



ANNUAL BANQUET

an Evening of Fun, Food
and Information.

THURSDAY, NOV. 11

6 p.m.

APPLE BIN RESTAURANT
ROUTE 56, FISHERTOWN

NOTE: different location than last year.

Have specific questions,
comments or ideas? Bring them to
this year's meeting.

For an update about our speaker
and presentation, visit
www.orgsites.com/pa/wosa

Reservation form
on page 7.



DEADLINE: NOV. 1

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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 USDA Forest Service

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.

continued on page 3...

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www.orgsites.com/pa/wosa

NOW'S THE TIME TO RENEW

ANNUAL MEMBERSHIP January - December 2011

Name _____

Address _____

City/State/Zip _____

Tel: _____

Email: _____

#Acres Owned or Managed _____ County _____

Single \$15 Family \$20

Associate (non-voting) \$15 Sponsor \$50

Amount Enclosed: _____

Make checks payable to WOSA. Mail to:
Mary Anne Bekassy
502 Grasshopper Rd.
New Paris, PA 15552

Questions? Contact Mary Anne at 814 839-2932 or
mabekassy@embarqmail.com.

MARK YOUR CALENDAR

**WOSA'S
ANNUAL FORESTRY AND WILDLIFE
CONFERENCE
MARCH 12, 2010
BREEZEWOOD FIRE HALL**

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 tax-able 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 -

...Tax Tips

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 ($\$212,000 \div 1,000$ MBF) and your depletion is \$42,400 ($\212×200 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 pre-commercial 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

...Tax Tips

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)).

Timber Taxation Workshops

These workshops are geared for financial advisers, such as attorneys, accountants, financial planners, foresters, tax preparers, and small-business owners. This is a one-day course designed to help your clients maximize their individual goals. ***Interested forest landowners are also invited to attend.*** Fee: \$120. Registration Deadline: 10 days prior to workshop.

Instructors: Mike Jacobson and Lloyd Casey

Topics to be covered include:

Record Keeping Cost Basis Passive Losses Operating and Management Expenses Capital Gains on Timber Sales Depreciation Methods Cost-sharing Expenses Reforestation Expenses Casualty Losses Conservation Easements Pennsylvania Inheritance Taxes Estate Planning

Dates and Locations

Nov. 8 Keystone College Carlisle, Cumberland County Extension Office

Nov. 12 Westmoreland Co. Extension Office, Greensburg

For more information:

About Program Content

Mike Jacobson, Forestry Ext. School of Forest Resources, Penn State University, Phone: 814-865-399 4 E-mail: mgi2@psu.edu

About Registration

Mike Powell, School of Forest Resources, Penn State University, Phone: 814-863-1113 E-mail: mjp175@psu.edu

CONGRATULATIONS

Ben Chlebnikow, WOSA's latest Forest Steward.

Ben recently completed the 40-hour Forest Steward training program sponsored by Penn State University School of Forest Resources and the Department of Conservation and Natural Resources Bureau of Forest. Among the topics he learned were Biodiversity, Forests for Wildlife, Living with Wildlife, Water Quality, Tree Identification, Forest Marketing, Forestry, Estate Planning, and Forest Stewardship. Ben joins the following WOSA members who are Forest Stewards: Vincent Acampora, Armin Behr, Doris and Jame Butler, Gene Foor, John Herr, Brent Hiteshew, Laura and Mike Jackson, Ron Johnson, Loretta Radeschi, Dave Schreffler, Mary and Ron Stanley, Loren Stephens, Joe Wolfe.

WOSA recently received a letter from **Penn Helicopter LLC** in Friedens, letting us know that they have available for aerial survey and photography the Robinson R44 Raven II helicopter. According to their letter, this will allow aerial survey of timer land for tree diseases, insect infestations and timber theft of just getting a different perspective of your land. The advantages of the helicopter, according to the company, is that it is able to go lower and slower than a fixed-wing aircraft. The advantages of the piston-powered Robinson R44 helicopter, is that it has the reliability and performance of a turbine powered helicopter at half the cost.

For a quote, email robertdtrent@aol.com or call 814 445-7199

INSECT CONTROL

Dave Schreffler has given us information about Gothard Insectaries and its Trichogramma Control Program. Dave has been using them against gypsy moths. According to Gothard, Trichogramma are specific destroyers of lepidopterous eggs and result in immediate reduction of pests and also allows the natural build-up of many other beneficial insect populations which can effectively aid in control of pest populations. Dave has been using them against gypsy moth. Gothard Insectaries is a family business that got started in the biological insecty conytol business in 1959. For more information, contact owners LeRoy and Kate Songer at 401 376-3631 or 402 322-0275 or gotbugs@threeriverwb.net. Or talk to Dave about the products he's used.

RESERVATIONS -ANNUAL BANQUET

THURSDAY, NOVEMBER 11, 2010

REGISTRATION DEADLINE - NOVEMBER 1

Name(s) _____

WOSA Members: \$16.00 per person; non-members \$21 per person

Attending _____ Amount Enclosed _____

Please send your check payable to WOSA to Carole Tresselt, 110 Long Bend Beach Road, Hopewell, PA 16650. **Reservations are due no later than November 1.**

This year's dinner will feature a hot buffet with two meats, corn, green beans, mashed potatoes, gravy, stuffing, salad, beverage and dessert.

IMPORTANT: THIS YEAR'S BANQUET WILL BE AT THE APPLE BIN RESTAURANT, ROUTE 56, FISHERTOWN, WHERE WE WERE TWO YEARS AGO. MEETING AND DINNER BEGIN AT 6 p.m.

"It comes quietly as mist in the night, but it doesn't vanish as the sun rises. It remains, stronger day after day. It spreads leaf to leaf, branch to branch, tree to tree. It climbs from the valley to the hilltop. Soon it will possess the countryside... We sum it all up in two words: The Color. Hal Borland, Twelve Moons of the Year.

This quote opens the chapter "October" in "Appalachian Autumn" by Marcia Bonta.

WOSA
PO BOX 29
BEDFORD, PA 15522

WOSA'S UPCOMING EVENTS

NOVEMBER 11 - Annual Meeting and Banquet 6 p.m. Apple Bin Restaurant, Route 56, Fishertown.

MARCH 12, 2011 – Annual Forestry and Wildlife Conference, Breezewood Fire Hall