
FOREST STEWARDSHIP BRIEFINGS

Timber ✪ Wildlife ✪ Water Quality ✪ Soil Conservation ✪ Best Management Practices ✪ Recreation ✪ Aesthetics

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TAX TIPS FOR THE 2002 TAX YEAR

Here is some information to keep in mind when you prepare your Federal income tax return for the 2002 tax year. This discussion is necessarily brief, and you should consult other sources for a more comprehensive treatment of these issues.

Basis and Tax Records - Part of the price you receive from a timber sale is taxable income, but part is also your investment (i.e., basis) in the timber sold. Allocate your total costs of acquiring purchased forestland among land, timber, and other capital accounts as soon as possible. Adjust this basis up for new purchases or investments, down for sales or disposals.

Passive Loss Rules - Under the passive loss rules, you can be classified in one of three categories: (1) investor, (2) passive participant in a trade or business, or (3) active participant (materially participating) in a trade or business. Generally, you will get the best tax advantage if you are “materially participating” in a timber business because all management expenses, property taxes, and interest on indebtedness are fully deductible against income from any source. However, if you are “materially participating,” you must dispose of your timber under the provisions of Section 631 to qualify for capital gains. (This means that you must sell your timber on a “pay-as-cut” or “cut and convert” basis, rather than lump sum.)

Reforestation Tax Credit and Amortization - If you reforested during 2002, you can claim a 10% investment tax credit for the first \$10,000 you spent for reforestation during the tax year. In addition, you can amortize (deduct) all of your 2002 reforestation costs (up to \$10,000), minus half the tax credit taken, over the next 7 years (actually 8 tax years).

Capital Gains and Self-employment Taxes - If you report your timber sale income as ordinary income, you could pay significantly more in taxes than you would if you report it as a capital gain. Also, capital gains are not subject to the self-employment tax, as is ordinary income.

Cost-share Payments - If you received cost-share assistance under one or more of the Federal or State cost-share programs during 2002, you may have to report some of all of it as ordinary income.

Casualty Losses - A casualty loss must result from some event that is (1) identifiable, (2) damaging to property, and (3) sudden and unexpected or unusual in nature. Examples are wildfire and storms.

Management and Maintenance Expenses - Generally, your annual expenses for the management and maintenance of an existing stand of timber can be expensed or capitalized. In most cases, you are better off to expense those costs during the tax year they are incurred, rather than capitalizing them. If it is not to your advantage to itemize deductions for 2002, you should capitalize these expenses. If you choose to itemize deductions, you can deduct these expenses, but the passive loss rules apply.

by Larry M. Bishop, Forest Management and Taxation Specialist, USDA Forest Service, Southern Region, Atlanta, GA

For more information: www.southernregion.fs.fed.us/spf/coop/taxation

www.irs.gov

www.timbertax.org

CANADIAN LUMBER RULING

On November 1, the World Trade Organization (WTO) adopted the findings of a report questioning the legitimacy of the 19% preliminary countervailing duties the Bush administration levied on Canadian lumber imports in August 2001.

The Bush administration imposed the preliminary countervailing duties—a special tariff that the WTO allows countries to impose in response to economic injury caused by imported goods subsidized by foreign governments—in response to what it called unfair government subsidies given to the Canadian softwood lumber industry.

Interpretations of the WTO's findings differ because the WTO said it considers the Canadian sale of timber from the public lands a subsidy and also ruled that the method used by the United States to calculate the amount of its countervailing duty was flawed. According to the WTO, the amount of the duty was erroneous because the United States used US lumber prices as a benchmark for the duty rather than the prevailing market conditions in Canada.

“We’re pleased that the WTO affirmed the long-standing US position that Canada’s timber sales from government land constitute a subsidy,” said US Trade Representative Robert B. Zoellick. “While we strongly believe that the WTO erred on the calculation methodology, we are vigorously defending that methodology in another WTO case.”

Canada’s International Trade Minister Pierre Pettigrew issued his own statement on the WTO ruling. “The WTO has found in favor of our position that the US preliminary subsidy determination was flawed and disproves the methods of calculation,” said Pettigrew. “Today, the WTO is telling Canadians, you were right. This decision reinforces our position and injects increased optimism in our unified approach.”

from the December 2002 issue of The Forestry Source, Society of American Foresters, Bethesda, MD

For more information: www.safnet.org/archive/1202_wto.htm www.softwoodlumberissue.com

SELECTING AND TRANSPORTING OAK FIREWOOD

Transporting and storing diseased wood is a known means of spreading the devastating oak wilt fungus to previously uninfected neighborhoods. Firewood cut from oak wilt-infected red oaks can harbor spores of the fungus *Ceratocystis fagacearum*. Insects may then carry these spores to fresh wounds of nearby oak trees, possibly creating a new group of diseased trees. To avoid this:

- * **Select well-seasoned firewood.** The extreme heat and drying of a full Texas summer effectively destroys the fungus in cut firewood.
- * **Destroy diseased red oaks.** A knowledgeable arborist or forester should diagnose red oaks that die rapidly or in groups for oak wilt.
- * **Safely store unknown sources of firewood.** Cover the wood pile with a clear piece of plastic, burying the edges of the plastic.
- * **Avoid wounding oaks during vulnerable seasons.** Avoid injuries from February through June. The best times for pruning oaks are during the heat of summer or the cold of winter.
- * **Paint all oak wounds including pruning cuts.** Throughout the year, immediately apply a thin coat of paint to all fresh pruning wounds and other injuries that expose the inner bark or sapwood of oaks.

PROVIDING WILDLIFE SUPPLEMENTAL SHELTER

The following practices can be implemented to provide types of shelter that may be limited in the habitat.

Nest Boxes - The installation of artificial boxes or cavities provides nesting or denning habitat for selected species of wildlife where this type of cover is limited in the habitat.

Brush Piles - This practice includes leaving dead brush on the ground where it was cut or uprooted to provide wildlife cover and protection for seedlings of desirable plant species. Stacking posts or limbs in "teepees" can provide cover for small game and other wildlife in open areas.

Fence Line Management - Maintaining, creating or allowing establishment of trees, shrubs, forbs, and grasses on fence lines provide wildlife food and cover.

Hay Meadow, Pasture and Cropland Management - The mowing of hay fields should be postponed until after the peak of the nesting/young-rearing period of local ground-nesting birds and mammals. Uncut areas can be retained around the border and within the interior of hay fields to provide sources of cover. About 1/3 of open grasslands can be mowed or shredded annually, preferably in strips or mosaic patterns, to create "edge" and structural diversity. In croplands, leave waste grain and stubble on the soil surface until the next planting season to provide wildlife with supplemental food and cover, control erosion and improve soil tilth.

Half-Cutting Trees or Shrubs - Partially cutting branches or trunks of live trees or shrubs encourages horizontal cover near the ground and can provide supplemental cover in habitats where cover is lacking.

Woody Plant/Shrub Establishment - Seedlings of native, locally adapted trees and shrubs can be planted to establish windrows and shrub thickets.

Natural Cavity/Snag Development - Retain dead trees for use by cavity-dwelling species of wildlife. Snags can be created in habitats where naturally occurring snags are limited by girdling or treating undesirable trees with herbicides.

Other forms of supplementing and providing wildlife shelter include roadside right-of-way management for ground-nesting birds; establishing perennial vegetation on terraces, fencerows and field borders; establishing multi-row shelterbelts; and protecting and managing old homesites, farmsteads and Conservation Reserve Program cover.

Need to know what chemicals to use in getting rid of some pesky critters in your trees? At the Texas Forest Service website, you can access the new Forestry Pesticide List, compiled by the Forest Pest Management team of the Texas Forest Service.

by Michael Krueger, Technical Guidance Biologist, Texas Parks & Wildlife Dept., Lampasas, TX

For more information: <http://agecoext.tamu.edu/commodity/crp/six/crpdale.htm>

PESTICIDE INFORMATION ON WEBSITE

Pesticide information is revised regularly on this website and published to provide professional foresters and private landowners with up-to-date information on the registration, selection, application, and safe and proper use of forestry-related chemicals. Cultural pest control tactics, biological control products and natural pest suppression systems are also included.

As of November 1, 2002, the Insects, Mites and Nematodes pesticide list is complete. The Diseases, Weeds and

Vertebrates lists are under construction. To get to this useful list, go to: http://tfsfrd.tamu.edu/pest/ASP/pesticide_intro.htm

LANDOWNER MEETINGS WITH STEWARDSHIP TOPICS – 2003

Angelina/Nacogdoches Co. Forest Landowners Seminar

February 22 - For more information, call (936) 875-4400 (TFS, Lufkin) or (936) 564-9276 (TFS, Nacogdoches)

D/FW Metroplex Forest Landowners Seminar

March 8 - For more information, call (214) 953-1190 (TFS, Dallas) or (817) 926-8203 (TFS, Fort Worth)

Montgomery Co. Forest Landowners Seminar

April 12 - For more information, call (936) 273-2261 (TFS, Conroe)

Harris Co. Forest Landowners Seminar

August 23 - For more information, call (936) 273-2261 (TFS, Conroe)

These meetings are currently in the planning stages. Possible topics could include: new forestry legislation, forest chemicals, hunting lease development, pine straw harvesting, and developing timber sale contracts.

CONTINUING EDUCATION FOR LOGGING PROFESSIONALS

2003 BMP Workshops

7:30 am - 3:30 pm

Jan. 31	Lufkin
May 9	Marshall
Aug. 15	Lufkin
Nov. 14	Lufkin

2003 PhaseII Workshops (Silviculture, Endangered Species, Wildlife,, Wetlands)

1:00 pm - 5:00 pm

April 5	Marshall
Oct. 10	Diboll

- Fee (per workshop): \$10 for TFA/TLC members; \$35 for non-members

- For registration, call TFA at (936) 632-8733

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