

# Federal Income Tax Provisions for All Forest Owners

Jobs and Growth Tax Relief Reconciliation Act of  
2003 (P.L. 108-27)

American Jobs Creation Act of 2004 (P.L. 108-357)

# Federal Income Tax Provisions for All Forest Owners

- ▶ Two recently-passed provisions will affect many nonindustrial private forest owners, whether they hold their forest as an investment or as a trade or business:
  - ✓ New minimum tax rate for long-term capital gains
  - ✓ Reforestation incentives

# New Minimum Tax Rate for Long Term Capital Gains

- ▶ For tax years from 2008 through 2010, at least part of capital gains received by taxpayers in the lowest two tax brackets is taxed at 0%
  - ✓ Provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003

# New Minimum Tax Rate for Long Term Capital Gains

## ▶ Who qualifies:

- ✓ All taxpayers whose ordinary income is in the 10 or 15 percent tax bracket
- ✓ Benefits mostly individuals:

2008 ceiling for the 15% bracket ranges from \$32,550 (S, MFS) to \$65,100 (MFJ, SS)

# New Minimum Tax Rate for Long Term Capital Gains

- ✓ Less beneficial for corporations, estates and trusts, because their 2008 ceiling for the 15% bracket is relatively low:

Corporations: \$50,000

Estates and Trusts: \$2,200

# New Minimum Tax Rate for Long Term Capital Gains

## ▶ What qualifies:

- ✓ Not all capital gains received by taxpayers whose ordinary income is in the 10 or 15 percent tax bracket is taxed at 0%
- ✓ Only the amount which, when added to their ordinary income, fits under the ceiling for the 15% bracket

# New Minimum Tax Rate for Long Term Capital Gains

**EXAMPLE:** Nick and Nora, MFJ filers, received \$52,000 in ordinary income during 2008, plus \$40,000 in capital gains from a timber sale. How are their capital gains taxed?

Taxed at 0%:  $\$65,100 - \$52,000 = \$13,100$

Taxed at 15%:  $\$40,000 - \$13,100 = \underline{\$26,900}$   
\$40,000

# Reforestation Incentives

- ▶ For reforestation done after Oct. 22, 2004, you can deduct outright the first \$10,000 per year of qualifying expenses and amortize *all* additional amounts over 8 tax years
  - ✓ Provided in the American Jobs Creation Act of 2004



# Reforestation Incentives

## ▶ Who qualifies:

✓ Individuals

✓ Partnerships

✓ Estates

✓ Corporations

✓ Trusts cannot take the \$10,000 deduction, but they can amortize

# Reforestation Incentives

- ▶ **What qualifies:**

- ✓ **Reforestation expenses on tracts ...**

- At least 1 acre in size**

- Located in the U.S.**

- Held for planting, cultivating, caring for, and cutting trees for sale or for use in producing commercial timber products**

- ✓ **This includes practices to encourage natural regeneration**

# Reforestation Incentives

- ✓ Reforestation expenses reimbursed under an approved public cost-share program that you elect to *include* in your taxable income

# Reforestation Incentives

- ▶ *What does not qualify:*

- ✓ Cost of planting non-timber trees:

- Christmas trees

- Fruit trees

- Shelterbelts

- Nut trees

- Windbreaks

- Ornamentals

- ✓ Reforestation expenses reimbursed under an approved public cost-share program, that you elect to *exclude* from your taxable income

- ✓ Rental or incentive payments from CRP