



Forest Landowner Tips for Filing 1998 Taxes

by

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Form 1099 MISC and 1099 S

Many tree farmers are under the impression that timber sales, often paid for in cash, do not have to be reported to the IRS. Reading the IRS publications indicates that this is not true if the sale was for more than \$10 and the timber was sold on a “pay-as-cut” contract, also known as sale by scale. The timber purchaser should report these payments on Form 1099-S, Proceeds from Real Estate transactions. Both the timber seller and the IRS should receive a copy of the form. The IRS will consider the payment reported as part of the timber seller’s income. More information on 1099-S is available in the IRS instructions for Forms 1099, 1098, 5498 and W-2G.

Timber Sale Income

Remember that your timber sale income may qualify to be treated as long-term capital gains (LTCG). This is to your advantage since you do not have to pay self-employment tax on LTCG as you would if you declared sale proceeds as earned income.

The Taxpayer Relief Act of 1997 changed the capital gains tax rates for individuals, estates, trusts and for pass through income. There are now three tiers for capital gains income, which are dependent upon when the gain was realized. Taxpayers should note the changes in the holding period requirements for gains after July 28, 1997.

Tier 1 applies to capital gains that occurred from May 7, 1997 to July 28, 1997. Taxpayers who would have been in the old 28% bracket will pay 20% and taxpayers in the old 15% bracket will pay 10%. To qualify for the 10% or 20% capital gains tax the capital assets must have been held for at least 12 months.

Tier 2 applies to gains that occurred or will occur from July 29, 1997 through December 31, 2000. For assets held for more than 18 months the tax rates will be 20% or 10%, depending upon the taxpayer’s income tax bracket. For assets held for more than 12 but less than 18 months the rates will be 28% or 15%.

Tier 3 will apply to capital gains on assets acquired after December 31, 2000 and which are held for more than 5 years. For taxpayers whose gains meet these requirements the tax rates will decline to 18% or 8%, depending upon the tax bracket.

Also be sure that you calculate the gain from your timber sale – the amount of sale minus your investment in the timber sold – and pay tax only on the gain, not the entire sale amount. This is called taking your “depletion” allowance.

Additional Information Sources:

Potter-Witter, K. Minimizing Federal Income Tax for Forest Landowners. Cooperative Extension Service Bulletin NCR-343. Available from your County Extension Office.

USDA Forest Service Agriculture Handbook No. 681, Forest Owners Guide to Timber Investments, The Federal Income Tax, and Tax Recordkeeping. Available from the Government Printing Office, Washington, DC.