

“Managing your forest as a business comes with both complexity and tax benefits. Working with a tax professional and a Registered Professional Forester (RPF) who has experience in the various financial aspects of forest ownership is important for ensuring forest landowners also enjoy the financial benefits their forest offers.”

- Larry Camp, RPF, forest landowner, retired IRS forester and Forest Stewardship Workshop presenter

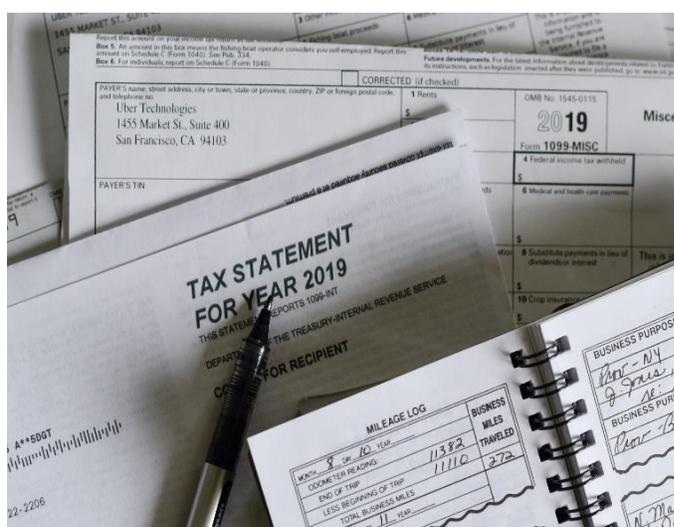
[Larry Camp](#) knows taxes and forests. As a retired IRS tax professional and forest landowner, he acknowledges that income and expenses related to forest management have tax consequences for forest landowners, whether the forest is owned as a business or not. In California, owning forestland for investment or business purposes is cited by just under 50% of families and individuals as a main reason for owning the land, with the purpose of timber production being cited by only 10% ([Butler, B., et al. 2016](#)). Even if a forest landowner doesn't cite financial investment or consider owning forestland for revenue purposes, there are still important financial aspects to forest land ownership that every owner should be aware of and take into consideration.

Q: As a forest landowner, do you need an accountant or tax professional?

A: Yes. A tax accountant, enrolled agent, or tax attorney should be a part of your management team to address questions as they arise or in unique situations. However, there are many resources available to forest landowners to assist in tax preparation such as the *Forest Landowner's Guide to the Federal Income Tax* found at [timbertax.org](#). Remember, each taxpayer's circumstances need to be considered for the appropriate application of tax law and regulations. Individuals may or may not feel confident doing this work themselves. Talk with several accountants and see if they've done timber/forestry work before you sign up with them. A Registered Professional Forester (RPF) may also have experience in tax issues.

Q: Why would I want to establish my forest as a business? How would I do that?

A: Consider that you may have a fire on your property someday. Under current law you will not be able to claim a casualty loss if your forest land is not identified as a business, unless it is covered by a federally declared disaster proclamation. Are you traveling a distance to and from your property? This travel may be a business deduction if you keep a mileage log and receipts and the travel is for a business purpose. Establishing your forestland as a business can be accomplished by filing a form [Schedule C](#) with your tax return. There may be other state and local requirements as well, so check with your tax advisor. It is very important to keep good records to support your business especially if it may be some time before you have income.



Q: Can I still be a business with only periodic income?

A: You do not necessarily need an annual stream of income to qualify as business, but expenses you claim need to be an ordinary and necessary part of your business. This issue often arises in connection with a “hobby loss” under [Internal Revenue Code \(IRC\) section 183](#). Discuss the issue with a knowledgeable tax advisor and/or RPF.

Q: What if I decide to harvest timber?

A: Generally, you should prepare and file [Form T](#) with your taxes if you harvest timber. For record keeping purposes, it is recommended that you update Form T annually which will save time when you actually need to file the form. If selling timber, you will also have to pay a yield tax to the state unless you meet certain exceptions. Review the Landowner’s Guide (see link above) and consult with your forester and tax advisor regarding the best tax treatment.



Q: What if I received cost-share money for forest management activities?

A: Participation in cost-share programs such as Cal Fire’s [California Forest Improvement Program \(CFIP\)](#) and the Natural Resources Conservation Service’s [Environmental Quality Incentives Program \(EQIP\)](#) to fund forest management activities will also have tax ramifications. Typically, money you receive through cost-share programs should be reported as income and your expenses should be reported, as they will often result in a potential deductible loss given the cost share requirements of both programs, especially if you pay a contractor to do some or all of the work. If you do the work yourself, the tax implications are more involved and you should consult with your tax advisor. The applicable federal statute and regulation are under [IRC section 126](#). CFIP payments are currently exempt from Calif. state income tax.

Q: Is estate planning important when I own a small parcel of forestland?

A: Passing on forestland to future generations is identified by over 70% of forest landowners as an ownership goal. Yet legacy planning, including estate planning, is something often neglected. Legacy and estate planning is often important even to those owning smaller acreage because estate tax and probate issues are determined by the total value of the estate. Current Federal law states that an estate generally will not pay estate tax unless the total value of assets totals \$22 million for a couple filing jointly. Note, current provisions of the law expire in 2025 unless amended by Congress. Forest landowners should also monitor California legislation regarding proposals to re-impose an inheritance tax where the estate value exceeds a certain amount.

Another benefit to estate planning is to address California probate issues. Estate planning can reduce the expenses and long timelines associated with probate in California.

DISCLAIMER - The information in this blog is for educational purposes only. It is NOT legal or accounting advice. Please consult a tax professional.

For more information on forest taxation and estate planning, please see the [Forest Stewardship Series 22: Forest Taxation, Estate Planning and Conservation Easements](#), ANR Publication 8252.

Financial considerations are just one aspect to owning forest land. Protection of forest resources through active management is what forest stewardship is all about. To learn more about Forest Stewardship and Forest Stewardship workshops hosted by UC Cooperative Extension, please visit <http://ucanr.edu/forestryworkshops>