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VIRGINIA FOREST LANDOWNER UPDATE

Events, news, and information promoting the stewardship of Virginia's forest resources.



VIRGINIA FOREST LANDOWNER EDUCATION PROGRAM

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Tax Tips for Forest Landowners for the 2008 Tax Year

by: Linda Wang, *USDA Forest Service*
John L. Greene, *USDA Forest Service*

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This bulletin summarizes key federal income tax provisions for forestland owners, foresters, loggers, forest product businesses, and tax practitioners. It is current as of October 1, 2008, and supersedes Management Bulletin R8-MB 130. Consult your tax and legal professionals for advice on your particular tax situation.

Timber Sales

If you have held standing timber for over 12 months, income from the sale or disposal of the timber generally qualifies as a long-term capital gain. This is an advantage since, among other reasons, long-term capital gains are taxed at lower rates than ordinary income and are not subject to self-employment tax. Short-term capital gains are taxed at the same rates as ordinary income. For most individual forestland owners, the tax rate for long-term capital gains is 15%. From 2008–2010, however, a special 0% rate applies to long-term capital gains which, when added to your ordinary income fit under the ceiling for the 15% bracket for ordinary income (\$32,550 for single taxpayers, \$65,100 for married taxpayers filing jointly). Also, income from timber which a C corporation has held for more than 15 years is subject to a 15% capital gains tax rate, effective one year beginning on May 22, 2008.

Example 1. In 2008 you sold 200 tons of pine sawtimber out of a total of 1,000 tons on your entire tract for \$8,000. Your basis for the entire tract is \$10,000 and your sale expenses were \$900. Your depletion unit is \$10/ton (\$10,000 ÷ 1,000 tons). Your taxable gain is \$5,100 (\$8,000 – (200 tons x \$10/ton) – \$900).

If you sell cut timber, only the gain from appreciation of the standing timber can qualify as a capital gain; the value added by cutting and hauling the timber is ordinary income. Further, you only can treat the value of the standing timber as a long-term capital gain if you have a an IRC section 631(a) election in effect. Make the election on Form T, Part II.

Investors report timber income on Form 1040, Sched. D, and active business owners report it on Form 4797. If you claim a depletion deduction, sell timber lump-sum under section 631(b), or make or use a 631(a) election, you also must file Form T; the form is available at <http://www.irs.gov/pub/irs-pdf/ft.pdf>. Partnerships and LLCs file Form 1065, Sched. K and K-1. S corporations report it on Form 1120S, Sched. K and K-1, and C corporations on Form 1120.

If you receive payments from the sale or disposal of timber in 2 or more years, you can use the installment method to spread the income – and the tax on it – over the years you receive payments. Report an installment sale first on Form 6252, and then the amount can be carried over either to Form 4797 or Sched. D of Form 1040.

Timber Management Expenses

If you manage your forestland for profit – as an investment or a trade or business – you can deduct ordinary and necessary timber management expenses. These include timber cruises, fees paid a consulting forester, brush control, protecting the forest from fire, insects and disease, tools of short useful life, precommercial thinning, timber stand improvement, hired labor, and mid-rotation fertilization. Costs associated with reforestation, including supervision by a forester and brush control, are subject to the reforestation deduction and amortization provisions (see below). Costs associated with a timber sale, including a pre-sale timber cruise, are deductible from the sale proceeds. Property taxes and interest paid also are currently deductible, but you may elect to capitalize them if doing so provides a tax benefit. Car and truck expense related to timber activities also may be deducted using either the standard mileage allowance (50.5 cents per mile for 2008) or the actual expenses (including depreciation if you own the vehicle).

For investors, property taxes are fully deductible in the Taxes You Paid section of Form 1040, Sched. A. Other management expenses, however, must be reported in the Job Expenses and Certain Miscellaneous Deductions section, where they are combined with other such deductions and only the amount that exceeds 2% of your adjusted gross income is deducted. Active business owners deduct all management expenses, including property

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Events Calendar			For the most complete listing of natural resource education events, visit the on-line events calendar at www.cnr.vt.edu/forestupdate		
Contact	Date	Location	Event	Time	Fee
DCR	Feb., Mar., Apr.	Virginia State Parks	A variety of events and activities. For a complete listing visit: www.dcr.virginia.gov/parks	Varies	Varies
PO	Feb. 7	Rappahannock	Wildlife Habitat Open House Learn about wildlife habitats and talk to natural resource professionals.	10 a.m. - 3:30 p.m.	Free
BW	Feb. 7; Mar. 7	Chesapeake	Learning the Basics of Fly Fishing Learn to tie your first fly, cast a fly rod, and pick your equipment.	10 a.m.	Free
AD	Feb. 18 & 25	Washington, VA	Backyard Woods Workshop Whether you are interested in converting lawn to forest, creating wildlife habitat, or providing a useful outdoor space for your family, this workshop is for you.	1 - 4 p.m.	\$15/person; \$20/ couple
TV	Feb. 24 - May 26	Charlottesville	Charlottesville Tree Steward Training Tree Stewards support rural and urban forests, increase public awareness of the value and beauty of trees, educate about trees and tree care, partner with local government agencies and civic groups and improve and restore the tree canopy in the area.	9 a.m. - 12 p.m. 14 Tuesdays	\$50
AD	Feb. 25 & Mar. 4	Standardsville	Backyard Woods Workshop See above for description.	6:30 - 9 p.m.	\$15/person; \$30/ couple
AD	Mar. 7	Lovingston	Backyard Woods Workshop See above for description. ** Includes lunch**	9 a.m. - 3 p.m.	\$20/person; \$30/ couple
MY	Mar. 7	Weyers Cave	Mow is Less The workshop will walk participants through the "Woods in your Backyard" manual, which they will take home, and provide hands-on learning opportunities as well. Great for owners of small acreage!	9 a.m. - 3 p.m.	\$20/person; \$30/ couple
NC	Mar. 12-13	Charlottesville	Ecosystem Services: Marketing Environmental Solutions See page 4 for details.	all day	\$195
NM	Mar. 13-15	Appomattox	Wilderness Survival & Outdoor Skills Weekend Join DGIF for a fun weekend and learn how to SURVIVE and THRIVE in the wilderness!	all day	\$165
JG	Mar. 20	Keysville	Investing in Sustainable Forestry: Profitable Forest Management for the 21st Century Learn to increase forest productivity, improve forest health, increase biodiversity, conserve soil and water, sequester carbon, and develop an understanding of: socio-economic benefits, legal, institutional and economic situations, and peer to peer educational opportunities.	8:30 a.m. - 4:30 p.m.	\$10 - inc. lunch and field guide
AD	Mar. 26 & Apr. 2	Palmyra	Backyard Woods Workshop See above for description.	2 - 4:30 p.m.	\$15/person; \$20/ couple
AD	Mar. 21	Charlottesville	Backyard Woods Workshop See above for description. **Includes lunch**	9 a.m. - 3 p.m.	\$20/person; \$30/ couple
JG	Mar. 27	Wakefield	Investing in Sustainable Forestry: Profitable Forest Management for the 21st Century See above for description.	8:30 a.m. - 4:30 p.m.	\$10 - inc. lunch and field guide
GP	Apr. 24-26	Norfolk	Virginia Forestry Association's Annual Convention: Working Together to Meet the Challenge of Change	all day	varies
MY BWo NC JF	Mar. 24 Apr. 2 May 7 May 14	NW VA SW VA SE VA Central VA	Lean Manufacturing Conference Learn how to produce high quality products with half the effort, space, inventory and time. **Includes lunch**	9:30 a.m. - 3:30 p.m.	\$25
JF NC BWo MY	Mar. 26 Apr. 9 Apr. 30 May 5	Central VA SE VA SW VA NW VA	Pallet Recycling Workshop Learn innovative uses for used pallets, how others recycle them and learn to save on costs. **Includes lunch.**	9:30 a.m. - 3:30 p.m.	\$25

See Event Contacts pg. 4

You Ain't From Around Here! Exotic Invasive of the Quarter: Alligatorweed (*Alternanthera philoxeroides* (Mart.) Griseb.)

by: Jennifer Gagnon, *Virginia Tech Forestry Department*

In honor of the University of Florida's Fighting Gators winning their second National BCS College Football Championship in the past 3 years, I'm featuring alligatorweed this quarter!

Also known as pigweed, alligatorweed made its way to Mobile, Alabama in 1897 in the ballast of a ship arriving from the Parana River Region in South America. The invasion has spread through the southeastern United States, from Texas to Virginia, and is also found in California, Illinois and Puerto Rico. At the peak of the alligatorweed invasion, in 1963, over 160,000 acres of land in the 8 southeastern United States were infested.

Fortunately, a biological control in the form of the alligatorweed flea beetle, which feeds on the plant, has reduced the amount of impacted land to about 1,600 acres. Unfortunately for Virginians, the beetles are not able to survive this far north, and thus cannot be used for control in the Commonwealth. Currently, alligatorweed is found throughout Virginia. Most often, it is found in canals, ditches, blackwater rivers, stream edges and sloughs.



Floating mats of alligatorweed cover portions of a stream. Photo by: Chris Evans.

Alligatorweed is an herbaceous perennial with trailing stems that form dense floating mats (they float because the stems are hollow). These mats can be up to three feet thick and spread over the surface of water for hundreds of feet. Rooting occurs in shallow water or on shore in aquatic or very wet habitats.

Like most invasives, alligatorweed is able to grow under a wide range of conditions - from fresh to slightly brackish water. The ability to root on dry land allows it to survive in areas with distinct wet and dry seasons. Subtropical to cool climates can support this weed, however, it will die back in the winter in the more northern part of its range (Virginia).

No seedlings have been found in North America. The plants rarely produce seeds, and when they do, they are typically non-viable. So, reproduction occurs vegetatively - small pieces broken off from the main plant are able to float downstream and root - forming new plants. Humans play an important role in the spread. Like our friend hydrilla, pieces get stuck in boats and are transported along waterways.

As you might imagine, this rapidly growing plant causes numerous problems. The dense mats prevent sunlight from reaching native plants growing below the surface of the water, altering the ecology of the system. They can also alter water chemistry by restricting oxygen levels in the water and increasing sedimentation. Economically, alligatorweed can interfere with irrigation, boating and fishing activities, drainage, and can block entire waterways. Because this plant can also grow on land, it can invade agricultural land and pastures. And if that wasn't enough, the dense mats provide a lovely place for mosquitoes to breed.

How to identify alligatorweed

Leaves: oppositely arranged, elliptical, 2 - 4" long, thick, but non-succulent, distinctive mid-rib, no hairs or petioles

Stems: hollow, fleshy and succulent, light to dark green; if stressed, stems can be pink-purple; hairless, except at base of leaves

Flowers: single, very small, white, clover-like flowers, borne on spikes from the leaf axils; bloom in the summer (April - October), pleasantly fragrant

Roots: fibrous, occur at stem nodes, can be free floating in water or rooted in soil, floating or trailing except for tips which turn slightly upward



Alligatorweed plant (left) and flower (top). Photos by: Chris Evans and Gary Buckingham.

How to Control Alligatorweed

Mechanical: According to the literature, mechanical control (pulling plants, mowing or discing) is both expensive and ineffective! If you choose to pull plants, you must be certain to remove all plant pieces and roots.

Biological: Only in more southerly climates.

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Chemical: Recent research in Alabama indicates that two herbicides, triclopyr amine (brand names: Renovate, SePro, Carmel, IN 46032) and Imazapyr (brand names: Habitat, BASF, Florham Park, NJ 07932), which have been recently approved for use in wetlands, are effective controls. For immediate control and rapid habitat restoration, apply triclopyr amine at a high rate, in April; if you can wait one year for major habitat improvement, apply either chemical at a high rate in June.

Prevention: You can decrease the chances of being invaded! If you are constructing a pond, follow the proper guidelines – this weed cannot grow in water deeper than six feet; minimizing shallow edges and planting native species around the edges can help prevent an invasion. Also, be sure to check your boats and other aquatic gear for pieces of this plant when you pull them out of the water.

And as always, Go Gators (but not alligatorweed)!



Upcoming Programs!

Ecosystem Services Conference – Prepare for new markets for carbon and nutrients

The Ecosystem Services: Marketing Environmental Solutions conference taking place on March 12-13, 2009 in Charlottesville, Virginia (<http://www.cpe.vt.edu/esmes/>) will feature the foremost international, national, and regional experts to explain how market-based solutions are being used to solve environmental problems. Featured speakers from international NGOs such as the World Resources Institute and WinRock International as well as from Duke's Nicholas School of the Environment will elucidate the formation of ecosystem service markets. Successful projects will be described by knowledgeable service providers, and buyer and seller perspectives will be offered. Panel discussions will aid in sorting out the finer details of specific carbon, nutrient, wetlands, and species market opportunities. Industry, government, non-governmental organizations, academia, and land-owners will all benefit by gaining a better understanding of how ecosystem service markets function and what that will mean for them and their organizations.

On-Line Woodland Options for Landowners.

Stay tuned for the 2009 offering of On-Line Woodland Options for Landowners, spring 2009. This 12 week course will teach you the basics of forest management, along with a hands-on field trip so you can practice your new skills. This year the class will have a new format, should be less expensive than in previous years, and will be housed on the Virginia LEAF site (www.valeaf.org). Stay tuned for details.

Forestry education for women who own forests.

A new series of workshops/networking opportunities will be offered this spring across Virginia. The programs will be tailored to women who own forest land, are the primary managers of forest land, or who are interested in becoming more involved with forest management. The first program will be a 3/4 day class focusing on the basics of forest ownership and management. The second program will be a 3/4 field day to learn and practice field skills (such as tree identification and measurements). Both programs will serve as a starting point to form networks amongst the participants. We need a name for this program, so any and all suggestions are welcome!

Event Contacts			
Contact	Name/Affiliation	Phone	e-mail/website
DCR	Department of Conservation & Recreation	804/786-1712	www.dcr.virginia.gov/parks
PO	Pam Owen	540/317-1449	biodiversity@rlep.org
BW	Bill Wills	757/421-7151	tu389-bwills@cox.net
AD	Adam Downing	540/948-6881	adowning@vt.edu
TV	Trees Virginia	434/872-4580	www.treesvirginia.org
MY	Matt Yancey	540/564-30080	yancey@vt.edu
NC	Neil Clark	757/657-6450 x 406	southeast@vt.edu
NM	Nate Mahanes	434/248-5444	holidaylake4h.com
JG	Jennifer Gagnon	540/231-6391	jgagnon@vt.edu
GP	Glenda Parrish	804/278-8733,	gparrish@vaforestry.org
BWo	Bill Worrell	276/889-8056	bworrell@vt.edu
JF	Jason Fisher	434/476-2147	jasonf@vt.edu

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taxes and interest paid, on Form 1040, Sched. C. Management deductions may be disallowed unless you can substantiate them. This makes it important to keep supporting records such as sales slips, receipts, invoices, canceled checks, and mileage records and have them on hand for an IRS examination or audit.

Forest Planting Costs

You can deduct outright the first \$10,000 per year (\$5,000 per year for married couples filing separately) of reforestation expenses per qualified timber property and amortize (deduct) any additional amount over 8 years. These provisions apply both to the cost of establishing a plantation and practices to encourage natural regeneration.

Example 2. You planted pine seedlings in 2008 at a cost of \$6,000. You can deduct all \$6,000 outright because it is less than \$10,000. Investors take the deduction on the front of Form 1040, as an adjustment to income; material participants take it on Form 1040, Sched. C or F (if you qualify as a farmer).

If the planting cost had been \$14,000, you only could deduct \$10,000 outright. But you could take an amortization deduction for 1/14th of the remaining \$4,000 (\$287) on your tax return for 2008, 1/7th (\$571) on your returns for 2009 through 2014, and the last 1/14th on your return for 2015. Elect to amortize and show your deductions on Form 4562, Part VI.

Depreciation and the First-Year Expensing

You may take annual depreciation deductions to recover your investment (basis) in property such as timber equipment, machinery, buildings, bridges, culverts, temporary roads, fences or the surfaces of permanent roads you placed in service for timber production. Cars, light-duty trucks, logging equipment, and road building equipment generally are depreciated over a 5-year period. If you purchased property for your timber business in 2008, you can elect to expense up to \$250,000, subject to phase-out and taxable income limitations, up from \$128,000. In addition, for property purchased and placed in service in 2008, a bonus depreciation in the amount of 50% of the property costs is available.

Cost-share Payments

If you received a payment from a public cost-share program, you also should receive a Form 1099-G. If the program is approved under section 126, however, you can elect to exclude a calculated portion of the payment from your gross income. Approved federal programs include the Conservation Reserve Program (CRP), Environmental Quality Incentives Program (EQIP), Wildlife Habitat Incentives Program (WHIP), and Wetlands Reserve Program (WRP). Cost-share programs for southern pine beetle and mountain pine beetle are under IRS review, but as of press time, had not been approved for exclusion. Several state programs also qualify.

The amount of a cost-share that can be excluded is the present value of the larger of \$2.50 per acre or 10% of the average annual income from the property over the last 3 years. Calculating present value requires using an interest rate, but the IRS has provided little guidance as to what rate to use.

Example 3. You received a \$3,000 cost-share from EQIP in 2008. Your only income from your 40-acre forestland in the last 3 years was \$9,000 from a 2006 timber sale. Using 7.56%, the 2008 Farm Credit Bank interest rate for your region, you can exclude all \$3,000 of the cost-share from your gross income: $\$2.50 \times 40 \text{ acres} = \100 and $10\% \times (\$9,000 \div 3) = \300 ; the present value of \$300, the larger of the two amounts, is $\$300 \div 7.56\% = \$3,968$, which is more than the cost-share. Attach a statement to your tax return showing the amount and nature of the cost-share payment and how you determined the excludable amount.

CRP Rental Payments

Land rental payments received under CRP are not cost-shares and cannot be excluded from gross income. Beginning in 2008, however, CRP rental payments are exempt from self-employment tax for taxpayers who are retired or disabled.

Timber Basis

Basis is a measure of your investment in timber. The total cost of acquiring purchased forestland should be allocated proportionately among capital accounts for the land, the timber, and other capital assets acquired with them. The fair market value of inherited forestland should be allocated similarly. This usually results in a step-up in basis because the fair market value of the property is higher than the decedent's basis.

Establishing your basis can lower your income tax by reducing the taxable amount of timber income. It also can help you recover reforestation costs or your investment in timber lost in a casualty or theft. If you did not establish your basis when you first acquired your timber, you can do it retroactively. You may need a professional forester to determine the volume and value of the timber at the time you acquired it. If you acquired your timber or forestland many years ago, you should compare the potential tax savings from establishing your basis retroactively with the time and expense involved, to see whether it is financially worthwhile. Report your original basis in timber and land on Form T, Part I.

Timber Casualty Losses

You can take a deduction for timber lost in a casualty – an event that is sudden, unexpected, and unusual, like a fire, ice storm or hurricane.

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Start with the timber "block" that includes the damaged area (if you keep track of all your timber in one account, that is your timber block). Your deduction is the lesser of the decrease in value caused by the casualty or your basis in the timber block.

Example 4. This year a hurricane destroyed timber on your 50-acre tract. Your forester estimates the timber was worth \$11,000 before the storm but only \$1,000 after, a \$10,000 decrease in value. Your basis in the timber is \$2,000. Your casualty loss deduction is \$2,000, the lesser of the two numbers.

Keep in mind the IRS may verify your basis and damage estimate. Report a casualty loss on Form 4684, Section B; adjust your timber basis on Form T, Part II.

Like-Kind Exchanges

Instead of selling appreciated timberland, paying tax on the income and then acquiring replacement property using after-tax dollars, you can structure the transaction as a like-kind exchange (section 1031 exchange) so that gains are not currently taxed. To qualify, you must identify the replacement property within 45 days after closing on the relinquished property. The exchange must be completed by the earlier of the 180 days after the closing of the relinquished property or the due date (including extensions) of the tax return in the tax year of exchange.

Conservation Easements

You can take a charitable contribution deduction for donation of a permanent conservation easement. The amount you can deduct for 2008 is limited to 50% of your adjusted gross income, but you can carry forward any unused amount to be deducted over the next 15 years. If you generate more than 50% of your total income from a timber business, the amount you can deduct is limited to 100% of your adjusted gross income.

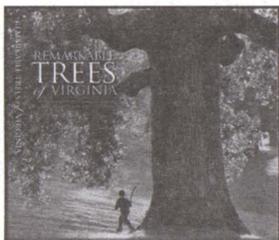
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Visit the National Timber Tax
Website: www.timbertax.org
for more useful information on preparing
your taxes.

Useful Resources

- Have you heard about the PLANTS Database? Hosted by the USDA Natural Resources Conservation Service (NRCS) this website provides standardized information on plants found in the United States. You can search for a plant by its common or scientific name. Your search results will contain photos, range maps, identifying characteristics, additional sources of information and references. The PLANTS Database was formed as a way to provide standardized information on plants, and to promote land conservation. Folks are encouraged to use it for education and general knowledge as well. Many of the range maps used in "You Ain't From Around Here!" come from the PLANTS Database. Check it out at: <http://plants.usda.gov>



- Are you interested in Virginia's history? Do you love trees? If so, you may be interested in the new book, Remarkable Trees of Virginia. Over 1000 trees were nominated by Virginia's citizens to appear in this book. Along with color photographs, are stories of each tree. This book is available on-line or at your local bookstore. You can learn more about the book and the project at: <http://www.cnr.vt.edu/4H/remarkabletree/>

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