

Glossary

Account—A record of all transactions that affect one segment of a 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 or 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, 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 planting trees, setting tree seeds, or seeding-in from adjacent trees. Also see “Reforest.”

Allowable basis—See “Depletion deduction.”

Alternative minimum tax (AMT)—The excess, if any, of a taxpayer’s tentative minimum tax for a tax year over his or her regular tax for the tax year. The

Internal Revenue Code (Code) defines tentative minimum tax for various categories of taxpayers.

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 length and risk of the investment—is the appropriate discount rate to use in calculating net present value, benefit/cost ratio, and equal annual equivalent, and is the appropriate hurdle rate to use in evaluating investments ranked by internal rate of return. Also see “Benefit/cost ratio,” “Equal annual equivalent,” “Internal rate of return,” and “Net present value.”

Alternate valuation date—See “Valuation date.”

Amortize—To recover or write off a qualifying capital cost over a specified period of time. Under Section 194 of the Internal Revenue Code (Code), up to \$10,000 of timber establishment costs per year can be amortized over 8 tax years. Also see “Capital cost,” “Establishment cost,” and “Tax credit.”

Appraisal—The process of estimating the value of an asset. An appraisal is specific as to time and location.

Artificial regeneration—Reforestation accomplished by planting trees or setting tree seeds, either by hand or machine. The process almost always involves site preparation using chemicals and/or mechanical equipment. Also see “Natural regeneration,” “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.”

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 page 21 for how to determine the basis of an asset acquired by gift or inheritance. Also see “Adjusted basis,” “Cost basis,” “Original basis,” “Stepped-up basis,” and “Volume basis.”

Benefit/cost ratio (B/C)—The discounted present value of all revenues associated with an investment divided by the discounted present value of all costs. Investments with a B/C ratio equal to or greater than 1:1 are economically feasible at the investor’s discount rate. Also see “Equal annual equivalent,” “Internal rate of return,” and “Net present value.”

Bequest—The giving of money or property by one person to another posthumously, through a will or under intestacy. Also see “Estate” and “Gift.”

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 convert tree and log lengths and diameters into board-foot volumes. Also see “Cord,” “Log rule,” and “MBF.”

Boot—Cash and other nonqualifying property received in a property exchange that does not qualify for tax deferral. Also see “Like-kind exchange.”

Business—Generally, an activity carried out for the realization of a profit and characterized by regular transactions. Neither the Internal Revenue Code (Code) nor the regulations provide a precise definition of the term “trade or business.” Also see “Investment,” “Material participation,” “Passive,” and “Profit.”

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—Income-producing property used for an investment or in a trade or business, including land, timber, buildings, and equipment. 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.”

Capitalize—The process of adding the cost of acquiring a capital asset to a capital account. 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 category of operating expense: a regularly recurring ordinary and necessary expense associated with carrying on a trade or business, such as interest, taxes, and insurance. Most carrying charges can be deducted annually or capitalized, at the owner’s discretion. 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 loss—A loss caused by natural or outside forces that is of a sudden, unexpected, and unusual nature, as from fire, hurricane, tornado, earthquake, ice storm, etc. Losses from disease, insect infestation, drought, or combinations of factors usually qualify as noncasualty rather than casualty losses. Also see “Involuntary conversion,” “Loss,” and “Noncasualty loss.”

Chip-n-saw—Standing or harvested trees of an appropriate size (for example, 10 to 12 inches

DBH) and species to be processed using a chipping headrig, which simultaneously produces small sizes of dimension lumber and pulp chips. Also see “Cord,” “Diameter breast high,” “Merchantable timber,” “Pulpwood,” “Sawtimber,” and “Veneer log.”

Clearcut harvest—A harvest method for stands under even-aged management in which all merchantable trees in the stand are harvested at the same time. Other even-aged harvest methods include the seed-tree method, in which scattered merchantable trees are left standing to provide a seed source (seed trees may be harvested after the new seedlings are established), and the shelterwood method, in which the merchantable trees are removed in a series of two or more harvests to provide a seed source and protect the new seedlings. Also see “Diameter limit harvest” and “Even-aged management.”

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

Condemnation—The lawful taking of private property for public use by a government body, without the consent of the owner, with payment of compensation. Also see “Condemnation award,” “Involuntary conversion,” and “Loss.”

Condemnation award—Compensation for a condemnation as determined by a court of law in a condemnation hearing. Also see “Condemnation.”

Consulting forester—A forester available for hire on a contract basis. Consulting foresters typically charge a daily fee plus expenses for certain types of 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—The cost of converting standing timber into a salable product, such as firewood, pulpwood, logs, lumber, or railroad ties. In the case of producing lumber, the conversion cost includes 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 sawmill, and saw them into lumber. Also see “Section 631 (a) transaction.”

Co-ownership—The undivided ownership of property by two or more persons or legal entities. Also see “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, chip-n-saw, 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,” “Chip-n-saw,” “MBF,” and “Pulpwood.”

Corporation—A separate legal entity owned by its shareholders whose ownership interests are represented by shares of stock. Also see “Limited liability company,” “Limited partnership,” “Partnership,” “Sole proprietorship,” and “Subchapter S corporation.”

Cost basis—a. Basis. b. The cost element of basis in a capital asset that naturally increases in volume or size over time. Timber is an example of this type of asset. Also see “Basis,” “Capital asset,” and “Volume basis.”

Cost of sale—A cost directly associated with the sale of timber or another asset, such as advertising, professional services, timber cruising, surveying, 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,” and “Timber cruise.”

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.”

Credit—See “Tax credit.”

Cruise—See “Timber cruise.”

Date of disposal—In a sale or other disposal of timber, the date ownership of the timber changes hands if it is sold outright; otherwise it is when, in the ordinary course of business, the quantity of timber cut is first definitely determined.

Deduct—To recover an expense by subtracting it from taxable income in the year it is paid or incurred. Also see “Deductible item” and “Taxable income.”

Deductible item—An expense for which a taxpayer can take a deduction 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, salaries or other compensation for services rendered by others (except the cost of services related to the purchase of timber or forest land or to reforestation or afforestation, which must be capitalized, or services related to a timber sale, which are deducted from sale proceeds), taxes, interest, and insurance premiums. Also see “Deduct.”

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

Depletion allowance—See “Depletion deduction.”

Depletion deduction—The portion of the adjusted basis that can be offset against the revenue received when standing timber or another asset is sold or otherwise disposed of. $\text{Depletion Deduction} = \text{Depletion Unit} \times \text{Volume Harvested}$. Also see “Adjusted basis,” “Depletion,” and “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.”

Diameter breast high (DBH)—The diameter of a tree 4.5 feet above ground level, the standard point for measuring merchantable timber products. Also see “Merchantable timber.”

Diameter limit harvest—A harvest method for stands under uneven-aged management in which only merchantable trees over a certain diameter are harvested. Other uneven-aged harvest methods include the single-tree selection method, in which individually designated trees are harvested, and the group selection method, in which all the merchantable trees in scattered small areas are harvested. The diameter limit and single-tree selection methods can result in “highgrading,” where continually removing the most desirable trees results in a decline in the condition or value of the remaining growing stock. Also see “Clearcut harvest,” “Growing stock,” and “Uneven-aged management.”

Disposal—Timber is disposed of when the owner cuts, sells, or exchanges the timber or otherwise parts with it. In the case of a 631 (b) disposal, where the timber is cut under a contract that obligates the owner to sell and the purchaser to cut and purchase designated trees at a specified unit price, the timber is disposed of at the time cutting begins. Also see “Lump-sum timber sale,” “Section 631 (a) transaction,” and “Section 631 (b) disposal.”

Economic interest—A concept developed by the U.S. Supreme Court to determine which taxpayers in addition to the fee owner of property qualify for certain tax benefits. Section 631 (b), discussed on page 53, requires that an economic interest be retained. An economic interest is retained in every case in which the taxpayer has acquired by investment any interest in standing 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 “Section 631 (b) disposal.”

Equal annual equivalent (EAE)—The net annual return (or cost) over the life of an investment at the investor’s discount rate. EAE is similar in concept to an installment payment over the life of a loan. Also see “Benefit/cost ratio,” “Internal rate of return,” and “Net present value.”

Equipment account—A capital account that records the cost basis of depreciable machinery and equipment. Also see “Capital account” and “Cost basis.”

Establishment cost—The cost required to afforest or reforest 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 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. Establishment cost is a capital cost and cannot be deducted. The Internal Revenue Code (Code) provides for amortization of and a reforestation investment tax credit on up to \$10,000 per year of establishment costs; additional amounts must be recovered through depletion. Also see “Afforest,”

“Amortize,” “Capital cost,” “Deduct,” “Depletion,” “Reforest,” “Site preparation,” and “Tax credit.”

Estate—A separate legal entity created by process of law to hold and manage the assets of a decedent while they are being administered and distributed under a court’s jurisdiction. Also see “Bequest” and “Valuation date.”

Even-aged—A stand or forest in which all or nearly all of the growing stock trees are approximately the same age. Also see “Even-aged management,” “Growing stock,” “Uneven-aged,” and “Uneven-aged management.”

Even-aged management—Forest management practices designed to establish and maintain an even-aged stand or forest, including use of the clearcut, seed-tree, or shelterwood harvest methods; site preparation; and planting or seeding. Also see “Clearcut harvest,” “Even-aged,” “Site preparation,” “Uneven-aged,” and “Uneven-aged management.”

Exclude—To elect not to include a qualifying item as a part of taxable income. Also see “Excludable” and “Taxable income.”

Excludable—An item of income—for example, from a qualifying public cost-share program—that a taxpayer can elect to exclude from his or her taxable income. Also see “Exclude,” “Income,” and “Taxable income.”

Executory contract—A contract that specifies an agreement reached between the contracting parties, but that does not become effective unless and until some specified event or action has occurred. A timber sale contract may, for example, specify that the timber is not sold under the contract until the buyer has cut the timber and determined the volume cut.

Expense—See “Deduct” or “Operating expense.”

Extension forester—A forester employed by a State Cooperative Extension agency. 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.”

Fair market value—The price at which an asset—timber, for example—would change hands in a transaction between a willing, informed buyer and a willing, informed seller. In a Section 631 (a) transaction, the timber or other asset 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. Also see “Section 631 (a) transaction.”

Farm—Generally a trade or business that produces farm income. Specific sections of the Internal Revenue Code (Code) more precisely define farming for the purposes of those particular sections. Many 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, vegetables, dairy products, poultry, and fish. Also see “Farm” and “Income.”

Felled timber—Timber in trees that have been cut down (severed) and are lying on the ground.

Forester—A person trained in the study and practice of managing forest land and associated resources. Also see “Consulting forester,” “Extension forester,” “Industry forester,” and “Service forester.”

For profit—It is presumed that an activity is being carried on for profit if the activity yields a profit in at least 3 of the 5 consecutive years ending with the current year. Note that profit includes appreciation in the value of assets. This concept is particularly relevant to timber, which appreciates in value through physical growth and enhanced quality over long periods of time. Also see “Hobby” and “Profit.”

Gain—See “Realized gain,” “Recognized gain,” or “Taxable gain.”

Gift—The giving of money or property by one person to another during the donor’s lifetime. Also see “Bequest.”

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.

Growing stock—A measure of the trees on an area that are of suitable species and condition to be sold for or to grow into commercial timber products. Also see “Merchantable timber” and “Timber.”

Hobby—An activity engaged in without the primary intent of realizing a profit. Also see “For profit” and “Profit.”

Holding period—The period of time a capital asset is owned, measured from the date of acquisition to the date of disposal. Income from the sale of assets held over 12 months can qualify for treatment as a long-term capital gain. The holding period for a Section 631 (a) transaction must include the first day of the owner’s tax year. Also see “Capital gain,” “Date of disposal,” “Income,” and “Section 631 (a) transaction.”

Income—Money or its equivalent received during a 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. Income includes wages or salaries, interest, dividends, rents, royalties, and profit realized from the operation of a business. Also see “Active income,” “Adjusted gross income,” “Business,” “Capital gain,” “Farm income,” “Investment,” “Ordinary income,” “Passive income,” “Portfolio income,” “Profit,” “Recognized gain,” “Taxable gain,” and “Taxable income.”

Industry forester—A forester employed by a timber growing and/or processing company. Industry foresters frequently provide technical assistance in conjunction with timber purchases from private landowners. Many 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—A prescribed IRS form whereby taxpayers are required to report certain activities with third parties to the IRS, with a copy to the third party.

In-growth—The growth of timber from premerchutable to merchantable size or from a smaller, lower-valued product to a larger, higher-valued product. Also see “Merchantable timber” and “Premerchutable timber.”

Installment sale—A sale in which the seller receives at least one payment after the tax year in which the disposition occurs. Also see “Disposal.”

Intermediate treatment—A collective term for management practices used in a timber stand between the time it is established and the time it is harvested to release timber trees from competing vegetation; sustain their rate of growth; or improve their composition, form, or condition. Examples include fertilization, precommercial or commercial thinning, prescribed burning, pruning, and timber stand improvement. Also see “Timber stand improvement.”

Internal rate of return (IRR)—The average compound interest rate an investment earns over its duration. Also see “Benefit/cost ratio,” “Equal annual equivalent,” and “Net present value.”

Internal Revenue Code (Code)—Refers to the Internal Revenue Code (Code) of 1986, as amended. This is the written tax law as enacted by the U.S. Congress. The U.S. Department of the Treasury issues regulations to interpret the Internal Revenue Code (Code). 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,” “Regulations,” and “Revenue Rulings.”

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

Investment—An activity engaged in with the intention or realizing a profit, but not rising to the level of a trade or business; the least active level of

participation in an income-producing activity. Management expenses for timber held as an investment are 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,” “Business,” “Income,” “Material participation,” “Passive,” 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 loss, noncasualty loss, theft, or condemnation. Also see “Casualty loss,” “Condemnation,” “Loss,” “Noncasualty loss,” and “Theft loss.”

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 description of the transaction, the names of the parties involved, the amount of a transaction, and the accounts affected. Also see “Account” and “Ledger.”

Land—For tax purposes, land includes the land itself plus any permanent improvements made to it—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.”

Land expectation value (LEV)—The net present value of a perpetual series of timber crops, all managed according to the same plan. Also see “Net present value.”

Ledger—A book of accounts. Also see “Account” and “Journal.”

Lessee—The person to whom a lease is made—for example, the timber company in the case of a forest landowner who leases land to a timber company. Also see “Lessor.”

Lessor—The person granting a lease—for example a forest landowner who leases to a timber company the right to grow and harvest timber on his or her land. Also see “Lessee.”

Life estate—A limited property interest wherein title to the 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 a specified period of time. The life tenant also has responsibilities regarding the property, including paying mortgage interest and property taxes on it, keeping it in good condition, and protecting it. Also see “Income.”

Like-kind exchange—An exchange of ownership interests in properties considered to be like-kind properties under Section 1031 of the Internal Revenue Code (Code), which qualifies the transaction as a nontaxable exchange if certain other requirements are met. The like-kind exchange provisions apply only to properties held for productive use in a trade or business or for investment (except stock, securities, and similar property). They do not apply to property held primarily for sale to customers, property acquired solely for exchange purposes, or partnership interests. 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. Also, an LLC member can materially participate in the LLC’s business activities, so that income and losses passed through are considered active rather than passive. Also see “Corporation,” “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,” “Limited liability company,” “Partnership,” “Sole proprietorship,” and “Subchapter S corporation.”

Log rule—A measuring formula that gives the relationship between the diameter and length of a log and the board-foot volume of lumber that can be sawn from the log. It is assumed that the entire log is sawn into 1-inch boards. Several rules have been developed, based on varying assumptions about the thickness of the saw and sawing practice used, including Doyle, International Inch, and Scribner Decimal C. Also see “Board foot” and “MBF.”

Loss—a. When the expenses from an investment or a trade or business exceed the income in 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, normal or expected levels of mortality and insect and disease damage are considered a cost of doing business and do not qualify as a loss for tax purposes. Also see “Casualty loss,” “Involuntary conversion,” and “Noncasualty loss.”

Lump-sum 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 of the timber on a tract can be sold, or only certain species or diameter classes, or individually marked trees. Under certain conditions, income from a lump-sum timber sale can qualify for treatment as a capital gain. Also see “Capital gain,” “Income,” “Section 631 (a) transaction,” “Section 631 (b) disposal,” and “Timber deed.”

MACRS—See “Modified Accelerated Cost Recovery System.”

Marking—The process of designating trees that are to be cut and sold. A common marking practice 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 “Lump-sum timber sale,” “Section 631 (a) transaction,” and “Section 631 (b) disposal.”

Material participation—Where a taxpayer participates regularly, continuously, and substantially in the management and operation of a business; 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 page 40). 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, chip-n-saw, sawtimber, veneer logs, and so forth. Also see “Chip-n-saw,” “Growing stock,” “Merchantable timber subaccount,” “Premerchantable timber,” “Pulpwood,” “Sawtimber,” “Timber,” and “Veneer logs.”

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 two-thirds represents punitive damages. Also see “Theft loss.”

Natural regeneration—Reforestation accomplished by 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. Also see “Artificial regeneration,” “Reforest,” and “Site preparation.”

Net operating loss (NOL)—The excess when 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.”

Net present value (NPV)—The discounted present value of all revenues associated with an investment minus the discounted present value of all costs. Investments with an NPV equal to or greater than 0 are economically feasible at the investor’s discount rate. Also see “Benefit/cost ratio,” “Equal annual equivalent,” and “Internal rate of return.”

Noncasualty loss—A loss caused by natural or outside forces that is unexpected and unusual. Losses that are gradual or progressive, as from disease, insect infestation, drought, or combinations of factors qualify as noncasualty losses. Also see “Casualty loss,” “Involuntary conversion,” and “Loss.”

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,” “Income,” and “Profit.”

Original basis—A measure of the original capital investment in an income-producing asset. Also see “Adjusted basis” and “Basis.”

Partnership—An association of two or more persons to carry on, as co-owners, a business for profit. Also see “Business,” “Corporation,” “Limited liability company,” “Limited partnership,” “Profit,” “Sole proprietorship,” and “Subchapter S corporation.”

Passive—Where a taxpayer participates in the management and operation of a business, but not at the level necessary to qualify as material participation; the second-least active level of participation in an income-producing activity. 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 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 contract—See “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—A capital account that records the cost basis and acreage of artificially planted or seeded trees of premerchantable size. Also see “Capital account,” “Cost basis,” “Merchantable timber subaccount,” “Timber account,” and “Young-growth subaccount.”

Portfolio income—Income generated by certain investment activities. Also see “Income” and “Investment.”

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

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

Profit—When the income from an investment or a trade or business exceeds the expenses in a given tax year. Profit also includes appreciation in the value of assets. This concept 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 (for example, 5 to 9 inches DBH) and species to be used to produce pulp for paper. Also see “Chip-n-saw,” “Diameter breast high,” “Merchantable timber,” “Sawtimber,” and “Veneer log.”

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

Real property—Land—which includes such permanent improvements as land leveling and the roadbeds of permanent roads—and depreciable improvements to the land. In most cases, standing timber also is real 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 transaction costs. Also see “Recognized gain.”

Recapture provision—Provisions in the Internal Revenue Code (Code) 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 the realized gain that is taxable. Also see “Realized gain” and “Taxable gain.”

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 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 interpretations by the U.S. Department of the Treasury of the Internal Revenue Code (Code) enacted by the U.S. Congress. Regulations have the force and effect of law. They provide the official rules for applying the Internal Revenue Code (Code) to the circumstances of individual taxpayers. Also see “Internal Revenue Code” and “Revenue Rulings.”

Revenue Rulings—The official interpretations by the IRS of the application of the Internal Revenue Code (Code), 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,” “Internal Revenue Service,” 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.”

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 (for example, 13 inches DBH and above) and species to be used to produce lumber. Logs cut from sawtimber trees are called sawlogs. Also see “Chip-n-saw,” “Diameter breast high,” “Merchantable timber,” “Pulpwood,” and “Veneer log.”

Scaling—The process of measuring the dimensions of individual logs or trees. The measurements are used to estimate the volume of the logs or trees by applying them to a log rule or tree volume table. Also see “Log rule.”

S Corporation—See “Subchapter S corporation.”

Section 631(a) transaction—If a forest landowner cuts standing timber and converts it into products for sale and specifically elects to treat the process as a Section 631(a) transaction, the proceeds that result from holding the standing timber qualify as a capital gain under IRC Section 1231—just as if the owner had sold it at fair market value—and the value added by cutting the timber and converting it into products is ordinary income. Also see “Capital gain,” “Conversion cost,” “Lump-sum timber sale,” “Ordinary income,” and “Section 631(b) disposal.”

Section 631(b) disposal—When timber is cut under a contract that requires payment at a specified price for each unit of timber actually cut and measured, commonly known as a pay-as-cut contract. Use of such a contract qualifies as a disposal with an economic interest retained under Section 631(b) of the Internal Revenue Code (Code), so that the income is taxable as a capital gain, even if the timber is held primarily for sale to customers. Also see “Capital gain,” “Disposal,” “Income,” “Lump-sum timber sale,” and “Section 631(a) transaction.”

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

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 wide 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-share 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 in addition to any property tax levied or taxes in lieu of property taxes. Funds generated often are designated for specific forestry-related purposes, such as forest fire control, reforestation, or public forestry assistance. Also see “Yield tax.”

Site preparation—The preparation of land for planting trees, setting tree seeds, or seeding-in from adjacent trees. The objectives 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, and/or any other action that may be required to facilitate afforestation or reforestation. Also see “Afforest,” “Artificial regeneration,” “Natural regeneration,” and “Reforest.”

Sole proprietorship—Noncorporate ownership of property or a business by one person only. Also see “Corporation,” “Limited liability company,” “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 fair market value, as permitted by Section 2032A of the Internal Revenue Code (Code). Also see “Estate.”

Species or value depletion unit—Under certain circumstances, it may be permissible 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.”

Stepped-up basis—Assets acquired by inheritance take as their basis the fair market value 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 “Stumpage value.”

Stumpage value—The economic value of standing trees. Also see “Stumpage.”

Subchapter S corporation—A corporation that has elected to be taxed under Subchapter S of the Internal Revenue Code (Code) (Sections 1361 through 1379) by filing 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. There are numerous requirements to qualify for Subchapter S corporation status, including limits on the number and types of shareholders. Also see “Corporation,” “Limited liability company,” “Limited partnership,” “Partnership,” and “Sole proprietorship.”

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. Section 48 of the Internal Revenue Code (Code) provides for a 10-percent reforestation investment tax credit on up to \$10,000 per year of establishment costs, for a maximum annual credit of \$1,000. 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 deductions. Also see “Adjusted gross income,” “Income,” and “Taxable gain.”

Tenancy by the entirety—A legal arrangement between a husband and wife that is 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 undivided 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—The unlawful taking of timber without the permission of the owner. Also see “Involuntary conversion,” “Loss,” and “Multiple damages.”

Timber—Standing trees of species suitable for wood products. Section 631 of the Internal Revenue Code (Code) 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 “Growing stock,” “Merchantable timber,” and “Timber account.”

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 standing timber before it is cut by the transferee. A timber deed typically is used for lump-sum timber sales. Also see “Lump-sum timber sale.”

Timber owner—Anyone with the right, if they so choose, to cut timber for sale on their own account or for use in their trade or business. This definition includes the holder of a sublease or cutting contract. Also see “Section 631 (a) transaction” and “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 crop 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.”

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.”

Timeline—A diagram showing the years when costs are incurred and income is received over the duration of an investment. Also see “Investment.”

Transaction—An action or event that leads to an entry in a ledger or other book of accounts. Also see “Account,” “Journal,” and “Ledger.”

Uneven-aged—A stand or forest in which the ages of the growing stock trees are distributed over a broad range. Also see “Even-aged,” “Even-aged management,” “Growing stock,” and “Uneven-aged management.”

Uneven-aged management—Forest management practices designed to establish and maintain an uneven-aged stand or forest, including use of the diameter limit, single-tree selection, or group selection harvest methods. Also see “Diameter limit harvest,” “Even-aged,” “Even-aged management” and “Uneven-aged.”

Uniform capitalization 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.

Useful life—An estimate of the period of time an asset will remain useful in a trade or business or to produce income. Also see “Depreciable improvement” and “Depreciation.”

Valuation date—The effective date of an appraisal of assets in an estate. The valuation date is either the decedent’s date of death or the alternate valuation date. The alternate valuation date is the earlier of 6 months after the decedent’s death or the date any estate asset is sold. At the executor’s election, the alternate valuation date rather than the date of death may be used as the date for valuation of estate assets, if it reduces the value of the estate and the estate tax due. If the alternate valuation date is used, however, it must be used for all assets in the estate. Also see “Estate.”

Veneer log—Logs of an appropriate size, species, and quality to be peeled, sawn, or sliced into

veneer. Veneer is used in the production of a wide variety of products, including plywood, paneling, boxes, baskets, and furniture. Also see “Chip-n-saw,” “Merchantable timber,” “Pulpwood,” and “Sawtimber.”

Volume basis—The volume element of basis in a capital asset, such as timber, that naturally increases in volume or size over time. Also see “Basis,” “Capital asset,” and “Cost basis.”

Yield tax—A State tax due when income is realized from harvesting timber. A yield tax usually is in lieu of an annual ad valorem tax that otherwise would be levied on the timber itself. Also see “Severance tax.”

Young-growth subaccount—A capital account that records the cost basis and acreage of naturally seeded trees of premerchantable size. Also see “Capital account,” “Cost basis,” “Merchantable timber subaccount,” “Timber account,” and “Plantation subaccount.”