The large quantity of logs being transported down the highways suggests there is a great amount of standing timber being sold from area farms. Professional assistance should be sought in determining the quantity/value of your timber and the potential tax liability resulting from the disposal of standing timber. Research at the University of Missouri suggests significant price variation in timber contracts offered in the Midwest.

The two most common methods which farmers utilize in disposing of timber are lump-sum contract and pay-as-cut contract. With lump-sum contracts, the farmer is paid a lump-sum for the timber regardless of the quantity or tree selection harvested. The pay-as-cut contract requires the timber purchaser to cut designated trees and to purchase them at an agreed upon unit price.

If the one-year holding period has been met, most sales of standing timber by farmers qualify for long-term capital gains treatment. If the sale qualifies for capital gains treatment, the income will not be subject to self-employment taxes.

From the tax standpoint, the most common and challenging issue involves determining the tax basis (cost basis) of the timber being disposed. Tax basis is subtracted from the sale proceeds to determine the amount of gain or loss.

If land is acquired that has standing timber, a portion of the acquisition cost should be allocated to a timber account, just as cost would be allocated to other improvements such as fences, water systems, or buildings. When standing timber is sold under the lump-sum or pay-as-cut methods, basis in the timber account is recovered and utilized in calculating the gain or loss.

Ideally, the timber account basis was determined at the time of land acquisition. However, if it wasn’t, contact your accountant and/or a forestry consultant to determine a justifiable and reasonable amount of the acquisition cost to be allocated to your timber account.

Timber taxation is an arena in which few tax professionals specialize. Thus, it is important you educate yourself as to the basics. A good web site to begin your journey is www.fnr.purdue.edu/ttax, a national timber tax web site.

Your area Department of Conservation forester can be reached at the following locations:
  - Columbia Forest District  573-882-9880
  - Clinton Forest District    660-885-6981
  - Lake Ozark Forest District 573-346-2210
  - Gasconade Forest District 573-368-2225
  - St. Joseph Forest District 816-271-3100