
Chapter 1. Introduction

Purpose

This publication is the latest in a series of income tax handbooks for family forest owners that began with the 1953 publication of Agricultural Handbook No. 52, *The Small Timber Owner and His Income Tax*. It represents a major revision of Agriculture Handbook No. 718, *Forest Landowners' Guide to the Federal Income Tax*. It updates that publication to include tax legislation that was passed and administrative changes that were promulgated through late 2012.

The primary purpose of this guide is to foster good management of family-owned forest land by providing an explanation of the provisions and incentives related to forest ownership and management under Federal income tax law. It does not provide guidance on managing timber or other forest products. That type of information is available from State agency foresters, Cooperative Extension foresters, forestry consultants, and industry foresters.

It is important to note that the guide's authors are foresters and use terms in a conventional forestry sense, not an accounting sense. One example is *timber stand improvement* (TSI), a term for practices to improve the composition or condition of an established timber stand. Although its name includes the word *improvement*, TSI typically is not an improvement in the accounting sense, the cost of which must be capitalized; rather, it is an ordinary and necessary forest management practice, the cost of which may be deducted in the year it is incurred.

New Information

In addition to revising and updating previous tax guides, this guide contains substantial new information. Chapter 5 includes a description of the reporting requirements for outright timber sales under Treasury Decision 9450, published in May 2009. Chapter 11 is a new chapter on the tax treatment of nontimber forest products. Chapter 14 is expanded to discuss tax preparation software and electronic filing for forest owners, and the appendixes are expanded to include instructions and line-by-line annotations for Internal Revenue Service (IRS) Form T (Timber): Forest Activities Schedule.

Organization

This guide is organized into six sections. The first section, chapters 1 through 3, introduces tax planning and general tax considerations. The second section, chapters 4 through 7, explains the Federal income tax as it pertains to timber and timber transactions. Chapters 8 through 11 comprise the third section, which addresses the tax implications of other forest-related topics, including the donation or sale of a conservation easement, installment sales, the alternative minimum tax, self-employment taxes, Christmas tree production, and nontimber forest products. The fourth section, chapters 12 through 14, provides basic information on forms of forest land ownership, how to research a tax question, and where to look for tax assistance. The fifth section, chapter 15, presents a system for forest recordkeeping and provides an integrated example of its use. The last section, the appendixes, includes summaries of selected IRS rulings, a glossary of terms, a copy of IRS Form T (Timber) together with instructions and annotations, and an index.

Internal Revenue Service Review

This guide has been reviewed by the IRS Office of the Chief Counsel, the Forester Agents, the Forest Products Industry Counsel, and the Forest Products Technical Advisor. It is not, however, an official publication of the IRS and should not be construed as an official interpretation of the Internal Revenue Code (IRC) or income tax regulations. The IRS does not endorse the overall content or any reference herein pertaining to individual tax advisors or tax Web sites that are not a part of the IRS (<http://www.irs.gov>). This guide is a U.S. Department of Agriculture (USDA) publication and is intended only to serve as a resource for you and your tax advisor.

The information in this guide is based on current law and regulations as of September 30, 2012. Nevertheless, many provisions of recent tax legislation are still under review by the IRS, and new regulations continue to be published. You should consult the most current information appropriate to your individual situation, as outlined in chapter 13.

