No

If you have an election already in effect and are reporting the cutting under IRC section 631(a) check the NO box; if you have an election in effect and are revoking it for timber cut this year

check the YES box. You generally may revoke a section 631(a) election only by permission from the Commissioner of Internal Revenue, and permission is granted only where there is a showing of undue hardship. The 1986 Tax Reform Act (P.L. 99-514) and American Jobs Creation Act of 2004 (P.L. 108-357), however, provide qualifying timber owners one-time exceptions to this rule (see chapter 5, “IRC Section 631(a) Cutting of Standing Timber With an Election to Treat as a Sale”).

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

1. Name of block and title of account

You report here only the information for the timber sold from the block and timber account associated with that timber. If a single sale involves timber from more than one block, or timber account within a block, complete separate Parts II and III for each block and timber account from which timber was sold. The block and name entered should be the same as that entered in Part II, line 1.

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

Enter enough detail to allow someone to find the property from which the timber was sold. This will be the same legal description used to complete Part I, line 2.

3a. Purchaser’s name and address

Report the name and address of the person or business with which you have a binding contract, generally the original contract. Other parties may be involved in the sale, such as a logger working under contract to the buyer of your timber. The original buyer also may have granted a contract right to cut to a second party. Unless your original contract restricts such subcontracts, subcontracts are not uncommon in many regions of the United States.

3b. Date of sale

For a lump-sum sale report the date the contract became binding, usually the date of signing and payment of adequate consideration under State law. For timber disposed of under a pay-as-cut contract also report the date the contract becomes binding. However, if your timber is not considered to be cut until a later date under the provisions of IRC section 631(a) or (b), also report the earliest date in the year that timber was considered cut.

4. Amount received

4a. In cash

Report the amount received in currency or other cash equivalent, including checks, or other payment instruments.

4b. In interest-bearing notes

Report the total amount you will receive in deferred payments specified in the contract that will pay you interest on the amount deferred. This includes payments due the next and later tax years.

4c. In non-interest-bearing notes

Report the total amount you will receive in deferred payments specified in the contract that will not pay you interest on the amount deferred. This includes payments due the next and later tax years. Note that under certain circumstances you will need to impute interest to be reported as ordinary income, thereby reducing your capital gain. These provisions come under the installment sale rules, discussed in chapter 9 and in IRS Publication 537, *Installment Sales*.

5a. Amount of other consideration

Report the fair market value of anything of value received as complete or partial payment for the timber or other assets disposed of. This includes barter type exchanges, or exchanges of property that will be reported as like-kind exchanges under IRC section 1031.

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

Describe the property received and how you determined its value. If it is property traded on an established exchange, like one of the stock markets, report the closing price for the day that you received title to the property. In other cases, it will be necessary to conduct an independent appraisal. Keep the appraisal report in your files.

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

This is the total amount received or to be received eventually for the timber or property you sold or otherwise disposed of.

7. Cost or other basis of property: Unit, Number of units, Cost or other basis per unit, Total cost or other basis

7 a. Forested land

The unit is acres. Report the number of acres disposed of, the unit cost or other basis per unit obtained from your IRS Form T Part I completed for the acquisition of the land, and multiply to get the total basis.

7b. Nonforested land

Same as previously described

7c. Improved land (describe)

This is crop, pasture, and other land not used for timber production or unmanaged wildlife habitat.

7d. Merchantable timber

The easiest way to provide the information requested is to attach a copy of the timber sale specification data that were provided to potential buyers. If you sold timber with the help of a consulting forester, he or she would have provided you with a copy of the specification sheet. Otherwise, provide as much information as you have at hand.

7e. Premerchantable timber

Make an entry here if you sold timberland that contained pre-merchantable timber to which you allocated basis to a young growth account when the timberland was acquired. Because the young growth timber was sold with the land, you recover your basis in this timber. This also would be the case if you sold timberland that contained plantations that you established by planting or otherwise to which establishment costs were capitalized and are still in the plantation (deferred reforestation) subaccount. The unit in these cases will be acres.

7f. Improvements (list separately)

When you established your capital accounts you may have assigned basis to buildings, drainage structures, fences or other “improvements.” If these improvements were disposed of with the land, or in rare cases separately, any basis remaining in the accounts for these improvements is reported here.

7g. Mineral rights

If basis was allocated separately to mineral rights at the time of acquisition, or such rights were purchased separately, report the number of units disposed of and the unit basis.

7h. Total cost or other basis, add lines 7a through 7g

This is the total basis that you are claiming for the assets disposed of.

7i. Direct sale expenses (cruising, marking, selling)

Report all costs you incurred to dispose of the property, including commissions paid to consulting foresters, brokers, legal fees, etc. These costs reduce your gain. They are not deducted as operating expenses.

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

This amount is the net gain or loss on the disposal of the timber or other assets disposed of during the year. It may be the amount you report on your tax return for the year, but will not be if the disposal is reported as an installment sale, discussed in IRS Publication 537, *Installment Sales*, or under a pay-as-cut contract with cutting and payments coming after the tax year of the sale, which does not constitute an installment sale.

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

1. Account block, tract, area, or stand ID for each Qualified Timber Property (QTP)

There is no generally accepted definition of what constitutes a QTP. The only reasons to have more than one QTP, however, are if you have divided your forest holding into two or more “blocks” (chapter 7) or if you wish to deduct outright more than \$10,000 of qualified reforestation expenses in a single year. After you have established a QTP for IRC section 194 purposes, the included timber property may not be combined with any other timber account for the purposes of calculating a depletion deduction under IRC section 611 or a loss deduction under IRC section 165(a). All records relating to a QTP account should be maintained until the timber is disposed of through sale, harvest or other transaction. See section 322 of Notice 2006-47, 2006-1 C.B. 892, for additional requirements regarding the accounting treatment of QTPs. You can report all your projects in this part, not only for the block shown in Parts I to III. List each QTP separately, using its unique identifier.

1. Kind of activity (burning, chopping, spraying, planting, seeding, thinning, pruning, fertilizing, etc.)

Use a separate line for each QTP reforestation project, and for each other timber stand activity in each block.

1. Number of acres treated

Report the number of acres reforested or acres of timber treated.

Total expenditures

Report the total cost for each project.

2. Total

Sum acres treated, and sum expenditures for each treatment.

3. Total reforestation expenses

Sum the total expenditures for all the reforestation projects listed in line 1 entries.

4a. Amount to be expensed under section 194(b) (See instructions for limitations)

You are limited to \$10,000 per year per QTP (\$5,000 if you are a married individual filing a separate return). This is why it is important to list each project separately in line 1 entries.

4b. Amount to be amortized under IRC 194(a), including remaining reforestation expenditures not expensed under section 194(b)

If your reforestation expenditure in a given year for a given QTP exceeds the limits given in the discussion for line 4a (\$10,000 per year per QTP, \$5,000 if you are a married individual filing a separate return), any balance over the limit can be amortized. Report these amounts for all your QTP's for a given block and account for which reforestation expenditures exceeded the limit. The amounts for each QTP can be totaled and included in one amortization schedule; remember, however, that you must maintain separate records for each QTP until the timber is disposed of.

Part V. Land Ownership

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

1. Name of block and title of account

Acres

Report number of acres included in the account.

Total cost or other basis. Give amount of March 1, 1913 appreciation, if included.

The basis normally will be your acquisition cost for the tract. If acquired by inheritance, exchange, or some other way other than outright purchase, see chapter 4, "Original and Adjusted Basis." The reference to 1913 relates to the basis of assets owned by the taxpayer on March 1, 1913, when the Federal income tax first came into effect. The original basis of these assets was their value on this date.

Average rate per acre

Divide total cost by acres.

2. Balance at beginning of year

Report the balance at the beginning of the year or that last year for which a balance was changed.

3. Acquisitions during the year

Report purchases or other acquisitions during the year or since the last time the account was adjusted. What is included here are additional tracts of land that are added to an existing block and timber account. If a new account is established for an acquisition, it should be reported on a separate Part V.

4. Sales during year

Report acres sold and the basis of this acreage.

5. Other changes

This would include land that is given up or acquired as part of an exchange, land that is lost due to boundary adjustments, and other uncommon circumstances.

6. Balance at end of year. Add lines 2 and 3, subtract line 4 and add or subtract line 5.

Additional Information

Use this section to provide a description of changes that are unusual or for which additional information is needed to understand entries in lines 1 to 5.