

WWIA News

Winter 2018



Musings of the President: Beginning 2018, a Look Back, and a Look to the Future

By John Hilewick, WWIA President

Your board of directors had their first meeting of 2018 on January 4. We discussed programming items that were components of the president's proposed operating annual plan, which the bylaws require each year. WWIA's calendar of events appears on page 8. We also voted to order low-cost WWIA business cards.

The board also gratefully accepted Jessica Salter's offer to create and administer a WWIA Facebook page and approved working with Andrea Halfhill of WCD to use Survey Monkey in emails with WWIA members and friends. The board views these actions as furthering WWIA's mission and goals while enhancing communication with the membership and the general public.

Our first event of 2018, held on January 18, was attended by 26 people. They were rewarded with an outstanding presentation by Dr. Cynthia Morton of the Pittsburgh Parks Conservancy. "Conserving Our Urban Forests Through Genetic Diversity" centered on understanding the importance of diversity in the genetic makeup of trees, especially in urban ecosystems, where quite frequently nursery stock has been cloned.

Cynthia explained, "While cloning trees is in itself a benign practice, doing so on a mass scale can drastically reduce the genetic diversity of urban forests." Judging by the questions asked and the

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President's Message *(cont'd)*

duration of the post-program discussion, attendees had a very good time.

A number of our members who also belong to the Pennsylvania Forestry Association attended the annual PFA meeting, held October 28, 2017, at Seven Springs Resort & Conference Center. I talked with Rus Davies, Dr. William and Elizabeth Courtney, DCNR Forbes Service Forester Jessica Salter, and Tom Fitzgerald.

In preparation for the BOD meeting, your president took the opportunity to peruse past editions of our organization's newsletters. I found in the fall 2006 edition an especially interesting article written by one of our former presidents, who also happens to be one of the **founders of WWIA**. Bob Ackerman's article delineates the timeline for organizing the Westmoreland Woodlands Owners Association, later (about 1995) renamed **Westmoreland Woodlands Improvement Association**. That change was made because a housing development had already legally reserved the fledgling group's first name choice.

That first meeting on October 15, 1988, included a welcome by Tony Quadro (Westmoreland Conservation District Forester) and presentations on tax considerations for woodlands by Jess Stairs (PA State Representative), gypsy moth infestation by Tom Fitzgerald (DCNR BOF Service Forester), and federal tax laws by Jim Finley (PSU Cooperative Extension). After the sessions lunch was served, followed by a tour of the Kinneer tree farm in eastern Westmoreland County. Quite a good start, don't you think? **Here we are 29 years later, still going strong!**

Continuing in the historical vein, a steering committee met on December 22, 1988. It consisted of Bob Ackerman, Bill Baber, Tony Glasstetter, Neil Kinneer, A.C. Mann, Don Miller, Dr. Eleanor Morris, Mel Salzman, and Don and Letitia Stitt. At the first business meeting on February 9, 1989, officers were elected: Bill Baber, president; Tony

Glasstetter, vice president; Don Stitt, secretary; and Bob Ackerman, treasurer. **Several of these people are still active members!**

At that first business meeting the new officers agreed that the purposes of the organization were 1) promoting conservation-oriented woodlot management; 2) promoting increased use of local timber resources and forestry education programs; and 3) recommending professional solutions to various forestry management problems. A formal mission statement was adopted later. It is published in the WWIA brochure.

A look to the future is my last topic for your consideration. Depending on how we consider the arithmetic and importance of the historic events, this is either our 29th or our 30th anniversary year. For my part, I think 2019 will be our 30th anniversary.

Thirty years of sustained organizational activity is a really significant milestone. I hope that we will have some outstanding programming, special events, and formal recognition opportunities over the course of our 30th anniversary year! **Are you with me on this?** More to come in this regard as we move on into 2018. Thanks for bearing with me.



H.R. 1 – The Tax Cuts and Jobs Act

Published by American Forests Foundations; Submitted by Janet Sredy and Raul Chiesa of Becketts Run Woodlands

Final Bill Summary

After some debate between the chambers, H.R. 1, the Tax Cuts and Jobs Act, was agreed to by the U.S. House and Senate on December 20. Two days later, the President signed the final bill into law. The bill preserved many facets of the tax code that Tree Farmers have indicated are very important. Please see below for the outcome of AFF's key provisions.

Key Tax Provisions for Family Forest Owners

1. Preserves deductions for expenses incurred through forest management
2. Preserves deductions for expenses incurred during reforestation
3. Preserves the treatment of timber harvest as capital gains as opposed to regular income.
4. Doubles the value of estates exempted from the estate tax to \$11.2M for individuals (\$22.4M for couples).
5. Preserves stepped-up basis, allowing inherited property and timber to be valued at current market rates and not the value at which it was originally purchased.

Other Items of Note for Family Forest Owners

1. Casualty Loss Deduction.
Individual taxpayers are no longer allowed to deduct losses from casualty incidents, except where the losses occurred within a presidentially-declared disaster area.
2. State and Local Property Tax Deduction.
Individual taxpayers may only take a deduction up to a maximum of \$10,000 of any state and local taxes paid. This amount includes income, sales, and property taxes. Businesses may continue to deduct the state and local taxes associated with their timberlands unimpaired.

WWIA Facebook

Keep up-to-date with the latest programs and blog posts by following the WWIA Facebook Page. Find the page by searching @WestmorelandWoodlands or clicking [here](#). While you're there, feel free to ask a woodland question. The answers will be featured in an upcoming blog post!

Tax Tips for Forest Landowners for the 2017 Tax Year

by Dr. Linda Wang, National Timber Tax Specialist, U.S. Forest Service

Specific federal income tax laws and rules apply to timber-related income and expenses. The tax tips provided in this bulletin are intended to assist timber owners, foresters, loggers and their tax preparers in filing the 2017 tax returns. This material has been prepared for informational purposes only, and is not intended to provide tax, legal, or accounting advice. Please consult your own tax, legal, and accounting advisors before engaging in any transaction. The information is current as of September 30, 2017.

Timber Property for Tax Purpose

For Federal individual income tax purpose, there are three types of timber properties: 1) property held mainly for *personal-use* purpose (for personal enjoyment, not for income generation). The deductions are generally limited for personal use property; 2) property held as an *investment* (generating profit from growing timber or asset appreciation); or 3) property held as *business* (with regular, active, and continuous commercial timber activities). Timber business can deduct expenses but are subject to passive loss rules (where passive loss cannot be used to offset non-passive income). If the profit motive is not met, your timber may be considered a *hobby* rather than business (losses from hobby activities are not deductible). Finally, timber is generally not treated the same as a business of *farming* for tax purpose. Certain tax provisions for farming may not be available for timber.

Example 1: Mr. Anderson replanted his 30-acre property after the timber sale. He reports his timber as an investment property.

Example 2: Mr. Smith owned his woodland primarily for personal vacation property. Expenses may not be tax deductible for personal-use property.

Timber Expenses and Property Taxes

Expenses paid for growing timber for profit are deductible. For example, expenses may be paid for services of forester, attorney or accountant, firebreak maintenance, overnight travel, vegetation competition control, insects, disease and fire control, pre-commercial thinning, and depreciation from equipment used. Investment timber expenses are deductible on Schedule A, subject to a 2-percent of adjusted gross income (AGI) floor. Business timber expenses are deductible in full for “material participants” on Schedule C. State and local property taxes are fully deductible on Schedule A (investment) or Schedule C (business) and are not subject to the 2-percent AGI floor.

Example 3: Mrs. Walter grew timber for profit as an investment and paid \$1,500 timber management expenses. Her AGI was \$50,000. Her timber expense deduction is \$500 ($\$1,500 - 2\% \times \$50,000 \text{ AGI}$) after the 2% AGI floor.

Timber Sales and Form 1099-S

Sales of standing timber held as an investment are taxed as capital gains rather than ordinary income. If you own the timber for more than one year before the sale, the sale is eligible for long-term capital gain, which is taxed at lower tax rates than ordinary income. Report the sale of standing investment timber

Tax Tips *(Cont'd)*

on Form 8949 and Schedule D. Sales of standing timber by a business qualify for long-term capital gain (Sec. 1231 gain) if the timber has been held for more than one year (Sec. 631(b)). Report the sale on Form 4797 and Schedule D. Timber sale expenses, such as fees paid to foresters, are deductible from the sale proceeds. Form 1099-S are required for lump-sum and pay-as-cut standing timber sales, except corporate and high-volume business sellers.

Example 4: In 2017, Mrs. Young sold pine standing timber held as an investment for \$9,000. Its adjusted basis was \$3,000. The selling expenses are \$1,000. She reports \$5,000 (\$9,000 - \$3,000 - \$1,000) as a capital gain on Form 8949 and Schedule D. Special rules apply for the following type of sales: if you cut your own timber or have it cut by a contractor working at your direction, and sell the cut timber products or use the products in your business, the gains are ordinary income unless you elect to use Sec. 631(a) on Form T, Part II.

Example 5: Mrs. Henderson manages her timber farm as a business. In 2017, she hired a logger to cut her timber and sold the log products to the mill she selected for \$10,000. She paid \$4,000 to the logger. The fair market value of the standing timber on January 1, 2017 was \$3,000 and her timber basis was \$2,000. Under Sec. 631(a) election, gains of \$1,000 (\$3,000 - \$2,000) from standing timber are capital gains and the \$3,000 (\$10,000 - \$3,000 - \$4,000) from the sale of log products is ordinary income. Without a Sec. 631(a) election, the gains of \$4,000 (\$10,000 - \$2,000 - \$4,000) are ordinary income.

Timber and Landscape Tree Casualty Loss

Timber and landscape trees destroyed by a casualty event such as the hurricane, fire, earthquake, tornado, hail or ice storms may be tax deductible. But the amount of deduction varies depending on the type of properties. Deductible casualty loss for timber held for business or investment purposes is the smaller of the adjusted basis of timber and the difference of the fair market value of the timber immediately before and after the casualty in the block. Salvage sale of timber is reported separately and a taxable gain may result if the salvage sale exceeds the adjusted basis of the timber and related selling expenses.

Example 6: A hurricane damaged Mr. Smith's woodland tract, resulting in \$8,000 fair market value loss of his timber. Assuming his timber basis is 2,000, the amount of casualty loss deduction is only \$2,000, not \$8,000.

For landscape trees in the private residence, deductible casualty loss is subject to a \$100 limit per casualty and 10 percent AGI floor. However, for taxpayers affected by Hurricane Harvey, Irma and Maria, the 10-percent AGI floor was eliminated. The requirement for taking "itemized deduction" is also eliminated.

Installment Sales

An installment sale allows you to defer tax by spreading your gain over 2 or more years. Interest is charged on deferred payments and is ordinary income.

Tax Tips *(Cont'd)*

Example 7: You sold \$10,000 of timber (\$7,500 after deducting timber depletion and sale expenses) in 2017. Your *gross profit percentage* is 75 percent ($\$7,500 \div \$10,000$). The buyer paid you \$6,000 in 2017 and you took a note payable in 2018. Report a \$4,500 gain ($\$6,000 \times 75\%$) for 2017, using Form 6252.

Reforestation Costs

Taxpayers may deduct up to \$10,000 (\$5,000 for married couples filing separately) per year of reforestation costs per *qualified timber property* (QTP). Any amount over \$10,000 per year per QTP may be deducted over 84 months (*amortized*). Trusts are eligible for amortization deduction only.

Example 8: Assume you spent \$17,000 to reforest, deduct \$10,000, plus 1/14th of the remaining \$7,000 (\$500) in 2017. Deduct 1/7th of the \$7,000 (\$1,000) for 2018–2023 and the last 1/14th (\$500) in 2024. For investment timber, report the reforestation deduction as an adjustment to gross income on the front of Form 1040. For business taxpayer, report it on Schedule C. Elect to amortize and take amortization deductions on Form 4562. Attach a statement to your return showing the date, location and amount of the expenditure.

Timber Basis and Depletion Deduction

For purchased property, the timber basis is the amount you paid for it. For inherited property, the basis of timber is its fair market value on the decedent's date of death.

Example 9: You inherited a woodland property five years ago. Your forester provided a retroactive appraisal of the timber quantity and value on the date of the decedent's death. Your timber basis was set up as: \$25,000 for 100

thousand board feet of pine sawtimber and \$4,000 for 200 cords of pine pulpwood.

Example 10: You sold 50 thousand board feet of sawtimber in 2017. Your depletion deduction from the sale is \$12,500 ($\$25,000$ of total timber basis \div 100 thousand board feet of total volume \times 50 thousand board feet of timber sold).

Depreciation and Sec. 179 Expensing

For timber held to produce income, you may take depreciation on the assets used such as logging equipment, tractor, computer, car, bridge, culvert, fence, temporary road, or the surface of permanent road. For example, logging equipment and light-duty truck are depreciated over 5 years. Land, however, is not depreciable. Also, business taxpayers may deduct up to \$510,000 in the first year for qualifying property in 2017, subject to a \$2,030,000 annual phase-out and business taxable income limitation (Sec. 179 expensing). Separately, business taxpayers may take *bonus* depreciation equal to 50 percent of the cost of qualifying new business property.

Net Investment Income Tax

For single taxpayers with AGI over \$200,000 (or 250,000 for couples), investment and passive business timber sales are subject to a 3.8-percent net investment income tax.

Example 11: Mr. and Mrs. Walter's AGI is \$270,000, including a \$40,000 capital gain from their investment timber sale. The timber gains of \$20,000 ($\$270,000 - \$250,000$, which is less than the \$40,000 gains) are subject to the 3.8-percent tax (\$760 tax), in addition to the capital gain tax on the sale.

Tax Tips *(Cont'd)*

Cost-share Payments

If you receive a payment from a qualified program, you may exclude part or all of the payment from your income if the cost share payment is used for capital expenditure. Otherwise, it is ordinary income. Qualified federal programs for income exclusion include the Forest Health Protection Program, Conservation Reserve Program (CRP), Conservation Security Program, and Environmental Quality Incentives Program. Several state programs also qualify for exclusion. The excludable amount is the *present value* of the greater of \$2.50 per acre or 10 percent of the average annual income from the affected acres over the last 3 years.

Example 12: The CRP paid you \$6,000 as cost share for your qualified capital expense in your timber property. If you had no income from the property in the last 3 years, you could exclude up to \$6,250 ($(\$2.50 \times 100 \text{ acres}) \div 4\%$) from your income. The interest rate is from the Farm Credit System Bank. If you had \$9,600 of income from the property in the last 3 years, you could exclude up to \$8,000 ($((10\% \times (\$9,600 \div 3)) \div 4\%)$). Attach a statement to your tax return describing the cost-sharing program and your exclusion calculations.

Filing Form T (Timber)

You must file Form T (Timber), Forest Activities Schedule, if you claim a timber depletion deduction, sell cut products in a business (under Sec. 631(a)), or sell outright timber held for business use. However, if you only have occasional timber sales (one or two sales every 3 or 4 years), you are not required to file.

Conservation Easement

Donors of qualified conservation easement can take a tax deduction. The deduction is up to 50 percent (or 100 percent for qualified farmers and ranchers including forest landowners) of the taxpayer's AGI in a year. Any excess donation over the 50- or 100- percent limit may be carried forward to 15 years.

“For purchased property, the timber basis is the amount you paid for it.”



Reminder to WWIA Members

Celebrate WWIA's 29th anniversary by renewing your membership. Please make your check out to WWIA and send your dues to Tony Quadro, Westmoreland Conservation District, 218 Donohoe Rd., Greensburg, PA 15601. Act now and you'll pay only \$10 for 2018. Member benefits include free entry to nearly all WWIA programs.

Looking For *Ilex Opaca* (American Holly)

Dr. Cynthia Morton, a botanist with the Pittsburgh Parks Conservancy who was last month's speaker, is currently funded through the DCNR to examine wild vs. cultivated populations of *Ilex opaca* for genetic diversity. This species has been collected only about 35 times in PA and is mostly likely more abundant than the records show. If you have wild populations of American holly on your property, please contact her at mortoncm100@gmail.com. WE NEED YOUR HELP.

WWIA 2018 Events Calendar

March 15, 6:30 p.m.

Eric Oesterling, retired Penn State Extension agent, will reprise his popular program on "Pruning, Planting, and Care of Fruit and Landscape Trees."

April 26

Details TBA.

May 10, 6:00 p.m.

Tracey Coulter, a DCNR agroforestry coordinator, will update us on "The State of the American Chestnut Tree," including its cultural and natural history leading up to current restoration efforts.

June 9, 9:00 a.m. to about 2:30 p.m.

Jessica Salter and David Planinsek, DCNR foresters working out of the Laughlintown office of the Bureau of Forestry, will lead our eighth annual Forbes State Forest field trip and skills day.

September 20

Celine Colbert, a DCNR forester, will lead a field trip on "Tree Identification." Site TBA.

October 18, 6:00 p.m.

The annual WWIA potluck dinner and business meeting will include biennial elections and be followed by a presentation. Speaker TBA.

Westmoreland Woodlands Improvement Association

Membership Application and Renewal – Dues \$10 per year

Name: _____ Phone: _____

Address: _____

New Member () or Renewal () Date: _____ Email Address: _____

Make check payable to

Westmoreland Woodlands Improvement Association

Mail to

Westmoreland Woodlands Improvement Association

c/o Westmoreland Conservation District

218 Donohoe Road, Greensburg, PA 15601

Attention: Tony Quadro

www.westmorelandwoodlands.org

Westmoreland Woodlands
Improvement Association

c/o Westmoreland Conservation District
218 Donohoe Road,
Greensburg, PA 15601

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