

## **Information for Timber Owners Receiving IRS Form 1099-MISC**

You received this IRS Form 1099-MISC because we paid you for timber in 2007. We are sending you 1099-MISC because the IRS rules concerning which Form 1099 to use have yet to be clarified. Form 1099-MISC is used to report payments that are generally ordinary income in the hands of the recipient of the payments. The net gain from the sale of timber is almost always capital gains, either long-term or short-term. For this reason we recommend that you attach a letter to your tax return explaining that you are reporting the amount shown on Form 1099-MISC as a capital gain, as discussed below, instead of other ordinary income.

How you report these payments on your tax return depends on several factors. The two critical factors are whether or not your timber is part of a business and how long you have owned the timber.

### **How do I know if I'm in the timber business for purposes of reporting my timber income?**

As a general rule if you only occasionally sell timber (one or two sales every three or four years) you are not in the timber business. Nevertheless, if you claim that your timber is a business by reporting timber related expenses on a business tax return, such as Form 1040, Schedule C or F, you should consider your timber sales as business transactions.

### **How do I know how long I've owned the timber?**

The question is whether you have owned it for more than one year prior to selling it. You owned it for more than one year if you sold it no sooner than the day after the date of purchase one year later. For example, if you purchased timberland on October 23, 2006, you have owned the timber on the land for more than one year if you sell it no sooner than October 24, 2007.

If you sell timber that you inherited you are considered to have held it for more than one year regardless of the date of sale. If you received the timber as a gift and are using a carryover basis for the timber your holding period includes that of the person making the gift.

### **How do I report the income if I am in the timber business?**

If you owned it for more than one year then the income should be reported on Form 4797, Part I. The total payments you received are reported in column (d). You may be able to claim in column (f) a depletion allowance for the timber sold. Consult your tax advisor or the National Timber Tax Website <http://www.timbertax.org> for information on this possibility. You also include in column (f) any expenses you incurred for the sale of the timber, such as legal fees.

If you purchased the timber and did not hold it for more than one year prior to selling it, report the total payments received on Form 4797, Part II, column (d). Any depletion allowance and expenses for selling the timber are reported in column (f).

### **How do I report the timber income if I am not in the timber business?**

If you held the timber for more than one year before selling it you should report the total amount received for the timber on Form 1040, Schedule D, Part II, column (d). You may be able to recover your cost basis in the timber sold, also referred to as a depletion allowance. Consult your tax advisor or the National Timber Tax Website for information on this possibility. You also include in column (f) any expenses you incurred for the sale of the timber, such as legal fees.

If you purchased the timber and did not hold it for more than one year prior to selling it, report the total payments received on Form 1040, Schedule D, Part I, column (d). Any depletion allowance and expenses for selling the timber are reported in column (f).

**Where can I get additional information about reporting income from timber sales?**

The National Timber Tax Website, <http://www.timbertax.org> is a comprehensive source of information for you and your tax preparer. It includes an update on the use of IRS Form 1099 by timber buyers. It also explains the use of IRS Form T (Timber) -- *Forest Activities Schedule*.