

## Timber and Land Basis

A private consulting forester can assess the current value of your standing timber, generally referred to as a “timber cruise.” The current values can then be used to estimate revenues from planned timber sales and used to estimate stand values that were in existence when you came in possession of the property. Landowners are only responsible of paying taxes on net timber revenues (gross timber revenue minus timber basis). These gains are considered capital gains if the assets had been held for a year or longer. If the property was inherited, the values of those stands at the time of the decedent’s passing would be their timber basis. If the property was purchased, it would be their value at the time of purchase proportionate to other capital assets (bare land, house, etc.) and then applied to the purchase price. SCFC maintains historical timber prices. If a stand was pre-merchantable in either case, then the value could be determined by the cost method or income method. The cost method would apply to planted stands and includes establishment costs and annual costs compounded to the date of acquisition. The income value method may be determined by discounting the expected value of future harvests to the date of acquisition. A comparison of both methods would help determine the most accurate value. Other maintenance fees on the property can be applied to the basis as well, if they are not already being deducted, which are referred to as carrying charges. The consultant can also handle the timber sale and other management activities on your property and their costs can be applied to the timber basis as well. Below are many helpful links to assist landowners, foresters, and accountants.

- Estate Planning: <https://www.timbertax.org/publications/fs/EstatePlanningforForestLandowners/>
- Timber Tax Tips: [https://www.fs.usda.gov/sites/default/files/fs\\_media/fs\\_document/2022-Tax-Tips-for-Forest-Landowners.pdf](https://www.fs.usda.gov/sites/default/files/fs_media/fs_document/2022-Tax-Tips-for-Forest-Landowners.pdf)
- Timber Basis: <https://www.timbertax.org/getstarted/basis/>
- Timber Prices: <https://www.scfc.gov/resources/public-information/landowner-resources/timber-prices/>

## Depletion Rate and Allowance

Depletion allowance: unless you clearcut a stand, you only deplete a portion of the timber basis during a thinning. The depletion allowance is the timber basis you file for that tax year in which you sold timber. In stocks, it’s the cost basis per share X how many shares sold. In timber, it’s the cost basis per unit (usually tons) X the number units sold.

- To determine the depletion allowance, you must calculate depletion rate (\$/ton).
  - Depletion Rate (\$/ton)= Timber Basis ÷ Total Volume (tonnage) just prior to harvest
  - Depletion Allowance = Depletion Rate X Volume Harvested(cut)
- Calculating adjusted basis for next thinning/timber sale for same stand.
  - Adjusted basis = timber basis – depletion allowance from previous timber sale
  - Calculate new Depletion Rate= adjusted basis ÷ total tonnage at the time of the next thinning
  - Depletion Allowance: depletion rate X volume harvested(cut)