



Ohio Forestry Tax Law Eligibility and Requirements

Ohio Forest Tax Law (OFTL) is administered by the Ohio Department of Natural Resources, Division of Forestry, according to the Ohio Revised Code and the Ohio Administrative Code. In exchange for the tax reduction conferred by Ohio's forest property tax laws, landowners agree to manage their forest land for the commercial production of timber and other forest products and to abide by pertinent rules and regulations.

Forestland Defined

According to the Ohio Administrative Code, "forest land" is defined as:

"Land for which the primary purpose is the growing, managing and harvesting of a merchantable forest product of commercial species under accepted silvicultural systems through natural or artificial reforestation methods and for which there is an approved forest management plan. The forest land shall consist of a stand or stands of commercial species of forest trees which contain at least fifty square feet of basal area or at least three hundred stems per acre which shall be evenly distributed throughout the stand."

Eligibility of Forestland

If your forestland meets that definition, it may be eligible for certification under OFTL. Requirements for certification are:

1. A tract of forestland must be at least ten (10.0) contiguous acres and no less than one hundred twenty (120) feet wide. Deductions are made for the following non-qualifying acreage:
 - Homesites and other building sites
 - Streams, rivers, roads, and utility and railroad rights-of-way more than 120 feet wide
 - Lakes and ponds greater than one acre (1.0) in size
2. Non-forested strips more than 120 feet wide are considered a break in the contiguity of forestland. Areas of forestland on each side of that break will be considered for eligibility separately.
3. Forestland must be accessible for management.
4. Forest plantations are eligible for certification after at least one full calendar year as long as they include at least 300 living trees per acre of commercial species such as oak, hickory, maple, beech, cherry, walnut, yellow-poplar, pine, and so on.
5. Commercial orchards and Christmas tree plantations do not qualify as forestland under OFTL. (They may be eligible under CAUV.)
6. Property boundary lines and/or forestland boundary lines must be marked and those markings must be continuously maintained. Any of the following ways of marking boundary lines is acceptable:
 - Blazing of trees with paint
 - Installation of posts or stakes
 - Installation of a fence (an existing well-constructed fence qualifies)
7. If the landowner uses paint, posts, or stakes, marks or markers must be no farther than sixty-six feet apart. Stakes or posts must have a height of at least four and one half feet above the ground. The use of flagging, ribbon, or surveyor's tape is not an acceptable way to mark boundary lines.



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8. If the landowner has cut or removed a merchantable forest product during the three years prior to the time of application, that cutting or removal must have been accomplished under an approved forest management plan or as part of an acceptable silvicultural practice.

Forest Management Plans

In order to qualify for OFTL, landowners must have a written plan to guide them in the management of their forestland, a plan prepared or approved by a service forester working for the Ohio Division of Forestry. Landowners are required to follow the provisions of their forest management plan. At least once every five years, a service forester will examine certified forestland to ensure compliance with the plan and with other requirements under OFTL.

The Ohio Administrative Code defines a “forest management plan” as:

“A written document establishing direction and goals for the management of a specific forest land area. If not prepared by the division, the document must be developed by a professional consulting forester. The plan will specify all silvicultural practices and activities necessary to accomplish the merchantable production of a forest product, all practices that will minimize adverse environmental effects and will include but not be limited to the elements described in rule 1501:3-10-04 [i.e., location, description, map, management schedule, etc.]”

Landowner Requirements

In order to have their land certified under OFTL and to continue with that certification, landowners must:

1. Declare that their forestland will be devoted exclusively to forestry with a primary objective of timber production and may include its allied fields of maple syrup production, wildlife conservation, recreation, aesthetics, etc., where these do not interfere with the productivity of the forest.
2. Establish and maintain property boundary line and/or forest boundary line markings according to OFTL standards.
3. Demonstrate their intent to engage in management by successfully completing a prescribed silvicultural activity prior to certification.
4. Follow the forest management plan prepared for their property.
5. Before cutting timber, submit a silvicultural operation and management (O&M) plan, now called a timber harvest notice of intent (NOI) and timber harvest plan, with their local Soil and Water Conservation District (SWCD) office and with their service forester. Landowners can request a blank copy of the form from their local SWCD or service forester.
6. When cutting timber, use a logger certified by the Ohio Forestry Association (OFA) as a master logger. A list of OFA Master Loggers can be found on the OFA website or by a link on the Division of Forestry’s website.



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7. During and at the close of logging operations, implement best management practices (BMPs) to prevent or reduce erosion, sedimentation, and water pollution.
8. Protect their forestland from livestock.
9. To the best of their ability, protect their forestland from fires.
10. Attend eight hours of forestry training, approved by the Chief of the Division of Forestry, within five years of certification of their forestland. Six hours of that training must be from a workshop entitled "Introduction to Woodland Management & Ohio's Forest Tax Law." The course is offered at least once annually in different locations throughout the state. The remaining two hours of forestry training can include forestry workshops, woodland steward programs, forestry field days, woodland owner meetings, etc.
11. Comply with all laws, rules, and regulations promulgated by the Chief, which are used in the administration of Sections 5713.22 through 5713.26 of the Ohio Revised Code. See the Ohio Administrative Code Sections 1501: 3-10-01 through 3-10-07 for more details.
12. Affirm their understanding that:
 - When certified forestland is divided or split into two or more ownerships, certification is cancelled.
 - When ownership of certified forestland changes through sale, deed transfer, or any other means, certification is cancelled except that an ownership change to effect the transfer of a certified property as a result of the death of the owner to their spouse shall not result in cancellation of certification upon the affirmation by the surviving spouse to the original agreement terms (FT-7) and forest management plan.
 - When certified forestland or any part thereof is converted to a use other than that of the commercial production of timber and other forest products (such as the construction of a house or other building, conversion to pasture, etc.), certification is cancelled.

If you would like to find out more about OFTL or have questions, please contact your local service forester or you may contact Ohio Forest Tax Law Coordinator.

Local Service Forester

Joe Puperi
419-424-5004
joe.puperi@dnr.state.oh.us

Ohio Forest Tax Law Coordinator.

Mark Wilthew
440-632-5299
mark.wilthew@dnr.state.oh.us



Ohio Forestry Tax Law

Step-by-Step Process for Landowners

1. Obtain a copy of the form, "Application for Classification of Forestland" (FT-6), by writing to the Chief of the Division of Forestry, Ohio Department of Natural Resources, 2045 Morse Road, Building H-1, Columbus, OH 43229-6693, or from your local service forester. A directory of service foresters is available on the Ohio Division of Forestry website.
2. Submit the following documents to your service forester:
 - A completed application form
 - A copy of your most recent property tax bill(s)
 - Three (3) photocopies of aerial photographs of your property
 - One (1) full-size copy of a property tax plat map showing your entire property and at least one (1) road intersection.
 - Tax plat maps are available at your county courthouse. Aerial photographs are available from your local U.S. Department of Agriculture, Farm Services Agency (FSA) office. Be sure to take your tax plat map to the FSA office so that personnel there can easily locate your property. Some county auditor websites have GIS aerial photos available on line.
3. Upon receipt of the completed application, tax bill(s), aerial photographs, and tax plat map, your service forester will contact you for an appointment to visit your property. Prior to the service forester's visit, your property boundary lines and/or forest boundary lines must be marked in one of the following ways:
 - Blazing of trees with paint
 - Installation of posts or stakes
 - Installation of a fence (an existing well constructed fence qualifies)
 - Your paint marks, posts, or stakes must be no farther than sixty-six feet apart. Stakes or posts must have a height of at least four and one half feet above the ground. The use of flagging, ribbon, or surveyor's tape is not an acceptable way to mark boundary lines.
4. During his or her visit, the service forester will examine your property to see if it is eligible for certification. If your forestland qualifies, you must demonstrate your intent to engage in management by completing a prescribed forestry practice. Practices commonly required include grapevine control, cutting cull trees, or controlling non-native, invasive plant species.
5. After you have successfully completed your prescribed forestry practice, your service forester or other qualified professional forester will prepare a forest stewardship management plan for your property.
6. Your service forester will send you a copy of your forest stewardship management plan (unless provided to you by another qualified professional forester), and three copies of the Ohio Forest Tax Law agreement form (FT-7). All three copies of the agreement form must be signed by the person or persons whose names are recorded on the deed exactly as those names appear on the deed. You must also sign the cover page to your forest stewardship management plan.
7. Return all three copies of the signed agreement form, the signed cover page(s) of your forest stewardship management plan, and a \$50 non-refundable application fee (checks only) to your service forester for processing. Make your check payable to the Ohio Division of Forestry.
8. Upon receipt of signed agreement forms, the signed cover page(s), and the application fee, your service forester will submit your application package to the Chief of the Division of Forestry for approval. The Chief will then issue a Certificate of Classification (DNR 4482) to your County Auditor, with copies to you and to your service forester.



OHIO'S FOREST PROPERTY TAX LAWS

Contact your service forester at ohiodnr.gov/forestry

Ohio Division of Forestry

2045 Morse Road, Building H-1, Columbus, OH 43229-6693

Telephone: (614) 265-6694 • Toll Free: (877) 247-8733 • Fax: (614) 447-9231

The State of Ohio offers landowners two options for the reduction of property taxes on their forestland. The **Current Agricultural Use Value (CAUV)** program (Ohio Revised Code Sections 5713.30 through 5713.38) provides for reduced property taxes at varying rates based on the productivity of the soil. The **Ohio Forest Tax Law (OFTL)** program (Ohio Revised Code Sections 5713.22 through 5713.26 and Administrative Code Sections 1501:3-10-01 through 3-10-07) provides for a fifty percent reduction in the local tax rate on forestland. Although forestland may qualify under both laws, any given tract can be enrolled in only one program. In exchange for the tax reduction conferred by Ohio's forest property tax laws, landowners agree to manage their forestland for the production of timber and other forest products and to abide by pertinent rules and regulations.

COMPARISON of CAUV and OFTL

CURRENT AGRICULTURAL USE VALUE (CAUV)	OHIO FOREST TAX LAW (OFTL)
<p>Administered by: The County Auditor for the county in which the land is located.</p> <p>Requirements:</p> <ul style="list-style-type: none"> ▪ Farms (building sites excepted) must be 10 acres or more and devoted exclusively to commercial agricultural use for the three years prior to the year of application; or if a farm is less than 10 acres, average gross income must be at least \$2,500 per year for three years, or anticipated income must be at least \$2,500 for the year of application. ▪ If a tract of forestland is 10 acres or more, it is eligible for CAUV if that forestland is devoted exclusively to the commercial production of timber. ▪ If the farm is devoted exclusively to agricultural use, adjacent non-commercial forestland may qualify under certain circumstances. ▪ The landowner may be required to manage his or her forestland in accordance with an approved forest management plan. ▪ There is a one-time application fee of \$25. The landowner must also complete an annual renewal application with no additional fee. <p>Tax Reduction: Varying reduction based on the soil productivity of the land on which the forest is located.</p> <p>Terms of Reduction: If land use changes or if the landowner decides to withdraw his or her land from CAUV, there is a recoupment penalty equal to the tax savings for the preceding three years.</p>	<p>Administered by: The Ohio Department of Natural Resources (ODNR), Division of Forestry (DoF).</p> <p>Requirements:</p> <ul style="list-style-type: none"> ▪ Forestland must be 10 or more contiguous acres (home sites and other building sites excepted) and not less than 120 feet wide. ▪ Property boundary lines and/or forest boundary lines must be clearly marked prior to examination and those markings continuously maintained. ▪ Before forestland can be certified, the landowner is required to demonstrate his or her intent to manage that land by completing a prescribed forestry practice. ▪ The landowner must manage his or her forestland in accordance with a forest management plan approved by the Chief of the DoF. ▪ Every five years, the DoF will inspect certified forestland to ensure compliance with the program and with the forest management plan. ▪ During the first five years of certification, the landowner must attend eight hours of forestry education approved by the Chief. ▪ There is a one-time application fee of \$50. <p>Tax Reduction: Forestland certified under OFTL is taxed at 50 percent of the local tax rate.</p> <p>Terms of Reduction: Certification is continuous unless land use changes, ownership changes, the landowner withdraws his or her forestland from the program, or the landowner is otherwise no longer in compliance. There are no penalties for withdrawal.</p>

HOW DO YOU DECIDE WHICH PROGRAM IS BEST FOR YOU?

Contact your county auditor’s office for a copy of your current property tax appraisal card. Using the figures on that card, you can estimate savings you will receive under Ohio’s forest property tax laws. Be sure to consider net taxes paid on forestland after accounting for the reduction factor and, when applicable, the ten percent rollback. The auditor’s office can compute CAUV using soil maps furnished by your county Soil and Water Conservation District (SWCD) office. Under OFTL, the local tax rate of forestland is reduced by fifty percent. For estimating savings you may receive, consider the following example:

- Your forestland amounts to 30 acres
- Effective local tax rate: 50 mills after all tax credits are accounted for
- Appraised market value: \$400 per acre
- Tax value: 35% of the appraised market value

Estimated Property Tax without CAUV or OFTL

<u>Value</u>	<u>Calculation</u>	=	<u>Amount</u>
Total Value	\$400 per acre x 30 acres	=	\$12,000
Tax Value	\$12,000 x 35% (0.35)	=	\$4,200
Property Tax Due	\$4,200 x 50 mills (0.05)	=	\$210

Estimated Property Tax with CAUV			Estimated Property Tax with OFTL		
<i>Value</i>	<i>Calculation</i>	<i>Amount</i>	<i>Value</i>	<i>Calculation</i>	<i>Amount</i>
Total Value*	\$100 per acre x 30 acres =	\$3,000	Total Value	\$400 per acre x 30 acres =	\$12,000
Tax Value	\$3,000 x 35% (0.35) =	\$1,050	Tax Value	\$12,000 x 35% (0.35) =	\$4,200
Property Tax Due	\$1,050 x 50 mills (0.05) =	\$52.50	Property Tax Due	\$4,200 x 25 mills (0.025) =	\$105**

* Most forestland in Ohio has a CAUV of \$100 per acre. The value may be higher on more productive land.

** Note that the property tax rate in this example is reduced by half with OFTL, from 50 mills to 25 mills.

HOW TO APPLY

CAUV: Apply at your county auditor’s office between the **first Monday in January and the first Monday in March**. For the three-year update or six-year reappraisal, the application period is extended to permit comparisons of CAUV with new appraisal values. The initial application fee for CAUV is \$25. You may be required to have a forest management plan in place at the time of application. Check with your auditor’s office well before the application period to determine requirements for CAUV in your county.

OFTL: Obtain a copy of “Application for Classification of Forest Land” (FT-6) from the Ohio Division of Forestry (DoF) through your service forester or from the DoF website (ohiodnr.gov/forestry). After completing the form, return it to your service forester along with:

- 1) A copy of your most recent property tax bill, available at your county auditor’s office;
- 2) Three photocopies of aerial photos of your property, available at your county Farm Service Agency (FSA) office, located at the U.S. Department of Agriculture (USDA) Service Center); and
- 3) A tax plat map, available at your county tax map office or county surveyor’s office.

Your service forester will then make arrangements to examine your forestland with you to determine if it qualifies. Once you have met all the requirements for application, your service forester will collect from you a non-refundable fee of \$50 and process your application. If you have questions contact your service forester at:

ohiodnr.gov/forestry

APPLICATION FOR CLASSIFICATION OF FOREST LAND

To the Chief, Division of Forestry:

In accordance with sections 5713.22-.26 of the Ohio Revised Code, I hereby apply for the classification of certain lands owned by me as forest lands for the purposes of timber production and for the entrance of the same under the Ohio Forest Tax Law

APPLICANT TO FILL BLANKS BELOW

(Print or Type)

Name _____

Address _____

City, State, Zip _____

Telephone – Home _____ Work _____

Total number of acres on property _____ Number of acres in forest _____

Description of property (as found on the tax bill):

Parcel# _____

County _____ Township _____ Section, Range or Virginia Military Survey

Name and Number (if applicable) _____

Forest is located (give road name or number) _____

Is this forest land currently under the Current Agricultural Use Value (CAUV) program? _____¹

Is forest grazed by livestock? _____²

Do you have any deed restrictions that deal with forest management? _____ If yes, please attach a copy of the deed restrictions.

Do you have a Forest Stewardship Management Plan? _____ If yes, please provide a copy of this plan.

Was this forest land previously classified under the Ohio Forest Tax Law? _____ Please provide previous owner's name _____.

Signatures of Owner(s)³

DO NOT SUBMIT
\$50.00 APPLICATION
FEE AT THIS TIME

Date _____

1 Forest land can only be placed under one tax reduction program, the Current Agricultural Use Value (CAUV) program or the Ohio Forest Tax Law.

2 Forestland can not be considered for forest land tax reduction unless the owner is willing to protect the woods from livestock.

3 This form must be signed by the person(s) whose name the property is recorded in the County Auditor's office, or if signed by an agent, the name of the recorded owner must be given also.





Tax Tips for Forest Landowners for the 2010 Tax Year

by Linda Wang, National Timber Tax Specialist
and John L. Greene, Research Forester, Southern Research Station

This bulletin provides tax tips for woodland owners and their tax advisors in the preparation of the 2010 individual tax return. It is current as of September 15, 2010, and supersedes Management Bulletin R8-MB 134. Please be aware that the information presented here is not legal or accounting advice. Consult your legal and tax advisors for more complete information.

Timber as Personal, Investment or Business Property

The tax rules vary depending on whether your woodland is personal, income-producing (investment), or business property. You must make this determination for your holding each tax year. If you do not have a profit motive, your timber may be personal property, which provides limited opportunities for deductions. If you have a clear profit motive, your property may be an investment property, or it may be business property if your management activity is more regular, frequent, and intensive than required for an investment. A written management plan is one of the best places to document a profit motive. For a timber held as a business, you also must determine whether you materially participate in its operation, in order to establish whether you face restrictions (called *passive loss restrictions*) on the deduction of business losses. The tests for material participation are based on factors including the number of hours of your participation.

Example 1: You grow timber for profit and asset appreciation but do not conduct it as a business. Your woodland is investment property.

Example 2: You manage your timber as the sole proprietor of a business. You keep business records, including the number of hours of your participation in the business to establish that you materially participate in its operation. Your woodland is business property for tax purposes.

Timber Sales

The net sale amount, not the gross proceeds from a sale, is taxed. You may deduct depletion (see below) and expenses from the sale. Report the sale of timber held as an investment on Schedule D, as a long-term capital gain if you owned the timber more than 1 year or a short-term capital gain if not. Report the sale of timber held as a business on Form 4797 and Schedule D, whether you sold it outright (lump-sum) or pay-as-cut (sec. 631(b)).

Example 3: You sold for \$8,000 standing timber held as investment more than 1 year and incurred \$800 in sales expenses. Assuming your basis in the timber (see below) is zero your net taxable amount from the sale is \$7,200 (\$8,000 - \$800), which you

report on Schedule D. If you held the timber as a business, you would report the sale on Form 4797 and Schedule D.

Income from sale of *cut* (vs. *standing*) timber is taxed in two parts. The difference between the fair market value (FMV) of the standing timber on the first day of your tax year and your basis in it is taxed as a capital gain (to qualify as a long-term capital gain you must have held the timber more than 1 year before cutting it for use in your business). The difference between the proceeds from the sale of the cut products and the sum of the FMV of the standing timber and the cost of converting it into products for sale is taxed as ordinary income (sec. 631(a)).

Example 4: You paid a contractor \$2,000 to cut standing timber you had held more than 1 year into logs, then sold the logs to a mill for \$30,000. The FMV of the standing timber was \$23,000 on Jan. 1 and your basis in it was \$1,000. Make a sec. 631(a) election on Form T, Part II. Then report a \$22,000 long-term capital gain (\$23,000 - \$1,000) on Form 4797, and \$5,000 in ordinary income (\$30,000 - 23,000 - \$2,000) on Schedule C.

For 2010, the maximum rate for long-term capital gains is 15%, or 0% for amounts that fit under the ceiling for the 15% tax bracket if added to your ordinary income (\$34,000 for single taxpayers, \$68,000 for married taxpayers filing jointly).

Installment Sales

An installment sale involves receiving one or more payments after the year of sale. Interest is charged on deferred payments. The advantage of an installment sale is that it allows you to defer tax by spreading your gain over 2 or more years.

Example 5: You sold timber for \$10,000 (\$8,000 after deducting depletion and sales expenses) in 2010. The buyer paid you \$5,000 in 2010 and \$5,000 plus interest in 2011. Your gross profit percentage is 80% ($\$8,000 \div \$10,000$). Report only a \$4,000 gain for 2010 ($\$5,000 \times 80\%$), using Form 6252.

Timber Basis and Depletion

Your basis in purchased timber is the total cost of acquisition (e.g., purchase price, survey, legal fees). Your basis in inherited timber is its FMV on the date of death, but your basis in gifted timber is the lesser of its FMV or the donor's basis. Your basis in land and timber acquired together should be divided in proportion to their FMV and kept in separate accounts. If you didn't allocate basis when you acquired your woodland a professional forester can determine it retroactively, but you should weigh the cost against the potential tax savings.

Example 6: In 2010 you bought a deed to 1,000 MBF of timber for a total cost of \$212,000. Your basis in the timber is \$212,000, even though your forester estimates its FMV is \$220,000.

If you have a timber sale or a casualty loss, you can take a deduction against your timber basis. To calculate your depletion deduction for a sale, divide your basis by the total volume of timber (the *depletion unit*) then multiply by the number of units sold.

Example 7: Continuing with example 6, you immediately sold 200 MBF of timber for \$220/MBF. Your depletion unit is \$212/MBF ($\$212,000 \div 1,000 \text{ MBF}$) and your depletion is \$42,400 ($\$212 \times 200 \text{ MBF}$).

Timber Management Expenses

If you have a profit motive for your woodland, you can deduct ordinary and necessary timber management expenses, such as costs incurred to protect the woodland from insects, disease or fire, control brush, or do a precommercial thinning or mid-rotation fertilization. Management expenses for property held as an investment are subject to a 2% of adjusted gross income (AGI) reduction on Schedule A. In contrast, expenses for business property may be deducted in full on Schedule C. You may add to your timber basis expenses subject to the 2% AGI reduction and recover them when you sell the timber.

Reforestation Costs

Sec. 194 allows tax deductions for the cost of reforesting your woodland following a harvest or afforesting open land. You may deduct the first \$10,000 (\$5,000 for married couples filing separately) per year of such expenses per qualified timber property. Any additional amount may be deducted (*amortized*) over 84 months. Costs for both artificial and natural regeneration qualify.

Example 8: You spend \$7,000 to reforest your woodland following a harvest. If you hold the woodland as an investment, deduct the full amount as an adjustment to gross income on the front of Form 1040; if you hold it as business property, deduct it on Form 1040, Schedule C or F (if you qualify as a farmer; see below).

Example 9: You spent \$17,000 to reforest your property. Deduct \$10,000 plus 1/14th of the remaining \$7,000 (\$500) in 2010. Deduct 1/7th of the \$7,000 (\$1,000) in years 2011 through 2016, and the last 1/14th (\$500) in 2017. Report the amortization deductions on Form 4562, Part VI.

Depreciation, Bonus Depreciation, and First-Year Expensing

Capital expenditures such as those for logging equipment, bridges, culverts, fences, temporary roads, or the surfaces of permanent roads may be deducted (*depreciated*) over the property's useful life. For example light-duty trucks and logging equipment are depreciated over 5 years. You also may take bonus depreciation equal to 50% of the cost of property purchased and placed in service in 2010. If you purchased qualifying property (generally tangible personal property, but not improvements to land, buildings, or components of buildings) for your forest business in 2010, you can elect to expense up to \$250,000, subject to phase-out and business taxable income limitations (*first-year expensing*).

Cost-share Payments

Sec. 126 allows recipients of payments from approved public cost-share programs to exclude all or part of the payments from their income. Approved federal programs include the Forest Health Protection Program (e.g., the southern pine beetle and mountain

pine beetle cost-shares), the Conservation Reserve Program, Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, and Wetlands Reserve Program. Approved state programs also qualify. The excludable amount is the present value of the greater of \$2.50 per acre or 10% of the average annual income from the property over the last 3 years. You generally cannot claim an exclusion if the cost may be expensed. You also may not claim a deduction for an expenditure reimbursed with the cost share and at the same time exclude the cost share from your income.

Example 10: You received a \$4,000 cost-share from the Conservation Reserve Program for your 100-acre woodland. Assuming no income from the property in the last 3 years, you can exclude \$3,275 ($(\$2.50 \times 100 \text{ acres}) \div 7.63\%$). The interest rate is from the Farm Credit System Bank. If you had \$9,600 income from the property, you could exclude the entire cost-share: $(10\% \times (\$9,600 \div 3)) \div 7.63\% = \$4,194 > \$4,000$. Attach a statement to your tax return describing the cost-share program and your calculations.

Casualty and Theft Losses

The loss of timber from a casualty—a sudden, unexpected, and unusual event such as a fire or storm—may result in a tax deduction. The deduction is limited to the lesser of the decrease in FMV caused by the casualty or your basis in the timber block (the area or unit you use to keep track of your basis in the timber that was damaged). Similarly, a theft loss deduction is limited to the lesser of the decrease in FMV or your basis in the stolen timber. A competent appraisal usually is required.

Example 11: A fire caused \$5,000 in damage to your timber (\$9,000 before-fire FMV - \$4,000 after-fire FMV). Your basis in the affected block is \$2,000. Your loss deduction is the lesser amount, or \$2,000. Report the loss on Form 4684, Section B, and adjust your timber basis (reduce it to zero) on Form T, Part II.

Example 12: Continuing with example 11, you sold the damaged timber for \$2,000 in a salvage sale. You have a taxable gain of \$2,000 (\$2,000 - \$0 basis), but you can defer tax on the gain by using it to acquire qualified replacement property (e.g., reforestation) within the allowable replacement period (generally 2 years).

Filing Form T

You must file Form T, Forest Activities Schedule, if you claim a depletion deduction, sell cut products under sec. 631(a), or have a lump-sum sale of timber held as business property (sec. 631(b)).

Schedules C and F

Taxpayers in the trade or business of farming (e.g., crops, dairy, or livestock) file Schedule F. Woodland business owners also file Schedule F if their timber ownership is incidental to a farming operation; otherwise, they should use Schedule C.

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