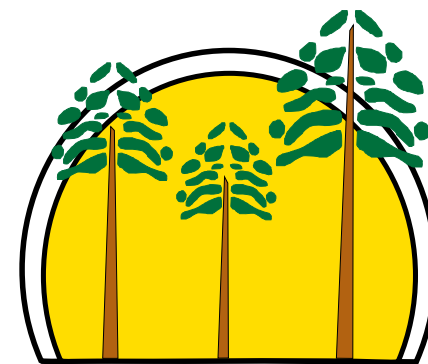




Southern Forestry Consultants, Inc.  
105 W. Anderson St.  
Monticello, FL 32344

PRSRT STD  
U.S. POSTAGE  
PAID  
MONTICELLO, FL  
PERMIT NO.  
203



# Timber Talk

## SFC Newsletter

Newsletter for Southern Forestry Consultants, Inc.  
Clients & Customers

Spring 2009

www.soforest.com

## David Lewis Receives the Award of Excellence in the General Practice of Forestry from the Southeastern Society of American Foresters



L to R: Wayne Smith, Awards Chair; Dave Lewis; Mark Milligan, Past FL Chair; Michael Dooner, Southern Forestry Consultant President.

David S. Lewis received the Award of Excellence in the General Practice of Forestry at the 2008 annual convention of the Southeastern Society of American Foresters (SESFA) at Callaway Gardens, Georgia. This award is presented to the member in the three-state organization who has outstanding accomplishments in the general practice of forestry.

Mr. Lewis has distinguished himself as a consulting forester, advising many landowners in the big-bend area of Florida on economically, socially, and environmental wise forestry. He is Vice-President, Stockholder, Board Member and the Monticello Branch Manager for Southern Forestry Consultants, Inc. He gained early experience in forestry in both the public and private sector before joining his current firm. Besides being a member of the Society of American Foresters and serving as chair of both Florida and Southeastern Societies, he has also served as president of the Florida Association of Consulting Foresters. In fact he has held about every position and earned almost every award that these organizations give. He is a nationally Certified Forester, a Florida Certified Burner and Commercial Pesticide Applicator.

Mark Milligan, past chair of the Florida SAF said: "Without a doubt Dave Lewis illustrates excellence in the practice of forestry. His honesty, integrity, and work ethic serve as a shining example for all foresters to emulate."

He manages his clients' land with the same passion and care that he gives his family's 650-acre farm in Jefferson County, FL. David is a graduate of the University of Florida's School of Forest Resources and Conservation with a B.S. in Forest Resources and Conservation. He and his wife Mona like to travel, while in his spare time he tries to get in a bit of hunting, fishing, and spectator sports.

**"We are building our electronic data base and need your help. Please email us at [sfci\\_1@bellsouth.net](mailto:sfci_1@bellsouth.net) so we will have your address."**

## From the President's Desk

Greetings to all of you. As we near the end of Spring our emotions are all over the board. The economy of our country appears to be leveling off, albeit nearer the lower end of our hopes and dreams. The end of our prescribed burning and reforestation season is upon us and although we are tired of breathing smoke and working late, we are proud of the acres we have burned and the habitat we have improved. Red-cockaded woodpeckers are in full swing and Joe and Jason are traveling from Arkansas to Virginia peeping in nests and banding chicks. The timber markets are always intriguing, sometimes better than expected but never as good as we remember that they should be. Herbicide applications are being planned and done for weed control, site prep, and invasive plant control.

Other issues affecting our work and your forests are rainfall, over which we have no control but for which we

are extremely thankful, taxes, truck weight restrictions, new EPA rules, bioenergy, and carbon sequestration. In regard to the last five items, as we go to press I have just returned from Washington D.C. lobbying all these topics on your behalf. Change is upon us in our nation's Capital, and we are doing our best to influence and stay abreast of all the "newness" we possibly can. Not many lobbyists look out for the landowner, but as members of various Forestry Associations, Forest Landowners Association, SAF, ACF, and Farm Bureau, we try our best to influence legislation in your favor. If you ever have any ideas please e-mail them to me. I don't make promises, but I love a good debate (just ask my partners and co-workers).

Until next time, enjoy your property and the peace and serenity it brings.

Michael Dooner, President

## Timber Market Report

By Dave Lewis, Michael Dooner, Alan Emmons and Holmes Henderson

The weak U. S. and world economy has finally caught up with the wood products industry and the effects have trickled down to virtually all aspects of the industry, although those sectors connected with the housing business have suffered the most, however. Sawmills, plywood mills, and oriented strand board plants across the country have either closed or cut back on their production, trying to hang on until market conditions improve. Signs indicate that lumber production is beginning to reach equilibrium with demand.

Meanwhile, the pulp and paper industry has had its own set of problems. The export market declined abruptly last fall, and most mills have experienced scheduled shutdowns, reduced capacity, and/or laid off workers. Some mills have fared better than others, depending on the product they make and the market for those products. Most logging contractors are on tight quotas and are working only three or four days a week.

All of this, of course, has had a detrimental effect on timber prices. Pine chip-n-saw especially has experienced a fairly steep decline in stumpage prices and an increase in quality requirements due not only to the poor lumber market but also because of increased supply. The Conservation Reserve Program stands of timber that were thinned several years ago

(continued on page 2)

## SOUTHERN FORESTRY

305 West Shotwell Street  
Bainbridge, GA 39819  
229-246-5785  
[sfci\\_1@bellsouth.net](mailto:sfci_1@bellsouth.net)

105 West Anderson Street  
Monticello, FL 32344  
850-997-6254  
[sfci@earthlink.net](mailto:sfci@earthlink.net)

103 Dixie Drive  
Enterprise, AL 36330  
334-393-7868  
[sfc3@centurytel.net](mailto:sfc3@centurytel.net)

have now reached chip-n-saw size and quality. So, for reasons of both supply and demand, chip-n-saw prices might take some time to recover. Currently, many wood dealers are having a difficult time even moving chip-n-saw due to tight quotas resulting from reduced mill hours.

Larger diameter sawtimber, plywood logs, and poles, although also trending down in price, have not suffered as much as chip-n-saw. And there have actually been a few bright spots, such as five-quarter decking. Also, these products have not suffered from the stumpage oversupply problem that chip-n-saw is experiencing.

Hardwood markets are also down, especially grade hardwood sawtimber that is used for higher end uses such as cabinets, flooring, and furniture. The one bright spot has been increased demand for hardwood used for fuelwood, with mills struggling to keep their boilers fueled as their own mills produce less residue. Also, there are many wood fired power plants in the works or being discussed throughout the Southeast. Long term this bodes well for pulpwood markets, which have not suffered the sharp declines that chip-n-saw and other products have experienced.

Softer markets should not deter you from continuing to manage your forests in a prudent and aggressive fashion. Now, more than ever, you should rely on your SFC forester to advise you on what, when, and where to cut timber. We can help you maximize your returns even in an uncertain economy and position you to take advantage of the markets when they do improve.

---

## “Marking the Way to Higher Profits”

By Dave Lewis

Most of you have experienced thinning planted pines on your property. It is one of our most common practices in the South, if not the most common. The reasons why we thin are well known – to promote increased diameter growth, to alleviate overcrowding in the stand, to improve wildlife habitat, and to capture and sell trees that otherwise might be lost to mortality. But you might not have thought as much about how we thin.

A common practice for thinning is often referred to as “operator select.” This refers to the logging contractor (or actually his machine operator) selecting which trees in the stand to cut and which to leave. Many times this is an acceptable practice and is sometimes a necessity if the tract has a thick understory. Also, stands that are very uniform and have low levels of disease and defect lend themselves to this method.

However, most planted stands will benefit from having a trained forester or technician mark the trees to cut or to leave, or as an alternative, having very close supervision of the operator until he is “trained to our standards.” This is especially true if the forester is working for you and has your long term best interests at heart. A trained professional knows what traits to look for when deciding what to cut and what to leave and will have a better vantage point on the ground than an operator from the seat of a tractor.

A study that was conducted in west central Alabama and east central Mississippi supports the concept of marked thinning sales vs. operator select sales. The study, which was conducted by Bob Daniels, an Extension Forester from Mississippi State, and Tom Ebner, a retired Weyerhaeuser forester and author, established permanent plots in planted loblolly pine stands that were thinned for the first time at age 16. Some of the plots were in areas that were marked for thinning and some were in “operator select” areas. They were thinned to the same specifications and in the same time period.

What did the study show? On average, the marked stands had an average of 26% greater diameter growth per year than the operator select stands. In the marked stands, 5.2% of the remaining trees were poor quality trees vs. 14.2% in the operator select stands. The authors of the study concluded that the increased growth and diameter lift more than offset the additional cost of marking the stand and that landowners can greatly improve their timber investments by using marked thinnings.

If you would like to obtain a copy of the results of this study, call our Monticello office at 850-997-6254 and we will send you a copy. In the meantime, let our trained SFC foresters and technicians assist you in the most economical fashion in thinning your timber to get the highest return on your investment.

---

## Taxing Issues for Forest Landowners

Got questions about income, estate and gift tax issues that affect timberland?

By Harry L. Haney, Jr., Ph.D., Garland Gray Emeritus Professor of Forestry,

Virginia Tech, Consulting Forester and Tree Farmer

As taxpayers adjust to “changes” promised by the new administration it is essential to maintain adequate growing stock for capturing physical tree growth and value appreciation from product ingrowth as well as a healthy forest for multiple ecological benefits. Already, soft demand and poor prices due to the weak housing market have forced adjustments

in harvesting strategies, putting pressure on financial returns from timber. Once the direction and kind of changes from Washington become apparent, operational adjustments required for the short run will become clearer. But let’s not forget, “the more things change, the more they remain the same.” This uncertainty suggests a timely review of the forest management business plan in light of proposed bailout incentives and anticipated tax changes. Key issues

## Which Comes First, The Turkey or the Egg?

By Joe McGlincy, Certified Wildlife Biologist

It is a thousand wonders any turkey poults survive to perform that grand spectacle every spring we turkey hunters spend the other 10 months waiting for. It seems everything is out to get ‘em! Fortunately, enough survive allowing wild turkey populations to thrive. It is a bumpy road for turkey poults, from the time eggs are laid until the first fall when juvenile birds can fend for themselves. Let’s explore some facts and figures of turkey production, what makes for a good hatch, how natural elements impact reproduction and the important role habitat plays in the grand scheme of things.

First, let’s do the numbers. The average nest contains about 10 eggs. Approximately 50% of all nests started are destroyed by predators. About 75% of the hatched poults die, most within the first 14 days of life from either predation or some other factor. So, if we use 100 turkey hens as our starting point, these hens will produce about 1,000 eggs but only about 125 poults in an average year. After factoring in natural mortality of adults and hunter kill, this level of reproduction may keep the population stable at best.

So what happens to all those nests? From the time eggs are laid in late March until they hatch, a lot of critters try to get ‘em. The number one nest predator in most research studies are raccoons. Following close behind are opossums, skunks, crows, snakes, feral dogs, feral hogs and rodents. Recent research has shown that armadillos are more of a predator on quail nests than originally thought but they have not been shown to be a major turkey nest predator.

What can we do about all this predation? The quick and easy answer is predator control. But before you run out and start trying to eradicate all the predators on your property a few words of caution are in order. First and foremost, predator control is not the “Silver Bullet” of turkey management. It certainly has its place, especially in expanding populations that are currently at low levels. Effective predator control is controversial, costly, and labor intensive. I fully support predator removal by legal means such as trapping and hunting. Trapping, a dying art in most areas, should be encouraged.

A consistent finding in these predator studies is that it does little good to produce additional poults if you do not have suitable habitat to house increased production. Habitat quality influences poult survival in several ways. Good early successional habitat produces an abundance of small mammals that provide food for some of those predators that might be looking for turkey eggs. These habitats also provide an abundance of nesting cover. Good habitat at ground level provides cover and food for young poults during that critical first 14 days of life.

Fire is the best tool available to land managers for improving brood habitat. Fire removes accumulated leaf litter, reduces hardwood brush and allows sunlight to reach the forest floor stimulating new growth of herbaceous plants which provides habitat for insects, the primary poult food. A common concern managers have about using fire in the turkey woods is burning up nests. While this does happen occasionally, the overall habitat benefit greatly outweighs the few nests the might get destroyed.

Obviously, good quality brood habitat is essential for raising turkey broods but let’s not forget the importance of year-round quality turkey habitat. Late winter is a stressful time for turkeys. Natural food supplies are usually in short supply, temperatures can be extreme and turkeys are in constant search of food. This search can take them off your property and possibly subject them to increased predation and illegal hunting. Supplemental food sources such as chufa plots are most valuable in late winter. Deer food plots, especially those containing clover, may be used quite heavily by turkeys in late winter and early spring.

Weather can impact poult production both positively and negatively. Cold, wet springs, especially if this weather hits during peak hatching times, has been shown to decrease poult production. Temperatures in the mid to upper 40’s and rainfall for 12 hours can kill poults, especially if this occurs within the first few hours after hatching.

Short of doing intensive research, how can you tell if turkeys using your property have had a successful nesting season? Late summer (July/August) counts of hens with poults are a good reproduction indicator. A poult:hen ratio greater than 2.5 poults per hen (calculated as total poults divided by total hens) indicates a good hatch.

As in managing for other game animals, there is no “Silver Bullet” in turkey management. It requires time, effort and resources. We need all the hens we can get going into the spring to bring off enough broods for our turkey populations to thrive. Even with all the odds against them, they somehow manage to get it done. Maintaining pressure on predators, providing high quality spring/summer brood habitat and managing for a stable late-winter food source will help your turkeys pull off this amazing feat. Don’t forget, the largest gobbler you’ve ever killed started out as a tiny poult trying to survive. You’ve got to raise ‘em in summer, feed ‘em in the winter before you can hunt ‘em in the spring!

---

### TAXING ISSUES (continued from page 6)

In summary, a flexible business plan supported by good records is essential for effective timber tax management. Stand level information is invaluable for making harvest scheduling decisions as well as capital budgeting alternatives on where capital can be reinvested most efficiently in healthy, vigorous new stands. Taxpayer records facilitate reporting long-term capital gains, recovering invested capital as depletion, equipment as depreciation, and deducting all qualified annual expenses. They provide insurance if selected for an audit by the IRS with respect to not only income and deductions, but also in support of protection from hobby rules, passive loss rules and taxpayer’s business purposes. The discussion covers only the high points, but it illustrates the benefits from following the tax rules and the magnitude of mistakes that can occur if IRS provisions are not followed carefully. Many happy returns.

Originally published in Tree Lines, the quarterly newsletter from ArborGen’s SuperTree Seedlings US Nurseries and Seed Orchards.

a taxpayer's position on profit motive versus hobby farming, material participation rather than passive activities, and business as opposed to investment. For example, an active business can deduct the statutory limit of depreciable assets used in the business under IRC Section 179 rather than having to capitalize them for later recovery as depreciation. Forestry estates that have operated as a business have the option for electing special use valuation and deferral and extension of estate tax when filing the estate tax return.

**Other important tax issues**

**Involuntary conversions:** Major changes have occurred recently in regard to the casualties. Hurricanes, tornados and other unusual and unexpected business losses are now treated differently with respect to the single identifiable property (SIP). The business loss is measured as the value before the event compared with the value after, but the loss is limited to the lesser of the amount of the loss or the depletion basis. Thus, there are advantages to having the entire property as the depletion block. Then, the basis of the loss on one parcel can be claimed against the basis of the entire property. The extent it can be shown that the sale of timber was necessary due to unusual and unexpected business loss, the net gain from the conversion can be deferred by investing in replacement property under IRC Section 1033. Replacement property includes land, land and timber, reforestation and repairs to the tree farm infrastructure. Your intention to defer this involuntary gain must be reported to the IRS, and a description of the replacement property must be reported when the investment is made.

**Reforestation:** The first \$10,000 of qualified reforestation expenditures may be deducted annually in the same manner as operating expenses noted above. Annual amounts in excess of \$10,000 may be amortized over 84 months under IRC Section 194. Site preparation, planting, herbaceous control and fertilizer are qualified reforestation expenses. Taxpayers with periodic rather than annual reforestation costs exceeding \$10,000 can gain more immediate tax benefits with a tax straddle over two tax years. For example, \$10,000 in site preparation can be completed in the summer/fall of one tax year followed by planting, fertilizer and herbaceous control in the following winter/spring. Expensing, with immediate tax benefits, is more advantageous than amortization deductions over eight tax years that suffer from loss of time value of money and the implicit tax due to inflation. Of course both are more beneficial than capitalizing reforestation costs, which must wait for a future harvest for recovery. Recent legislation now permits trusts to amortize qualified reforestation expenditures, but trusts must forego expensing the initial \$10,000.

**Cost-share incentives:** If cost-share payments are received for reforestation from any of the Federal or State programs, they may be excluded from taxable income under the provisions of IRC Section 126. The 1099 for cost-share must be declared, and this income can either be reported as taxable gain or excluded. If included in income, Federal and State income tax plus the Social Security tax must be paid on the applicable amount that becomes eligible for deducting as a reforestation expense. However, only the income tax expense may be taken as a deduction with no offset for the Social Security levy. Since amortization deductions on amounts over \$10,000 lose due to time value of money and inflation, exclusion is the most beneficial choice for taxpayers in most cases.

**What about estate taxes?**

Taxpayers should also have a plan for continuity of management to the next generation. Each decedent faces an applicable exclusion amount of \$3,500,000 in 2009. Thus, a married couple could protect \$7 million in transfers to their children and heirs through both deaths with very basic estate plan in 2009. The estate tax is repealed in 2010, but it is possible that Congress will allow the appeal to stand since approximately \$28 billion annually has been collected in estate taxes in recent years. Many seasoned observers feel that the \$3,500,000 applicable exclusion will be extended next year and perhaps for several years after that.

Operating as a business has several key estate tax advantages. First, timberland owners can qualify the property for special use valuation under Code Section 2032A. This permits fair market values (FMVs) to be reduced to special use values (SUVs) by up to \$1 million dollars per decedent in 2009 (It was \$970,000 in 2008 and indexed). Thus, with careful planning a married couple could potentially reduce market values by an additional \$2 million to combine with the \$7 million from both applicable exclusions in 2009. In addition, IRC Section 6166 permits qualifying business properties that are heavily stocked with immature and intermediate age timber can defer the payment of estate taxes for four years by paying interest at a favorable rate of 2 percent on estate taxes owed on the first million of taxable estate value. Taxes on amounts above the \$1 million taxable value are deferred at a favorable rate that is 45 percent of the applicable rate. At the end of this four-year period, installment payment of taxes and interest may be paid over 10 additional years. These Section 6166 provisions permit the heirs to get the business affairs of the estate in order without sacrificing timber prematurely to pay estate tax.

Finally, the forestry business can be structured as a family limited partnership or as a limited liability company to conduct business efficiently, to disperse business assets among interested family members and bring them into the business operations. If, in the process, the applicable exclusion and SUV are insufficient to protect family assets from the estate tax, the transfers to the children can include minority discounts and marketability discounts. This process must be done carefully in order to keep the business functioning efficiently. It must also occur sufficiently in advance of the anticipated decedent's deaths to solidify the profit motives of the business and ward off any charges by the IRS that these moves were for tax saving purposes only, without a justifiable business purpose.

**Is timberland a safe haven?**

Although timber prices have fallen sharply in response the housing slump, land prices have been holding their value. The timberland that we manage for timber products also has other values, such as wildlife, clean water and broadly defined ecological values. So far many of these are public goods with established markets, but that is changing. In reviewing your business plan, care should be given to ensuring that the forestry plans are sustainable for all of these goods and services. Population pressures will continue to demand more and more from the land, and family and business owners should incorporate the potential future values into their long-term strategies. Even though timber values are projected to return to the mainstay, these other potential values of timberland will become increasingly important, especially in more populated areas.

**What about carbon sequestration?**

Global warming concerns have fostered numerous proposed solutions including the "Cap and Trade" legislation patterned after European initiatives. It is premature to develop a strategic plan on this topic until legislation is passed and the rules and regulations are clarified. On the other hand, if the stakes are sizeable, a more pro-active role can be adopted to influence the proposed legislation in favorable directions. Although it is too early to determine how forest landowners can benefit from carbon credits, it seems that there are three general situations.

1. If timberland is regulated with a more or less even distribution of timber age-classes, it should be carbon neutral. That is, on average, timber is harvested annually removing carbon and timber is reforested sequestering carbon.
2. Understocked properties should be able to gain by selling carbon credits.
3. Properties that are overstocked are unlikely to benefit from carbon credits.

This simplistic explanation underlines the necessity of waiting for the rules before any substantial commitment is made in this area, but it should be monitored for its future potential.

are reviewed below with a focus on shaping forestry operations for riding out the current downturn and positioning timber holding for profit as the economy improves.

**Assessing your forestry assets**

For Federal taxes, the IRS recognizes three purposes for holding timberland – personal use, an investment and a trade or business. The Internal Revenue Code (IRC), IRS Regulations and Court precedents provide no clear-cut distinction among them; however, the basic question of purpose must be addressed in order to realize a tree farm's full financial potential. Forestry assets operated as an investment or as a business for income tax purposes must have a profit motive. Other business assets and profession commitments should be considered so that management operations are timely and reporting of income and expenses are consistent. Most tree farms activities can readily meet the IRS business test for regular, continuous and substantial involvement in generating income and reinvestment to keep the property productive. The determination is based on facts and circumstances. Some of the advantages that accrue to operating as a business for both income tax and estate planning perspectives are noted below.

**Capital Records**

Effective managerial decisions whether for investment or business begin with good records. When timberland assets are acquired by purchase or inheritance and gifts, they must be capitalized into ledger accounts based on their proportional contribution to overall value based on a qualified appraisal (cruise). The allocation is reported to the IRS on Form T (Timber), Part I Acquisitions with a taxpayer's regular Federal income tax return. On Form T the estimated value of each asset contributing to the property's overall value is recorded in capital accounts as "original basis" in the same proportion that each contributes to the tree farm's total estimated value. Form T and supporting instructions can be obtained from [www.irs.gov](http://www.irs.gov).

Depletion is the method by which capitalized timber values attributable to particular harvested timber at a specific time are recovered as a deduction from gross sale income. Accurate ledger accounts must be kept in order to claim a timber depletion deduction. Each account should include two entries – one shows the quantity of timber and the other shows its dollar value or basis. Quantity in merchantable accounts is recorded in standard volume measurements, and in pre-merchantable accounts it is recorded as acres [Reg. Sec. 1.611-3(c)]. Quantity is shown in volume measurement terms such as cords, cubic feet, weight (tons), thousand board feet (MBF), etc. The quantity of timber entered into an account as original basis should be the amount existing on the date of acquisition that could be cut and processed at that time according to the prevailing utilization standards in that locality [Reg. Sec. 1.611-3(e)]. Over time, the original basis becomes the "adjusted basis" reflecting management activity in the account.

There are a number of options to choose from in establishing a depletion account; however, an averaging account is the most straightforward for most taxpayer purposes. With an averaging timber account the merchantable volume of all products – sawtimber, chip-n-saw and pulpwood – are summarized into one balance (e.g., per ton). Normally, the IRS insists that pine and hardwood be kept in separate accounts, but, as a practical matter, an insignificant volume of hardwood can be included with the pine, or vice versa. The depletion unit is the adjusted basis divided by the volume in the depletion block. It represents an average investment per ton in merchantable timber. It is the simplest depletion measure to keep over time but it has some interesting properties. The sale of high value products such as sawtimber gives a slower recovery of capital by deducting an average basis than if accounts are kept by product. Alternatively, the sale of a lower value product such as pulpwood produces a different result. With pulpwood priced lower than the average depletion unit, the result is a net operating loss (NOL). Generally, even with slower capital recovery, the ease of keeping

an averaging account overcomes the disadvantages of multiple depletion accounts for most tree farmers. And for casualties or involuntary conversions, the averaging depletion block provides a larger pool of capitalized basis for deducting losses. In addition to tax records, stand level information is maintained separately for evaluating harvesting options and analyzing silvicultural alternatives for optimum managerial decisions.

**Important issues for tax management**

The major determinants in tax management are obtaining capital gains treatment, recovering capitalized basis and deducting annual expenses as follows:

**Long-term capital gains:** The most important benchmark for financial returns from timber is ensuring long-term capital gains treatment on sales. To qualify, the timber must be owned or obtained with a contract right to cut and held for more than one year (i.e., a year and a day). With inherited timber the holding period is presumed to have been met. For the moment, the maximum tax bracket for ordinary income for both individuals and corporate owners is 35 percent. Timber sales that qualify for long-term capital gain treatment face a maximum rate of 15 percent through 2010 when the rate returns to 20 percent. Tree farmer investors and businesses have the option of selling lump sum for a fixed amount or with a pay-as-cut contract at an agreed price-per-ton and qualifying for capital gains treatment. Although there has been much speculation focused on increasing capital gains taxes, that decision remains to be made by the current administration.

Presently, the lower timber prices but favorable tax rate situation creates a benefit-cost equation. The benefit of selling timber at the lower tax rate before 2010 must be balanced against the prevailing lower returns due to weak prices. The outcomes are uncertain since both prices and capital gains rates may change, but the "what if" calculations are useful in developing marketing strategies as the economic and fiscal thresholds change.

**Depletion deductions:** The second important benchmark for financial returns comes from the recovery of the capital investment in timber as a depletion deduction as timber is sold or otherwise disposed of. Attention to this process is especially important for recent purchases and inheritances, which may have a substantial capitalized basis. The key point is to recover a proportional share of basis in the timber sold because it is "allowable", and if not taken in a timely manner, it is lost. The IRS has a prescribed method for calculating the Timber Depletion in Part II of Form T (Timber) for each merchantable account. Even if another method is used to calculate the depletion deduction, it is useful to understand the IRS expectation. In addition to depletion, the cost of sale is subtracted from the gross proceeds in calculating taxable gain. Thus, the consulting forester's fees and other sale expenses are deducted from the gross sale proceeds in computing taxable gain. Costs of sale must not be deducted from ordinary income according to the IRS.

**Annual operating, maintenance and protection costs:** The third major determinant for financial returns is handling annual expenses from operating, maintenance and protection costs, which are deductible when operating a tree farm business or investment. Included are property taxes, business interest, reforestation (see below) and annual management costs. Businesses have an advantage since investors are subject to a two percent of adjusted gross income (AGI) limitation for miscellaneous itemized deductions. In general, expenses and property taxes may vary from \$10 to \$25 per acre depending on the property tax jurisdiction and the level of operating activities at any specific time. The tax benefit from a deduction is the amount of the deduction times the taxpayer's marginal tax rate. For example, a \$2,500 deduction for a taxpayer in the 35 percent maximum ordinary tax bracket is \$875 (\$2,500 x .35). Good records for recording and accumulating these expenses as they occur are an important element in achieving the expected returns from managing tree farm assets. The records also support

(continued on page 6)



**Hadley Creek Farm** is a 115± tract located 16 miles north of Tallahassee. Mature natural pines and hardwoods, merchantable planted pines, a pond site, food plots, rolling topography and an excellent road system make this the perfect recreational property. Excellent deer and turkey hunting. \$6,995 per acre. Rob Langford 850-556-7575.



**Dry Creek Farm** is a 275± acre tract located in Worth County. Majestic oaks, mature timber and meandering creeks. Food plots offer great hunting opportunities. Located 10 miles south of Albany. \$2,995 per acre. Rob Langford 850-556-7575.



**Hightower Farm** is a 420± acre tract located in Decatur County. Majestic hardwoods, various age planted pines. Newly created pond, food plots that offer excellent hunting. Pines along western edge are ready for release quail hunting. \$4,495 per acre. Rob Langford 850-556-7575.



**Sunset Ridge** is a 140± acre tract located near Donalsonville. Rolling topography with 5-year old planted pines and a 7-acre spring-fed pond. Lake Seminole is directly across the road. Great recreational tract. \$3,500 per acre. Mills Brock 229-416-6136.



**2911 Sunset Drive** is located in Donalsonville. It is a waterfront three bedroom, 2 bath home with detached garage. There is a covered dock with a boat lift. Wrap around porches. Sandy beaches and clear, stump free water. \$299,000. Mills Brock 229-416-6136.



**Magnolia Springs** is a 130± tract located 11 miles south of Quincy. Majestic hardwoods providing deer and turkey a safe habitat and corridor for roaming the land. A longleaf and wiregrass ecosystem gives this recreational property diversity and balance. Throughout the border between the uplands and hardwood bottoms are several clear water springs feeding into Hammock Creek. \$3,838 per acre. Rob Langford 850-556-7575.

### Landowner Forest & Wildlife Management – Activity Calendar

**Management Activities**

**Timing**

- |  |  |
|--|--|
| • <b>Reserve Seedlings for next year's planting</b><br>Reforestation (Longleaf, Loblolly & Slash)<br>Wildlife (Soft & Hard Mast) | May - June   |
| • <b>Exotic/Invasive Plant Species Control</b><br>(Kudzu, Cogongrass, etc...)  | June - September   |
| • <b>Reforestation Site Preparation</b><br>Chemical Treatments<br>Mechanical Treatments<br>Burning & Fireline Plowing            | June - September<br>August - November<br>August - November |
| • <b>Hardwood Control (Chemical Treatments)</b><br>Deer, Turkey, Quail<br>Pine Release   | September - October  |
| • <b>Seedling Survival Surveys</b>   | September - November                                       |
| • <b>Food Plot Establishment</b><br>Summer<br>Fall/Winter  | May - June<br>September - November                         |

Please contact your Congressmen and U.S. Senators and ask them to **OPPOSE** Senate Bill 787 and its forthcoming companion in the House. The Legislation would remove the word "Navigable" from the Clean Water Act, thus giving your Federal Government purview over all water or activities that affect water (runoff from yards, homes, ag fields, tree farms, etc.)

### New Deduction Rules for 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 percent 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 percent of your total income from a timber business, the amount you can deduct is limited to 100 percent of your adjusted gross income. (Source: USDA Forest Service)