
Glossary

A

account. A record of all transactions that affect one segment of an investment or business. Examples include a cash account, land account, timber account, and depreciation account. Also see “capital account” and “ledger.”

accrual method. A method of accounting where expenses are deducted when they are incurred, whether or not they actually are paid at that time, and revenue is reported when it is earned, whether or not it actually is received at that time. Businesses that ordinarily maintain an inventory of goods for sale to customers are required to use the accrual method of accounting. Also see “cash method.”

active income. Income generated by a trade or business activity in which the taxpayer materially participates. Also see “business,” “income,” “material participation,” and “passive income.”

adjusted basis. Original basis, minus any reductions made because of amortization, depletion, depreciation, or losses claimed, plus any additions made because of carrying charges, additions, or improvements to the asset. Also see “amortize,” “basis,” “capital asset,” “carrying charge,” “depletion,” “depreciation,” “loss,” and “original basis.”

adjusted gross income (AGI). Taxable income from all sources, minus adjustments for contributions to tax-preferred retirement and medical savings accounts, self-employment taxes and health insurance costs, moving expenses, alimony payments, qualified reforestation expenses for forest land held as an investment, and so forth. Personal deductions and the applicable standard or itemized deductions are subtracted from AGI to determine taxable income. Also see “income” and “taxable income.”

afforest. To establish trees on a previously unforested area by means of planting trees, spreading tree seeds, or seeding-in from adjacent trees. The term *reforestation*, as used in reference to the tax treatment of the costs of doing so, includes afforestation costs. Also see “reforest.”

allowable basis. That portion of the adjusted basis that can be offset against the revenue received when timber is sold or otherwise disposed of. Allowable basis = Depletion Unit x Volume Disposed Of. Also see “adjusted basis,” “depletion,” and “depletion unit.”

alternate valuation date. See “valuation date.”

alternative minimum tax (AMT). The amount, if any, by which a taxpayer’s tentative minimum tax for a tax year exceeds his or her regular tax for the tax year. The Internal Revenue Code defines tentative minimum tax for various categories of taxpayers. Also see “Internal Revenue Code (IRC).”

alternative rate of return (ARR). The interest rate earned by the best investment available to an investor other than the investment under consideration. ARR—adjusted as appropriate for taxes and differences in the length and risk of the investment—is the appropriate interest rate to use in evaluating or comparing investments.

amortize. To deduct a qualifying capital cost over a specified period of time. For example, under IRC section 194, qualified reforestation costs that are not deducted currently or that exceed the maximum annual deduction allowed can be amortized over 8 tax years. Also see “capital cost,” and “establishment cost.”

appraisal. The process of estimating the fair market value (FMV) of an asset. An appraisal is specific as to time and location.

artificial regeneration. Reforestation accomplished by means of planting trees or spreading tree seeds, either by hand, machine, or aerial seeding. The process nearly always involves site preparation using prescribed burning, chemicals, and/or mechanical equipment. Also see “natural regeneration,” “prescribed burn,” “reforest,” and “site preparation.”

asset. See “capital asset.”

average depletion unit. If timber of various grades and species from more than one tract is combined in a single timber account, the depletion unit will be an average of all the timber in the account. Also see “depletion unit” and “species or value depletion unit.”

B

bargain sale. The intentional sale of an asset or service for less than its FMV value on the date of the sale. The difference between the price paid by the buyer and the FMV is deemed to be a gift. Also see “conservation easement.”

basis. In general, the amount invested in a capital asset acquired by purchase. The basis of property acquired by other means is determined by the method of acquisition (see chapter 4,

“Original and Adjusted Basis”). Also see “adjusted basis,” “cost basis,” “original basis,” “stepped-up basis,” and “volume basis.”

block. A block is the operational unit a forest owner uses to keep track of the adjusted basis of all his or her timber in a given market area. The timber basis account for a block may be divided into two or more subaccounts based on tree species or species group, timber product, or timber character or accessibility. Alternatively, an owner may establish separate blocks by geographical or political boundaries or by logical management areas (establishing multiple blocks may, however, limit the deduction the owner can take when timber is sold or otherwise disposed of, or following a loss event). Timber acquired under a cutting contract is not part of any block, and should be carried in a separate account. Also see “allowable basis,” “basis,” “depletion deduction,” “condemnation,” and “loss.”

board foot (bd. ft.). The standard unit of measure for trees and logs of appropriate size and species to be sawn into lumber, and of the lumber or other products cut from them. A board foot is 1 foot square by 1 inch thick. Tables based on various log rules are used to estimate the board foot volume that trees and cut logs of various lengths and diameters will yield. Also see “cord,” “log rule,” “MBF,” and “scaling.”

boot. In a property exchange, cash and other nonqualifying property received that does not qualify for tax deferral (chapter 6). Also see “like-kind exchange.”

business. In general, an activity carried out for the realization of a profit and characterized by regular transactions. Neither the IRC nor the regulations provide a precise definition of the term “trade or business.” Also see “investment,” “material participation,” “passive,” and “profit.”

C

capital account. An account used to keep track of the basis and quantity of capital assets. Also see “account,” “basis,” “capital asset,” “equipment account,” “land account,” and “timber account.”

capital asset. In general, income-producing property used for an investment or in a trade or business, including land, timber, buildings, and equipment. “Capital asset” has a more specific meaning for the purpose of determining capital gain treatment under IRC section 1221 (see chapter 5, “Sale of Standing Timber for a Lump Sum”). Also see “capital account.”

capital cost. The cost to acquire a capital asset; basis. Capital costs include those that are recoverable through allowances for amortization, depletion, and depreciation, as well as those that

are recoverable only when the asset is sold or otherwise disposed of. Also see “amortize,” “basis,” “capital asset,” “depletion,” and “depreciation.”

capital gain (or loss). Net income realized on the sale or exchange of a capital asset. A capital gain (or loss) is treated differently for tax purposes from ordinary income or the profit realized from the operation of a business. Also see “business,” “capital asset,” “income,” “ordinary income,” “profit,” and “taxable gain (or loss).”

capitalize. The process of adding to a capital account the cost of acquiring a capital asset, or the cost of making improvements or additions to a capital asset already in place. Depending on the nature of the asset, the capitalized amount may be recoverable through amortization, depletion, depreciation, or only through sale or exchange. Also see “amortize,” “capital account,” “capital asset,” “capital cost,” “depletion,” and “depreciation.”

carrying charge. A regularly recurring ordinary and necessary expense associated with carrying on a trade or business or an investment, such as interest, taxes, and insurance. In the case of forest land, carrying charges may be deducted annually, or in years the forest does not produce income from any source, capitalized at the owner’s discretion (see chapter 4, “Currently Deductible Costs: Operating Expenses and Carrying Charges”). Also see “business,” “capitalize,” “deduct,” and “operating expense.”

cash method. A method of accounting where expenses are deducted when they are actually paid and revenue is reported when it is actually or constructively received. Also see “accrual method.”

casualty. Damage, destruction, or loss of property resulting from an identifiable natural or outside event that is sudden, unexpected, and unusual, as from an earthquake, flood, fire, violent storm, volcanic eruption, etc. Forest owners whose timber is damaged or destroyed by a casualty event may be eligible to take a loss deduction on their Federal income tax (see chapter 7, “Casualty”). Losses that are not sudden, as from disease, insect infestation, drought, or a combination of factors, are not casualty losses but may qualify as noncasualty losses. Also see “condemnation,” “involuntary conversion,” “loss,” “noncasualty loss,” and “theft loss.”

community property. Property owned by either or both spouses that is considered under State law to be owned equally by both spouses. In general, community property is all property acquired during marriage by either spouse except property received by inheritance or gift. The nine community property States are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

condemnation. The legal process by which private property is taken for public use by a unit of government, political subdivision, or private organization that has the legal power to take it, without the consent of the owner, but with payment of compensation. Forest owners whose land or timber is condemned, or who sell it under threat of condemnation, may be eligible to take a loss deduction on their Federal income tax (see chapter 7, “Condemnation”). Also see “casualty,” “condemnation award,” “involuntary conversion,” and “loss.”

condemnation award. The money the owner of condemned property is paid or the value of other property received for the property when it is condemned or the owner sells it under threat of condemnation. Also see “condemnation.”

conservation easement. The donation or sale of one or more attributes of land ownership; for example, the right to subdivide or develop the land, usually to a government agency or a land trust. Removal of the attribute(s) of ownership may reduce the value of the land, resulting in lower property taxes. Furthermore, an easement made in perpetuity, by an outright gift or bargain sale, may qualify for Federal income and estate tax benefits (see chapter 8, “Conservation Easements”). Also see “bargain sale.”

consulting forester. A forester available for hire on a contract basis. Consulting foresters typically charge a daily fee, plus expenses, for some services and provide other services on a fixed contract basis. Some charge a fixed percentage of the sale price of timber to provide services required in connection with a timber sale. Also see “extension forester,” “forester,” “industry forester,” and “service forester.”

conversion cost. See “cost of conversion.”

co-ownership. The undivided ownership of property by two or more persons or legal entities. The laws governing co-ownership vary widely from State to State, but the three basic forms of co-ownership are tenancy in common, joint tenancy, and tenancy by the entirety. Also see “fee owner,” “joint tenancy,” “tenancy in common,” and “tenancy by the entirety.”

cord. A unit of measure used in conjunction with trees of a suitable size to be converted into pulpwood, small dimension lumber, firewood, or other products that are not measured in terms of board feet. A standard cord is a unit of stacked wood measuring 4 feet by 4 feet by 8 feet. Also see “board foot,” “MBF,” and “pulpwood.”

corporation. A separate legal entity chartered under State law and owned by its shareholders, whose ownership interests are represented by shares of stock. Also see “family limited part-

nership (FLP),” “limited liability company (LLC),” “limited partnership,” “partnership,” “sole proprietorship,” and “subchapter S corporation.”

cost basis. (a) A term used to refer to the basis of an asset, regardless of the source of the original basis. (b) For timber, the cost element of timber basis, which together with the volume element, is used to determine the depletion unit. Also see “basis,” “capital asset,” “depletion unit,” and “volume basis.”

cost of acquisition. The sum of all costs associated with the acquisition of a capital asset. As well as the purchase price, the cost of acquisition of a tract of forest land might include the cost of a cruise to determine the timber volume, a survey of the boundaries, a title search, legal fees, and closing costs. Also see “capital asset” and “timber cruise.”

cost of conversion. The cost of converting standing trees into a salable product, such as firewood, pulpwood, logs, lumber, or railroad ties. In the case of producing lumber, for example, the conversion cost would include the cost incurred to cut down (fell) the trees, remove the limbs (limb), cut the tree stems into logs (buck), move the logs to a point where they can be loaded onto a truck (skid), transport the logs to a processing mill (haul), and convert them into lumber for sale. Also see “IRC section 631(a) transaction.”

cost of sale. A cost directly associated with the sale or other disposal of timber or another asset, such as advertising, professional services, timber cruising, surveying, legal fees, and so forth. Costs of sale and basis in the asset sold are subtracted from the sale proceeds to determine the taxable gain or loss. Also see “basis,” “proceeds,” “taxable gain (or loss),” and “timber cruise.”

credit. See “tax credit.”

cruise. See “timber cruise.”

D

date of disposal. The date of disposal for timber differs according to how it is sold or disposed of. For timber sold outright (lump-sum)—whether under the provisions of IRC section 1221 or IRC section 631(b)—the date of disposal is the time ownership of the timber changes hands. Otherwise the date of disposal is when, in the ordinary course of business, the quantity of timber cut is first definitely determined (see chapter 5, “Timber Sale Receipts”). Also see “capital gain (or loss),” “disposal,” “outright timber sale,” “pay-as-cut timber sale,” “IRC section 631(a) transaction,” and “IRC section 631(b) disposal.”

deduct. To recover an expense by subtracting it from taxable income in the year it is paid or incurred. In the case of a business, the deduction is taken “above the line” (subtracted from gross income). In the case of an investment, only qualified reforestation expenses are taken “above the line;” all other deductions are itemized and subtracted from taxable income. Also see “deductible item” and “taxable income.”

deductible item. An expense a taxpayer can deduct when calculating his or her Federal income tax. Deductible items include the cost of tools of short life or small cost, operation and maintenance costs, taxes, interest, insurance premiums, and salaries or other compensation for services rendered by others—except for services related to the purchase of timber or forest land (see chapter 4, “Capital Costs”), reforestation or afforestation (see chapter 4, “Reforestation Tax Incentives”), or a timber sale (see chapter 5, “Timber Sale Receipts”). Also see “deduct.”

deferred reforestation subaccount. Also called a plantation subaccount, a capital account used to record expenses for artificially planting or seeding trees on a specified tract of land that are not deducted currently or amortized. When the timber on the tract becomes merchantable, the cost basis in the account is transferred to the merchantable timber subaccount. Also see “block,” “capital account,” “cost basis,” “merchantable timber subaccount,” “qualified timber property (QTP),” “timber account,” and “young-growth subaccount.”

depletion. The using up or wasting away of a natural resource. In the case of timber, depletion is the recovery of the owner’s basis in the timber and applies when the timber is harvested and the logs cut from the timber are sold or used in the owner’s business. Also see “basis,” “depletion unit,” and “depletion deduction.”

depletion allowance. See “allowable basis” and “depletion deduction.”

depletion deduction. The portion of the adjusted basis that can be offset against the revenue received when timber is cut and resulting product is sold or used in the harvester’s trade or business. $\text{Depletion Deduction} = \text{Depletion Unit} \times \text{Volume Cut}$. Also see “adjusted basis,” “depletion,” and “depletion unit.”

depletion unit. A measure of basis per unit of volume in a timber account at a particular point in time. $\text{Depletion Unit} = \text{Adjusted Basis} \div \text{Total Timber Volume}$. Also see “average depletion unit,” “cost basis,” “depletion deduction,” “timber account,” and “species or value depletion unit.”

depreciable improvement. An improvement to land or equipment that has a determinable useful life and thus can be depreciated. Depreciable improvements to land include buildings and other permanent structures and their components, bridges, culverts, fences, temporary roads, and the surfaces of permanent roads. Also see “depreciation” and “useful life.”

depreciation. The process by which the basis of a capital asset with a determinable useful life is recovered as the asset is used for the production of income. Capital assets associated with forest ownership whose basis is recovered through depreciation include equipment, buildings, fences, temporary roads, and the surfaces of permanent roads. Also see “basis,” “capital asset,” “depreciable improvement,” “income,” “modified accelerated cost recovery system,” and “useful life.”

disposal. Timber is disposed of when the owner sells, cuts, or exchanges the timber or otherwise parts with it. The date of disposal, which is important for determining whether income from the transaction qualifies for treatment as a long-term capital gain, differs according to how the timber is sold or disposed of. Also see “capital gain (or loss),” “date of disposal,” “outright timber sale,” “pay-as-cut timber sale,” “IRC section 631(a) transaction,” and “IRC section 631(b) disposal.”

E

economic interest. A concept developed by the U.S. Supreme Court and incorporated into Treasury Regulations, subchapter A, section 1.611-1(b) to determine which taxpayers in addition to the fee owner of property qualify for certain tax benefits. An economic interest is retained in every case in which the taxpayer has acquired by investment any interest in timber and secures, by any form of legal relationship, income derived from the severance of the timber to which the taxpayer must look for a return of capital. Also see “income” and “IRC section 631(b) disposal.”

equipment account. A capital account where the cost basis of depreciable machinery and equipment is recorded. Also see “capital account” and “cost basis.”

establishment cost. The cost required to reforest or afforest an area with trees of desired species and capable of surviving. Included are the costs of site preparation, seedlings or tree seeds, and hired labor, including supervision. The Internal Revenue Service (IRS) takes the position that establishment cost also includes the cost of brush and weed control essential to the survival of a plantation and weed and hardwood control essential to the survival of a natural stand. IRC section 194 provides for the deduction of up to \$10,000 per year of qualified establishment

costs for each qualified timber property (QTP); amounts more than \$10,000 per year may be recovered through amortization or depletion. Also see “afforest,” “amortize,” “capital cost,” “deduct,” “depletion,” “qualified timber property (QTP),” “re-forest,” “site preparation,” and “stand.”

estate. A separate legal entity created by process of law to hold and manage the assets of a decedent while the assets are being administered and distributed under a court’s jurisdiction. In property law, “estate” generally refers to the length of time that an owner’s interest in property lasts. Also see “valuation date.”

even-aged. A stand or forest in which all or nearly all the timber trees are approximately the same age. Also see “stand,” “timber” and “uneven-aged.”

excludable. An item of income—for example part or all of a payment from a qualifying Federal or State cost-sharing program (see chapter 5, “Government Program Payments”)—that a taxpayer may elect to exclude from his or her taxable income. Also see “exclude,” “income,” and “taxable income.”

exclude. To elect not to include a qualifying item in gross income. For example, forest owners may elect to exclude a calculated part of certain cost-sharing payments received from Federal or State agencies. Note that qualifying income you elect to exclude still must be reported (see chapter 5, “Determining the Excludable Amount”). Also see “excludable” and “taxable income.”

expense. See “deduct” and “operating expense.”

extension forester. A forester employed by a State Cooperative Extension Service under the auspices of the U.S. Department of Agriculture, Cooperative State Research, Education, and Extension Service. Extension foresters usually are based at the State’s land-grant university. Their primary function is to provide forestry-related educational materials, workshops, demonstrations, and similar services. In some States, extension foresters are available for a limited amount of on-the-ground assistance to individual landowners. Also see “consulting forester,” “forester,” “industry forester,” and “service forester.”

F

fair market value (FMV). The price at which an asset—standing trees, for example—would change hands in a transaction between a willing, informed buyer and a willing, informed seller. In the absence of a sale, FMV generally is determined by appraisal. In the specific case of an IRC section 631(a) transaction, the timber must be valued as it existed on the first day of the owner’s tax year, regardless of any changes that

subsequently happen to it or to the market (see chapter 5, “IRC Section 631(a) Cutting of Standing Timber With an Election to Treat as a Sale”). Also see “IRC section 631(a) transaction.”

family limited partnership (FLP). A type of limited partnership controlled by members of a family. An FLP typically is created by senior family members (parents or grandparents), who contribute assets such as forest land to the partnership in exchange for a small general partnership interest and a large limited partnership interest. The senior family members then retain the general partnership interest—along with managerial control—while transferring part or all of the limited partnership interest to younger family members (children or grandchildren), often through gifts, which may be discounted for minority interest and/or lack of marketability. In addition to its advantages as an estate-planning tool, an FLP may be useful in interesting young family members in keeping forest land in the family and involving them in its management. Also see “corporation,” “limited liability company (LLC),” “limited partnership,” “partnership,” “sole proprietorship,” and “subchapter S corporation.”

farm. In general, a trade or business that produces farm income. Specific sections of the IRC more precisely define farming for the purposes of those particular sections. Some sections specifically exclude the production of timber from the definition of farming. Also see “Farm income.”

farm income. Income received from the sale of agricultural commodities such as grain, livestock, fruit, nuts, vegetables, dairy products, poultry, and fish. Also see “farm” and “income.”

fee owner. Refers to the person holding *fee simple* title (estate) to real property, often referred to as the outright owner. Fee ownership is the most complete ownership one can have in real property, compared with the holder of a shared (as with co-ownership) or leasehold interest. Also see “co-ownership,” “estate,” and “leasehold interest.”

felled timber. Timber in trees that have been cut down (severed) and are lying on the ground. Used alone, the term *timber* refers to standing trees. Also see “timber.”

for profit. Refers to whether a person’s motivation and actions indicate they are engaged in an activity with the intention to make a profit. Under the so-called *hobby-loss rule*, an activity generally is presumed to be for profit if it makes a profit in at least 3 of the last 5 tax years including the current year. Profit, however, includes appreciation in the value of assets used in an activity. This concept is particularly relevant to timber, which appreciates in value through physical growth and enhanced quality over long periods of time. Also see “profit.”

forester. A person trained in the study and practice of managing forest land and associated resources. In some States, people holding themselves out as professional foresters must be certified and licensed to practice in that State. Also see “consulting forester,” “extension forester,” “industry forester,” and “service forester.”

G

gain. See “realized gain,” “recognized gain,” and “taxable gain (or loss).”

gift. The giving of money or property by one person (the donor) to another (the recipient or donee) during the donor’s lifetime.

girdling. The process of encircling the trunk of a tree with a cut that stops the flow of nutrients between the leaves and roots, resulting in the death of the tree.

H

harvest. An intermediate or final cutting to remove merchantable trees for sale or for use in the owner’s trade or business. All the merchantable trees in a stand or tract can be harvested, or only certain species, certain sizes, or individually marked trees. Also see “merchantable timber,” “outright timber sale,” “pay-as-cut timber sale,” “IRC section 631(a) transaction,” and “stand.”

holding period. The period of time a capital asset is owned, measured from the date of acquisition to the date of disposal. The date of disposal for timber differs according to how it is sold or disposed of. Income from the sale or disposal of assets considered to be held more than 1 year can qualify for treatment as a long-term capital gain. Also see “capital gain (or loss),” “date of disposal,” “income,” “outright timber sale,” “pay-as-cut timber sale,” “IRC section 631(a) transaction,” and “IRC section 631(b) disposal.”

I

income. Money or its equivalent received during a given period of time in exchange for the performance of labor or services, from the sale of goods or property, or as profit from an investment or the operation of a business. Among other things, income includes wages, salaries, and tips; interest; dividends; business income; capital gains; retirement payments; rents, royalties, and profits; and farm income. Also see “active income,” “adjusted gross income (AGI),” “business,” “capital gain (or loss),” “farm income,” “investment,” “ordinary income,” “passive income,” “portfolio income,” “profit,” “recognized gain,” “taxable gain (or loss),” and “taxable income.”

independent contractor. A person who provides specified services under a form of contract that does not establish an employer-employee relationship. The IRS uses specific guidelines to distinguish between an employee and an independent contractor. Both contractual provisions and the actual relationship between the parties are considered (see chapter 9, “Employment Status”).

industry forester. A forester employed by a timber growing or processing company. Industry foresters frequently provide technical assistance in conjunction with timber purchases from private landowners. Some companies also have formal programs through which they make foresters available to assist landowners in all aspects of timber management. Also see “consulting forester,” “extension forester,” “forester,” and “service forester.”

information return. An IRS form used by a business or government agency to report tax-related transactions with other businesses or individual taxpayers. Examples of information returns include IRS Form 1065: U.S. Return of Partnership Income, filed by partnerships, and IRS Form 1099-S: Proceeds From Real Estate Transactions, filed by purchasers of timber in an outright (lump-sum) sale (see chapter 5, “Information Returns”). Also see “outright timber sale” and “partnership.”

in-growth. The growth of timber from premerchantable to merchantable size or from a smaller, lower valued product to a larger, higher valued product. Also see “merchantable timber” and “premerchantable timber.”

installment sale. A sale in which the seller receives at least one payment after the tax year in which the disposition occurs (see chapter 9, “Installment Sales”). Also see “disposal.”

intermediate treatment. A term for management practices used in a timber stand between the time it is established and the time it is harvested. For example, a prescribed burn or a thinning may be used to release timber trees from competing vegetation; fertilization may be used to sustain their rate of growth; and pruning or timber stand improvement may be used to improve their form, composition, or condition. Also see “prescribed burn,” “stand,” “thinning,” and “timber stand improvement (TSI).”

Internal Revenue Code (IRC). Refers to the Internal Revenue Code of 1986, as amended. The IRC is the written statutory tax law enacted by the U.S. Congress. The U.S. Department of the Treasury issues regulations to interpret the IRC. Revenue rulings published by the IRS provide information and guidance in applying the tax law and regulations correctly and uniformly. Also see “Internal Revenue Service (IRS),” “regulations,” and “revenue rulings.”

Internal Revenue Service (IRS). The agency of the U.S. Department of the Treasury responsible for administering and enforcing the IRC and for collecting Federal taxes. Also see “Internal Revenue Code (IRC).”

investment. An activity engaged in with the intention of realizing a profit, but not rising to the level of a trade or business. Management expenses for timber held as an investment are recovered as miscellaneous itemized deductions, deductible only to the extent they exceed 2 percent of adjusted gross income; property taxes are deductible against income from any source; and interest on indebtedness is deductible only to the extent of net investment income. Also see “adjusted gross income (AGI),” “business,” “income,” and “profit.”

involuntary conversion. The conversion of an asset for money or other property that results from a cause beyond the control of the owner, such as a casualty, theft loss, condemnation, or noncasualty loss. Also see “casualty,” “condemnation,” “loss,” “noncasualty loss,” and “theft loss.”

IRC section 631(a) transaction. If a forest landowner cuts timber and converts it into products for sale and specifically elects to treat the process as an IRC section 631(a) transaction, the proceeds that result from holding the standing timber qualify as a capital gain under IRC section 1231—exactly as if the owner had sold it at FMV—and the value added by cutting the timber and converting it into products is ordinary income. Also see “capital gain (or loss),” “conversion cost,” “date of disposal,” “outright timber sale,” “ordinary income,” “pay-as-cut timber sale,” and “IRC section 631(b) disposal.”

IRC section 631(b) disposal. When timber held for use in a trade or business is disposed of under the provisions of IRC section 631(b), either by outright sale or under a contract with economic interest retained (pay-as-cut contract). The income from such a disposal is taxable as a capital gain, even if the timber is held primarily for sale to customers. Also see “capital gain (or loss),” “date of disposal,” “income,” “outright timber sale,” “pay-as-cut timber sale,” and “IRC section 631(a) transaction.”

J

joint tenancy. A form of co-ownership wherein, upon the death of a joint tenant, that person’s undivided ownership interest passes to the surviving joint tenant(s). Also see “co-ownership,” “tenancy in common,” and “tenancy by the entirety.”

journal. A record of business transactions recorded in chronological order. A journal entry usually includes the date, a de-

scription of the transaction, the names of the parties involved, the amount of a transaction, and the accounts affected. Also see “account” and “ledger.”

L

land. For tax purposes, land includes the land itself, plus any permanent improvements made to the land, for example, land leveling or the roadbeds of permanent roads. Also see “land account.”

land account. A capital account that records the basis of land, plus any permanent improvements made to it. The IRS takes the position that the cost of defending title to land must be capitalized in the land account. Also see “capital account,” “capitalize,” “cost basis,” and “land.”

leasehold interest. A limited interest, created by a written lease, to enjoy exclusive possession and use of property or another asset for a set length of time. A leasehold interest is not of the same character or nature as fee ownership; however, a long-term leasehold interest can be mortgaged or sold as a physical asset, and a leasehold interest with 30 years or more remaining is considered equivalent to fee ownership in a like-kind exchange. Also see “fee owner,” “lessee,” “lessor,” and “like-kind exchange.”

ledger. A book of accounts. Also see “account” and “journal.”

legatee. Term for a person designated to receive property under the provisions of a will. Note that “heir,” commonly used with the same meaning, is the term for a person entitled to receive property under the laws of the State where the decedent lived or owned property.

lessee. The person or entity to whom a lease is made, for example, a timber company that leases land from a forest landowner to grow and harvest timber, or a hunting club that leases land for hunting game. Also see “leasehold interest” and “lessor.”

lessor. The person granting a lease, for example a forest landowner who leases land to a timber company or hunting club. Also see “leasehold interest” and “lessee.”

life estate. A limited property interest wherein title to designated property is transferred, but the transferor or other designated person (the life tenant) retains the right to use, enjoy, and receive income from the property for the duration of his or her life. The life tenant has responsibilities regarding the property, including paying mortgage interest and property taxes on it, keeping it in good condition, and protecting it. Upon the death of the life tenant, title transfers to the person or entity designated when the life estate was established.

like-kind exchange. An exchange of ownership interests in properties considered to be like-kind properties under IRC section 1031. If certain other requirements are met, the transaction qualifies as a nontaxable exchange (chapter 6). The like-kind exchange provisions apply only to properties held for productive use in a trade or business or for investment. They do not apply to stocks, bonds, notes or other securities, to partnership interests, to property held primarily for sale to customers, or to property acquired solely for exchange purposes. Also see “business” and “investment.”

limited liability company (LLC). A hybrid entity that combines features of a corporation and a partnership. The liability of LLC members is limited to the amount of their investment, as with a corporation. Income, however, passes through to members for income tax purposes, as with a partnership. State law usually permits an LLC to customize the distribution of cash and property and the allocation of profits and losses among its members. As well, an LLC member can materially participate in the LLC’s business activities, so that income and losses passed through to the member are considered active rather than passive. In addition to its advantages as a form of organization, an LLC may be useful in interesting young family members in keeping forest land in the family and involving them in its management. Also see “corporation,” “family limited partnership (FLP),” “limited partnership,” “loss,” “partnership,” “profit,” “sole proprietorship,” and “subchapter S corporation.”

limited partnership. A partnership with one or more general partners, who provide cash or property and management services, and one or more limited partners, who provide only cash or property. The liability of limited partners is limited to the amount of their investment in the partnership; because of this status, they have no right of control over the business. Also see “corporation,” “family limited partnership (FLP),” “limited liability company (LLC),” “partnership,” “sole proprietorship,” and “subchapter S corporation.”

log rule. A formula for estimating the relationship between the diameter and length of a tree or cut log and the board-foot volume of lumber that can be sawn from it. Several rules have been developed, based on varying assumptions about the thickness of the saw and sawing practice used, including Doyle, International 1/4 -Inch, Scribner, and Scribner-Doyle. Also see “board foot,” “MBF,” and “scaling.”

loss. (a) The amount by which the expenses from an investment or a trade or business exceed the revenue for a given tax year. Also see “Income” and “Profit.” (b) Damage or destruction of timber or another asset that is physical in nature and fixed

in time by an identifiable event or events that have run their course. For timber, only unexpected and unusual levels of damage qualify as a loss for tax purposes; normal or expected losses from mortality and insect or disease damage are considered a cost of doing business. Also see “casualty loss,” “involuntary conversion,” “noncasualty loss,” and “theft loss.”

lump-sum timber sale. See “Outright timber sale.”

M

MACRS. See “Modified Accelerated Cost Recovery System (MACRS).”

mark. The process of designating trees that are to be sold. A common practice for marking individual trees is to spray indelible paint on the tree at eye level and at ground level. This allows the buyer to identify the trees to be sold and the seller to determine that only marked trees were cut. Also see “outright timber sale,” “pay-as-cut timber sale,” “IRC section 631(a) transaction,” and “IRC section 631(b) disposal.”

material participation. When a taxpayer participates regularly, continuously, and substantially in the management and operation of a business. Material participation is the most active level of participation in an income-producing activity. To qualify, the taxpayer must meet at least one of six defined tests (see chapter 4, “The Passive Loss Rules”). Management expenses, property taxes, and interest on indebtedness for timber held at this level of business activity all are deductible against income from any source. Also see “active income,” “business,” “income,” “investment,” and “passive.”

MBF. Thousand board feet, the traditional unit of measurement for both sawtimber trees and sawn lumber. Also see “board foot,” “cord,” and “sawtimber.”

merchantable timber. Standing trees suitable for use as commercial wood products, for example, pulpwood, sawtimber, and so forth. Also see “merchantable timber subaccount,” “premerchantable timber,” “pulpwood,” “sawtimber,” and “timber.”

merchantable timber subaccount. A capital account that records the cost basis and volume basis of merchantable timber. Also see “capital account,” “cost basis,” “merchantable timber,” “plantation subaccount,” “timber account,” “volume basis,” and “young-growth subaccount.”

Modified Accelerated Cost Recovery System (MACRS). The standard system for calculating depreciation deductions for most tangible personal property placed in service after

1986. The system for calculating depreciation deductions for most tangible personal property placed in service before 1987 is the Accelerated Cost Recovery System (ACRS). Also see “deduct” and “depreciation.”

multiple damages. Successful prosecution of a timber theft case sometimes results in an award expressed as a multiple of the value of the stolen timber, for example, double or triple damages. In an award of triple damages, one-third of the award represents compensatory damages for the stolen timber and the remaining two-thirds represents punitive damages (see chapter 7, “Theft Loss”). Also see “theft loss.”

N

natural regeneration. Reforestation accomplished by means of seeding-in from adjacent trees or sprouts from the stumps or roots of harvested trees. The process may include site preparation to provide a suitable seedbed and construction of fences to reduce damage from deer and other browsing animals. Also see “artificial regeneration,” “reforest,” and “site preparation.”

net operating loss (NOL). The amount by which total deductions for a taxpayer’s trade or business activities exceed his or her gross income for a particular tax year. Also see “income” and “loss.”

noncasualty loss. Damage, destruction, or loss of property resulting from an identifiable natural or outside event that is unusual and unexpected but not necessarily sudden, as from disease, insect infestation, drought, or a combination of factors. In most cases, a noncasualty loss is a business deduction. Qualifying forest owners whose timber is damaged or destroyed by a non-casualty event may be eligible to take a loss deduction on their Federal income tax (see chapter 7, “Noncasualty Loss”). Also see “business,” “casualty,” “involuntary conversion,” and “loss.”

O

operating expense. An ordinary and necessary expense associated with carrying on a trade or business. Operating expenses may be deducted annually, as they occur. Also see “business,” “carrying charge,” and “deduct.”

ordinary income. Reportable income other than capital gain, such as from wages, salaries, interest, dividends, rents, royalties, and the profit realized from the operation of a business. Also see “business,” “capital gain (or loss),” “income,” and “profit.”

original basis. A measure of the original capital investment in an income-producing asset. Original basis is the acquisition cost of purchased assets, generally the donor’s basis in the case

of assets received as a gift, or the stepped-up basis in the case of inherited assets (see chapter 4, “Original and Adjusted Basis”). Also see “adjusted basis” and “basis,” and “stepped-up basis.”

outright timber sale. An outright sale of standing timber, for example, through a timber deed or sale contract, for a fixed amount agreed upon in advance. All the timber on a tract can be sold, or only certain species or diameter classes, or individually marked trees. Under most circumstances, income from an outright (lump-sum) timber sale can qualify for treatment as a capital gain, whether the seller is an investor or a participant in a trade or business. Also see “capital gain (or loss),” “date of disposal,” “income,” “pay-as-cut timber sale,” “IRC section 631(a) transaction,” “IRC section 631(b) disposal,” and “timber deed.”

P

partnership. An association of two or more persons or other entities to carry on, as co-owners, a business for profit. Also see “business,” “corporation,” “family limited partnership (FLP),” “limited liability company (LLC),” “Limited partnership,” “profit,” “sole proprietorship,” and “subchapter S corporation.”

passive. When a taxpayer does not participate in the management and operation of a business at the level necessary to qualify as material participation. Gain (or loss) from this level of activity is termed passive gain (or loss). Management expenses, property taxes, and interest on indebtedness for timber held at this level of business activity are deductible only to the extent of passive income. Also see “business,” “income,” “investment,” “material participation,” and “passive income.”

passive income. Income generated by a trade or business activity in which the taxpayer does not materially participate. Also see “active income,” “business,” “income,” “material participation,” and “passive.”

pay-as-cut timber sale. A sale of standing timber under a contract that requires payment at a specified price for each unit of timber that is cut and measured; technically, a “disposal with economic interest retained,” because the seller typically retains title to the timber and bears risk of loss until it is cut. Under most circumstances income from timber sold under a pay-as-cut contract can qualify for treatment as a capital gain, whether the seller is an investor or a participant in a trade or business. Also see “capital gain (or loss),” “date of disposal,” “income,” “outright timber sale,” “IRC section 631(a) transaction,” and “IRC section 631(b) disposal.”

placed-in-service date. The date at which property becomes ready and available for a particular use, regardless of whether

the property actually is put in use at that time, and regardless of whether the use is for a trade or business, production of income, a tax-exempt activity, or a personal activity.

plantation subaccount. See “deferred reforestation subaccount.”

portfolio income. Income generated by certain investment activities, such as buying and selling stocks or other financial securities. Also see “income” and “investment.”

precommercial thinning. See “thinning.”

premerchtable timber. Standing trees of species suitable for commercial wood products, but not yet large enough to be merchantable. Also see “merchantable timber.”

preproductive period. The time from when a stand of timber is established to when it starts to produce income. The uniform capitalization rules (UNICAP rules) require that costs incurred during the preproductive period be capitalized, but trees grown for the production of timber are not subject to the UNICAP rules. Also see “uniform capitalization rules.”

prescribed burn. To deliberately burn forestland fuels under specified environmental conditions, which allows the fire to be confined to a predetermined area and produces the fire intensity and rate of spread required to attain the planned resource management objectives. Prescribed burns may be used for several purposes, including to prepare a site for artificial or natural regeneration, to improve wildlife forage and habitat, to control competing vegetation, or as a tool in ecological restoration. Also see “artificial regeneration,” “intermediate treatment,” “natural regeneration,” and “site preparation.”

proceeds. The total amount received from the disposition of an asset, either as payment in cash, notes or other securities, services in kind, other assets, or any other valuable consideration.

profit. The amount by which the revenue from an investment or a trade or business exceeds the expenses for a given tax year. Profit also includes appreciation in the value of assets. Asset appreciation is particularly relevant to timber, which appreciates in value through physical growth and enhanced quality even though it may not be harvested for a period of years. Also see “for profit,” “income,” and “loss.”

pulpwood. Standing or harvested trees of an appropriate size and species to be used to produce pulp for paper products. Also see “merchantable timber” and “sawtimber.”

purchase. To acquire an asset through payment in cash, notes or other securities, services in kind, other assets, or any other valuable consideration; to buy.

Q

qualified timber property (QTP). A separately identifiable tract of land used for timber production. The \$10,000 per year limit on the deduction of qualified timber establishment costs under IRC section 194 applies individually to each QTP. Each area of land that is reforested and the expenses deducted or amortized must be separately identified in the taxpayer’s records (see chapter 4, “Reforestation Tax Incentives,” and chapter 15, “Reforestation Account”).

R

real property. Land, including permanent improvements (for example, land leveling and the roadbeds of permanent roads) and depreciable improvements (for example, bridges, culverts, and the surfaces of permanent roads) to the land. Standing timber generally is real property; however in some States standing timber under contract for sale is considered personal property. Also see “depreciable improvement” and “tangible personal property.”

realized gain. The total consideration received for a transfer of property, minus the property’s adjusted basis and costs of disposal; net gain. Also see “recognized gain.”

recapture provision. Provisions in the IRC to collect part or all of any taxes saved if a taxpayer fails to fulfill the requirements of an incentive.

recognized gain. That portion of realized gain that is taxable. Also see “realized gain” and “taxable gain (or loss).”

recovery period. The number of years over which property in a given class is depreciated. The MACRS General Depreciation System divides most types of tangible depreciable property into classes with recovery periods of 3, 5, 7, 10, 15, or 20 years. Residential rental property has a recovery period of 27.5 years and nonresidential real property has a recovery period of 39 years (31.5 years if the property was placed in service before May 13, 1993). Also see “depreciation” and “Modified Accelerated Cost Recovery System.”

reforest. To reestablish trees on a harvested area by means of planting trees, setting tree seeds, seeding-in from adjacent trees, or sprouts from the stumps or roots of harvested trees. Also see “afforest,” “artificial regeneration,” and “natural regeneration.”

regulations. The interpretation by the U.S. Department of the Treasury of the IRC enacted by the U.S. Congress. Regulations have the force and effect of law. They provide the official rules for applying the IRC to the circumstances of the majority of taxpayers. Also see “Internal Revenue Code (IRC)” and “revenue rulings.”

Revenue Rulings (Rev. Rul.). The official interpretations by the IRS of the application of the IRC, related statutes, tax treaties, and regulations to specific circumstances. Revenue rulings are published for the information and guidance of taxpayers, IRS personnel, and other concerned parties. Also see “Internal Revenue Code (IRC),” “Internal Revenue Service (IRS),” and “regulations.”

rotation. The period of years required to establish and grow an even-aged timber stand or forest to maturity. Also see “even-aged,” “stand,” and “uneven-aged.”

S

S Corporation. See “subchapter S corporation.”

salvage sale. The sale of damaged timber before it deteriorates to the point of worthlessness. Also see “involuntary conversion.”

sawtimber. Standing trees of an appropriate size and species to be used to produce lumber. Logs cut from sawtimber trees are called sawlogs. Also see “merchantable timber” and “pulpwood.”

scaling. The process of estimating the volume of lumber that trees or cut logs will yield. In some regions of the United States, pulpwood and sawtimber are more commonly measured and sold by weight than by estimated yield. Also see “board foot,” “log rule,” “pulpwood,” and “sawtimber.”

self-employment tax. A tax levied on self-employed persons that is used to provide Social Security and Medicare coverage.

service forester. Also referred to as district or State foresters, service foresters are employed by the State agency charged with responsibility for protecting the State’s public and private forest land. These foresters are available for a variety of services, although the amount of time they can devote to any one landowner generally is limited. Service foresters also approve and certify financial assistance to landowners under Federal and State conservation cost-sharing programs. Their services generally are free. Also see “consulting forester,” “extension forester,” “forester,” and “industry forester.”

severance tax. A State excise tax on the cutting of timber. In most States in which a severance tax is levied, it is a tax that is in addition to any property tax levied or taxes in lieu of property taxes. Funds generated by the tax often are designated for specific forestry-related purposes, such as forest fire control, reforestation, or public forestry assistance. Also see “yield tax.”

single identifiable property (SIP). The measure used in calculating a loss from a casualty or theft, which is equal to the

lesser of the adjusted basis of the SIP or the change in FMV of the SIP caused by the casualty or theft. With a forest property, the SIP generally is the timber *block*, or record-keeping unit that contains the timber affected by the casualty or theft.

site preparation. The preparation of land for planting trees, setting tree seeds, or seeding-in from adjacent trees. The objectives of site preparation include reduction of brush and other obstacles to allow planting equipment to operate, reduction of vegetation that would compete with young trees, scarification of the soil to provide a suitable seedbed, or any other action that may be required to facilitate afforestation or reforestation. Also see “afforest,” “artificial regeneration,” “natural regeneration,” “prescribed burn,” and “reforest.”

sole proprietorship. Noncorporate ownership of property or a business by one person only. Also see “corporation,” “family limited partnership (FLP),” “limited liability company (LLC),” “limited partnership,” “partnership,” and “subchapter S corporation.”

special use valuation. The valuation of farm or forest property in an estate, for Federal estate tax purposes, at its current value for farming or timber-growing rather than its FMV for its highest and best use, as permitted under IRC section 2032A. Also see “estate.”

species or value depletion unit. Under certain circumstances, it may be beneficial to maintain separate timber depletion accounts for individual species, value, or product classes of timber from one or more tracts. Also see “average depletion unit” and “depletion unit.”

stand. A contiguous group of trees that is managed or treated as a unit. Also see “Establishment cost,” “Even-aged,” “Harvest,” “Intermediate treatment,” “rotation,” “thinning,” “timber stand improvement (TSI),” and “uneven-aged.”

stepped-up basis. Assets acquired by inheritance take as their basis the FMV of the asset on the valuation date. This value generally is greater than the basis of the asset in the hands of the deceased, resulting in a *step-up* in basis in passing the asset from the deceased to the person inheriting it. Also see “basis” and “valuation date.”

stumpage. Standing trees or, more generally, the volume of recoverable wood in standing trees that have not been severed from their roots by cutting. Stumpage therefore includes the recoverable wood in trees that have been blown down or broken by wind or ice storm. Also see “outright timber sale,” “pay-as-cut timber sale,” “salvage sale,” and “stumpage value.”

stumpage value. The economic value of standing trees; in general, their FMV as of a specified date. Also see “stumpage.”

Subchapter S corporation. A corporation that has elected to be taxed under Subchapter S of the IRC (sections 1361 through 1379) by filing IRS Form 2553 with the IRS. The primary advantage of Subchapter S corporation status is that corporate income, losses, deductions, and credits are passed through to shareholders as in a partnership, eliminating double taxation. The numerous requirements to qualify for Subchapter S corporation status include limits on the number and types of shareholders. Also see “corporation,” “family limited partnership (FLP),” “limited liability company (LLC),” “limited partnership,” “partnership,” and “sole proprietorship.”

T

tangible personal property. Property other than real property that can be seen or touched, such as machinery and equipment. Also see “real property.”

tax credit. An amount allowed as an offset against income tax for a particular tax year. A tax credit results in a direct dollar-for-dollar reduction in taxes due. The 10-percent investment tax credit for reforestation provided under IRC section 48 ended after October 22, 2004, and is no longer available. Also see “amortize” and “establishment cost.”

taxable gain (or loss). The net gain (or loss) from a transaction that must be recognized for tax purposes. Also see “income” and “recognized gain.”

taxable income. Adjusted gross income, minus personal exemptions and the applicable standard or itemized deduction. Also see “adjusted gross income (AGI),” “income,” and “taxable gain (or loss).”

tenancy by the entirety. A form of co-ownership between a husband and wife permitted in some States whereby real property is owned jointly by the spouses, with the interests of a deceased spouse passing directly to the surviving spouse without probate. Also see “co-ownership,” “joint tenancy,” and “tenancy in common.”

tenancy in common. A form of co-ownership whereby each co-owner can sell or divide his or her share, or otherwise transfer his or her interest, as he or she wishes, either during his or her lifetime or upon death. Also see “co-ownership,” “joint tenancy,” and “tenancy by the entirety.”

theft loss. When someone takes and removes property or money with the intent to deprive the owner of it. Forest owners who

suffer a theft of timber may be eligible to take a loss deduction on their Federal income tax (see chapter 7, “Theft Loss”). Also see “casualty,” “involuntary conversion,” “loss,” and “multiple damages.”

thinning. An intermediate treatment to reduce the density of trees in a stand. A stand may be thinned to release timber trees from competing vegetation, improve forest health, or recover merchantable products from trees that may soon die, for example, from disease, insect attack, or overcrowding. A precommercial thinning is conducted before the trees in the stand are large enough to be merchantable; a commercial thinning is conducted after the trees have attained merchantable size, producing income that may qualify for treatment as a long-term capital gain. Also see “capital gain (or loss),” “income,” “intermediate treatment,” “merchantable timber,” and “stand.”

timber. Standing trees of species suitable for wood products. IRC section 631 specifically includes as timber evergreen (coniferous) trees more than 6 years old when cut and sold for ornamental purposes—that is, Christmas trees—but not evergreen trees sold live, or greenery cut from standing trees. Also see “merchantable timber.”

timber account. A capital account that records the cost basis and volume basis of an owner’s timber assets. Separate subaccounts must be kept for merchantable and premerchantable timber. Further divisions—by timber type, product, or tract, for example—are permitted and appropriate if they facilitate planning or management, but are not required. Also see “capital account,” “cost basis,” “merchantable timber,” “merchantable timber subaccount,” “plantation subaccount,” “premerchantable timber,” “timber,” “volume basis,” and “young-growth subaccount.”

timber cruise. The process by which the volume, type, and quality of timber within a designated area is determined. A cruise can be made by measuring each tree in the area—referred to as a timber inventory—or only those trees selected in a statistically based sampling system. Also see “timber” and “timber volume.”

timber deed. A legal instrument that conveys title to timber before it is cut by the transferee. A timber deed typically is used for outright (lump-sum) timber sales. Also see “outright timber sale” and “IRC section 631(b) disposal.”

timber owner. Anyone with the right, if he or she so chooses, to cut timber for sale on his or her own account or for use in their trade or business. This definition includes the holder of a sublease or cutting contract (see chapter 5, “IRC Section

631(a) Cutting of Standing Timber With an Election to Treat as a Sale”). Also see “IRC section 631(a) transaction” and “IRC section 631(b) disposal.”

timber stand improvement (TSI). A collective term for management practices used in an established timber stand to improve the composition or condition of the timber or to concentrate growth on selected trees. Examples include improvement cuts to remove trees of less valuable species, sanitation cuts to remove damaged or diseased trees, and cull tree removal. Also see “intermediate treatment” and “stand.”

timber theft. See “theft loss.”

timber trespass. See “theft loss.”

timber volume. An estimate of the usable wood volume of standing trees, measured in board feet, cubic feet, or other units. Also see “board foot,” “MBF,” “merchantable timber,” “timber,” and “timber cruise.”

transaction. An action or event that leads to an entry in a ledger or other book of accounts. Also see “account,” “journal,” and “ledger.”

trust. An arrangement made either during the life of the person who creates the trust (the settlor or donor) or under the terms of his or her will, by which a person or entity called the trustee holds legal title to designated property in trust and manages it for the benefit of one or more beneficiaries. A trust is a legal entity under State law, separate from any of the parties to the trust. Because of the legal and tax complexities associated with trusts, legal counsel should be consulted.

U

uneven-aged. A stand or forest in which the ages of the timber trees are distributed across a broad range. Also see “even-aged,” “stand,” and “timber.”

uniform capitalization rules (UNICAP rules). The rules that require that preproductive costs associated with a business or investment be capitalized rather than deducted if the preproductive period is longer than 2 years. These rules do not apply to timber (see chapter 10, “Uniform Capitalization Rules”). Also see “preproductive period.”

useful life. An estimate by the IRS of the number of years that a particular type of income-producing property or equipment will remain useful in a trade or business or an investment; also, the number of years over which the owner can take annual depreciation deductions to recover his or her basis in the property or equipment. Also see “depreciable improvement” and “depreciation.”

V

valuation date. The effective date of an appraisal of the value of assets. For property in an estate, the valuation date is either the date of the decedent’s death or the alternate valuation date. The alternate valuation date is the earlier of 6 months after the date of the decedent’s death or the date any estate asset is sold. The executor of an estate may elect to use the alternate valuation date instead of the date of the decedent’s death for valuation of estate assets, if it reduces the value of the estate and the Federal estate tax due. If the alternate valuation date is used, however, it must be used for all assets in the estate. Also see “appraisal” and “estate.”

veneer. Thin strips of wood peeled, sawn, or sliced from a log. Veneer is used in the production of a wide variety of products, including plywood, paneling, boxes, baskets, and furniture. Also see “merchantable timber,” “pulpwood,” and “sawtimber.”

volume basis. For timber and other capital assets that naturally increase in volume or size over time, the volume element of basis in the asset. Also see “basis,” “capital asset,” and “cost basis.”

Y

yield tax. A State tax due when income is realized from harvesting timber. A yield tax usually is in lieu of an annual property tax that otherwise would be levied on the timber year by year as it grew. Also see “severance tax.”

young-growth subaccount. A capital account that records the cost basis and acreage of trees of premerchantable size that were in existence at the time the timberland was acquired. Also see “capital account,” “cost basis,” “merchantable timber subaccount,” “timber account,” and “plantation subaccount.”

