
The Florida Forest Steward



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Happy 2006!

A little late, yes, but we hope it's been a good year so far and that you are on track to reaching your land management goals. Florida's Forest Stewardship Program continues to grow and, due to its high certification standards and cooperative approach to providing technical and educational services, is among the top Stewardship Programs in the Nation. The total number of Stewardship Plans in Florida is now over 2,210, comprising over 629,000 acres.

This issue will feature an article by Walton County Extension Agent, Mike Goodchild, who just returned from a six-month professional development project about woody biomass and alternative markets for small diameter pines. You have probably noticed over recent years that professionals in the natural resource and energy fields are giving this topic increasing attention. This topic will also be the focus of the next SFRC/SAF Spring Symposium coming up on March 28-29. Also in this issue of the Steward is information for you to consider when preparing your income tax return for the 2005 year.



Emerging biomass energy technologies and implications for forest management



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Biomass as an Alternative Energy Source

By Mike Goodchild, UF-IFAS Walton County Extension Agent
(all photos by Mike as well)

Woody biomass is an abundant renewable energy source readily available here in Florida and southern Georgia and Alabama.

What is biomass? Biomass is any type of vegetative material derived from trees, shrubs, grasses or other forms of plants. Biomass can be cultivated in pine plantations or grown naturally. By-products of wood, such as construction debris or waste material left over from wood manufacturing, are also forms of biomass. The energy stored in biomass is released when the material is burned. A common form of biomass used for centuries is firewood.

New and old technologies are now being used to produce electricity, liquid fuels, gases, and chemicals from wood biomass. Wood gasification is the new technology being studied at several

Universities across the country. Believe it or not, waste heat from burning wood can be used to cool water to air condition homes and commercial buildings. Wood chips for commercial buildings or wood pellets for residential homes are fed into

a boiler system. Hot water is produced, which is then cooled through an absorption chiller, with the end product being air conditioning. Despite the enormous energy-producing potential for biomass, it is estimated that only 7% of the annual biomass produced worldwide is utilized for that purpose. Most of this utilization is occurring in Scandinavian countries to produce electricity and underdeveloped countries for heating and cooking.



Wood gasification unit in Mississippi

Recently while deer hunting, I had to build a fire and hang a pot of stew from a tree limb in order to have a hot meal. My Coleman stove refused to work after 20 years of inactivity. Woody biomass provided me with heat, hot food, and the framework for hanging my pot. I also enjoyed hot coffee filtered through toilet paper on a cool, starry night. Now that's living it up!



Unit for heating and cooling residential homes

With the steady rise in fuel prices, woody biomass is an energy source we should utilize to the fullest. Most wood biomass fuel has been used in recent years in the pulp and paper and other wood product

manufacturing industry through the burning of wood residues (bark, sawdust, chips, lignin). Due to high transportation costs, biomass energy facilities can only purchase raw materials within a 50-mile radius to be



Wood peletizing mill in Arkansas

cost effective in most situations. Wood biomass is an excellent energy source, especially if it is from residue left from logging operations. Removal of logging residue reduces site prep cost for replanting.

President Bush mentioned using woody biomass in his State of the Union Address and recent articles in local newspapers have commented on how much of this resource is available across the region. It will take some time for this relatively new technology to take hold, but increasing energy costs are sure to make it a prudent next step. As active forest landowners and managers we have an opportunity to act locally to better use our resources to reduce fossil fuel use, foreign oil dependency, and improve forest health through removal of storm-damaged trees, diseased trees, and small-diameter pines. Utilizing wood biomass could improve timber markets and benefit wildlife by way of more economical thinning treatments. If you are interested in participating in or promoting a wood biomass project, please feel free to send me an email.

Mike Goodchild, Walton County
Extension Agent
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Timber Tax Tips for 2005

Each year Larry Bishop and John Greene, USDA Forest Service Taxation Specialist and Research Forester, respectively, provide us with an updated summary of tax tips for forest landowners. The Bishop and Greene summary is intended to inform you of some of the things to keep in mind when preparing your Federal income tax return for the 2005 tax year, particularly if you incurred any costs, revenues or cost-share payments associated with timberland management.

Before continuing with the summary we'd like to recognize the retirement of Larry Bishop and his many contributions to the Southern Extension Forest Resource Specialists and forestland owners across the South. If you have had the privilege to work with Larry or attend one of his workshops you would probably agree that his knowledge of the IRS tax code, as it relates to timber growers, is unsurpassed. His shoes will be difficult to fill.

This summary is not exhaustive and we strongly recommend consulting other sources for a more comprehensive treatment of topics that may be particularly important to you. This information is current as of December 1, 2005, and supersedes USDA Forest Service Management Bulletin R8-MB 121. Some useful on-line resources are provided at the end.

Your Basis and Tax Records

Part of the price you receive from a timber sale is taxable income and part is your investment, or basis, in the timber

sold. The original cost of purchased timberland, or the value of inherited land, should be allocated to land, timber, and other capital accounts. Then, adjust the basis in each of the accounts up for new purchases or investments and down for sales or disposals. Keep good records, including a written management plan, map, and documents supporting current deductions six years beyond the date the return is due. The basis and timber depletion should be reported on IRS Form T (timber), Part II.

Passive Loss Rules

Under passive loss rules you can be classified in 1 of 3 categories: (1) investor, (2) passive participant in a trade or business, or (3) active participant (materially participating) in a trade or business. You are materially participating if your involvement is regular, continuous, and substantial. Generally, active participants get the best tax treatment of deductible expenses, but you must show this with thorough records. Keep records of all business transactions related to managing your timber stands and other business activities such as landowner meetings. Odometer readings to and from landowner meetings, canceled checks for registration fees, and copies of meeting agendas are some examples of documentation of meeting attendance.

If you are an active participant in a timber business you must dispose of your timber under the provisions of Section 631 to qualify for capital gains. ***Both “pay-as-cut” and lump sum timber sales now qualify for capital gain treatment under Section 631(b) as of December 31, 2004.***

Reforestation Tax Deduction and Amortization

You can deduct outright the first \$10,000 spent for reforestation during the 2005 tax year. You can also deduct over 7 years, all reforestation expenses in excess of \$10,000. Due to a half-year convention, you can claim one half of the deductible portion the first tax year, so it takes 8 years to recover the deductible portion. Elect to amortize reforestation expenses on form 4562. This election must be made on a timely filed return for the year in which expenses were incurred.

- If you are an investor, take the reforestation deduction on the front of form 1040. Write “RFST” and the amount on Line 36, the “adjustments to total income” line.
- If your forest is a trade or business, take the reforestation deduction on the “Other expenses” line on form 1040, Schedule C.
- If part of a farm, take the reforestation deduction on the “Other expenses” line on Form 1040, Schedule F.

Elect to amortize reforestation expenses on Form 4562, transfer it to Form 1040, and elect to amortize reforestation expenses on Form 4562. Election to amortize must be made on a timely tax return for the year in which the reforestation expenses were incurred. Passive owners may not be eligible for this credit and amortization.

Capital gains and Self-employment Taxes

You could pay significantly more in taxes if you report timber sale income as ordinary income rather than as a capital gain. Also, capital gains are not subject to the self-employment tax, as is ordinary income. The net self-employment tax rate for 2005 is 15.3% for self-employed income of \$400 or more. To qualify for long-term capital gains treatment, timber sold after December 31, 1997 must have been held longer than one year. The maximum long-term capital gains income tax rate for 2005 is 15% for timber sold after May 6, 2003.

Cost-share Payments

All or part of the cost-share payments received in 2005 under any of the Federal or State cost-share programs must be reported. Here are the options:

1 - Include the payments as income and then recover the part that you pay plus the cost-share payment through the amortization and reforestation tax deduction described above.

2 - Exclude the “excludable portion” from income if certain conditions are met:

- a - the cost-share program has to be approved for exclusion by the IRS and
- b - the maximum amount excludable per acre is the greater of the present value of \$2.50 per acre or the present value of 10% of the average income per acre for the past 3 tax years.

Cost-share programs approved for exclusion by the IRS include the Forest Land Enhancement Program, Wetlands

Reserve Program, Environmental Quality Incentive Program, and the Wildlife Habitat Incentive Program. If you decide to exclude, you must attach a statement to your return that states specifically what cost-share payments you received, that you choose to exclude some or all of them, and how you determined the excludable amount.

Conservation Reserve Program (CRP)

If you planted trees during 2005 under CRP you must report your *annual payment* as ordinary income, but *cost-share payments* are now excludable. Follow the procedures above to determine the “excludable portion” of your CRP cost-share payment.

Casualty Losses

A casualty loss must result from an event that is identifiable, damaging to the property, and sudden or unexpected or unusual in nature (e.g., wildfires and storms). Your claim for casualty losses cannot exceed the adjusted basis minus any insurance or other compensation. Note that the IRS has ruled that losses resulting from drought or beetles generally do not qualify for a casualty loss deduction because they are not sudden, but they may qualify for a business- or investment-loss.

Management and Maintenance Expenses

IRS Revenue Ruling 2004-62 clarified that the cost of post-establishment fertilization is a deductible management expense. It is usually best to itemize your annual management expenses during the tax year they are incurred,

although the amounts that can be deducted depend on your tax category (investor, active, passive). If it is not to your advantage to itemize deductions for 2004 you should capitalize these expenses.

Conclusion

Proper tax planning is a tedious but important part of timberland management. We strongly recommend contacting a professional tax advisor to help you with this task if you are uncertain of the procedures.

Timber Tax Resources on the Internet

You can access this, "Tax Tips for Forest Landowners for the 2005 Year", and other publications on-line at the USDA Forest Service Forest Taxation Web site at www.fs.fed.us/spf/coop/programs/loa/tax.shtml.

See the National Timber Tax Web Site for a comprehensive treatment of timber taxes at www.timbertax.org.

IRS publications and forms are available at www.irs.gov.

Timber Price Update

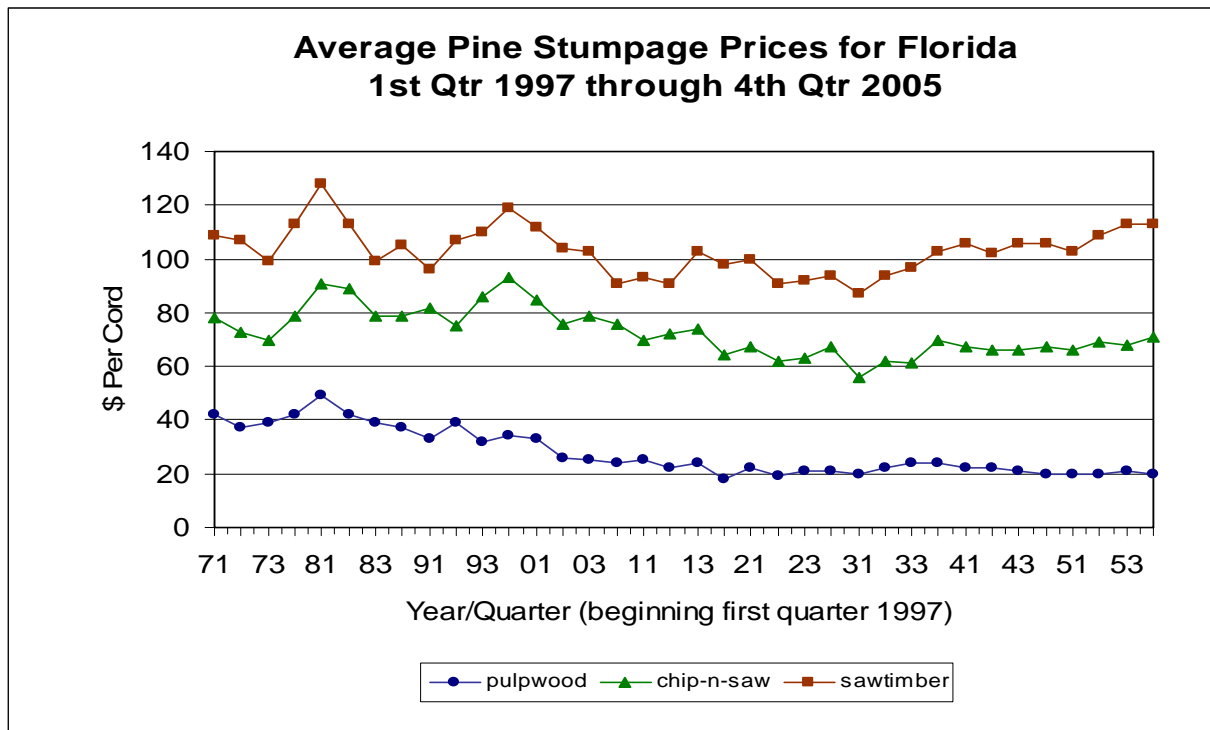
This information is useful for observing trends over time, but does not necessarily reflect current conditions at a particular location. Landowners considering a timber sale would be wise to let a consulting forester help them obtain the best current prices. Note that price ranges per ton for each product is included in parentheses after the price per cord.

Stumpage price ranges reported across Florida in the **4th Quarter 2005** Timber Mart-South (TMS) report were:

- Pine pulpwood: \$13-\$26/cord (\$5 - \$10/ton), ↓ from 3rd Quarter 2005
- Pine C-N-S: \$61-\$79/cord (\$22 - \$29/ton), ↑
- Pine sawtimber: \$102 - \$123/cord (\$38 - \$46/ton), ---
- Pine plylogs: \$108 - \$129/cord (\$40 - \$48/ton), ↓
- Hardwood pulpwood: \$13 - \$28/cord (\$6 - \$11/ton), ↓

Trend Report

Average prices for the major timber products across Florida were mixed this quarter compared to those of 3rd quarter 2005. Chip-n-saw was up over a dollar per ton, sawtimber stayed about the same and average prices for plylogs, poles, pine pulpwood and hardwood pulpwood were all down. Contributing to these trends at the regional level were continuing salvage operations from Hurricanes Katrina and Rita, high fuel prices, and regional variations in precipitation. While the western part of the south has been in a drought, the Atlantic Coast has seen above average rainfall. Regional average prices for pine sawtimber are nearly the same as they were a year ago and pine pulpwood prices have made modest gains, about 6% higher than 4th Quarter 2004. While average hardwood sawtimber prices continue to increase slightly in Florida, they have broken their upward trend at the regional level due to dry logging conditions in Arkansas and Texas.



**Congratulations to these
Landowners for Earning Forest
Stewardship Certification in
2005 and early 2006:**

**James and Jennifer Pochurek,
Marion County**

**Ron and Jennifer Fisher,
Walton County**

Charles Dingmon, Putnam County

T. Lee, Jefferson County

Waukeenah Lee, Jefferson County

John Wethington, Jefferson County

**Robert and Chris Larson,
Walton County**

Ed Jowers, Walton County

Martha Pridgen, Walton County

If you have been officially certified as a Florida Forest Steward (got the sign and plaque) over the last year or so and would like to be recognized in the Florida Forest Steward, call Chris at 352-846-2375.

