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## Chapter 9. Other Tax Considerations

### Installment Sales

#### Introduction

It may be to your advantage to receive at least one payment from the outright sale of timber after the tax year in which the disposition occurs. This type of sale is called an installment, or deferred payment, sale. The installment sale provisions apply automatically whenever at least one payment is received in a tax year after the tax year of the sale. Under the installment method, gain from the sale is prorated and recognized over the years in which payments are received.

An installment sale is the only way to spread the tax burden from a lump-sum timber sale over more than 1 tax year. The installment sale provisions also may be beneficial if you sell forest land. If your activities are subject to the passive loss rules (chapter 4), and you sell forest land and/or timber, special rules will apply. These rules are discussed in detail in Internal Revenue Service (IRS) Publication 925, *Passive Activity and At-Risk Rules*. Although use of the installment method determines when gain from the sale is reported, it does not affect the characterization of the gain as capital gain or ordinary income.

The receipt of payments in more than 1 tax year could arise from either a lump-sum or a pay-as-cut timber contract. For example, a lump-sum sale might require payment in full before cutting starts, or an initial down payment with periodic payments thereafter. A typical pay-as-cut contract might require an initial advance payment and monthly payments thereafter based on the volume cut and scaled during the previous month. As discussed in the following paragraph, however, pay-as-cut contracts that qualify for treatment under section 631(b) of the Internal Revenue Code (IRC), as discussed in chapter 5, are not treated as installment contracts. These payments are taxable income subject to capital gains treatment under IRC section 631(b).

There are other limitations on the use of the installment sale method that you should be aware of. Although forest landowners classified as investors (chapters 4 and 12) who sell standing timber will qualify, the method generally does not apply to dispositions of real property held primarily for sale to customers. An exception to this rule, however, permits installment sales to be used for this category of standing timber if the seller's timber ownership qualifies as a farm business under section 2032A

of the IRC. The term *farm* in section 2032A includes forest land. Nevertheless, taxpayers using this exception to make an installment sale must sell their timber using a lump-sum contract. A pay-as-cut disposal with a retained economic interest will not qualify; in that case the IRC section 631(b) rules apply as discussed in chapter 5.

In addition, the installment sale provisions do not apply to rent received from a forest land lease. Nor do the provisions apply to sales resulting in a loss. Losses must be reported in full in the year incurred. If a transaction qualifies, the installment sale provisions, as noted previously, apply automatically whenever at least one payment is received in a tax year after the tax year of the sale. You may, however, elect out of the installment sale provisions by reporting the full fair market value (FMV) of the contract in the year of the sale, as discussed in more detail under "Electing Out," later in this chapter.

**Escrow Accounts.** In some cases, the sales agreement, or a later escrow agreement, may call for the buyer to establish an irrevocable escrow account out of which some, or all, of the remaining installment payments, including interest as discussed below, are to be made. An escrow account is irrevocable if the buyer cannot revoke it and recall the funds to his own use. In general, this type of sale cannot be reported on the installment method. The buyer's obligation is paid in full when the balance of the purchase price is deposited into the escrow account. Thus, after the escrow account is established, the seller no longer relies on the buyer for the remaining payments but instead relies on the escrow arrangement.

If an escrow arrangement imposes a substantial restriction on the seller's right to immediately receive the sale proceeds, the sale may be reported on the installment method if it otherwise qualifies. For an escrow arrangement to impose a substantial restriction, however, it must serve a *bona fide* purpose of the buyer. This means that a real and definite restriction is placed on the seller or a specific economic benefit conferred on the buyer. Because of the nature of most timber sale transactions, irrevocable escrow accounts usually will preclude installment reporting.

#### Sale Price

The selling price for a timber sale is the entire cost of the timber to the buyer. It includes all money and the FMV of any property the seller receives from the buyer. It also includes

any debt associated with the sold timber that the buyer pays or assumes. Debt could be a note, mortgage, or other liability—such as a lien, accrued interest, or taxes owed on the timber. If the buyer pays any of the seller's sales expenses, that amount is also included in the selling price. Each installment payment of the timber sale price usually consists of two primary parts: (1) return of investment (basis) in the timber sold and (2) gross gain. Gross gain, in turn, usually is apportioned between interest and net gain.

## Basis

The allowable basis for timber sold in an installment sale is determined in the usual way by multiplying the appropriate depletion unit by the number of units sold as explained more fully in chapter 5, "Determining the Amount of Gain or Loss." The expenses incurred in selling the timber are added to the allowable basis and the total is called the adjusted allowable basis. This total is subtracted from the sale price; the difference is the gross gain on the sale.

## Gross Gain

The percentage of an installment payment that is gross gain usually remains the same for each payment. The gross gain to be reported each year that a payment is received is determined by calculating the gross profit percentage. In the absence of any recapture, gross profit percentage is calculated by dividing the gross gain from the sale by the contract price. Example 9.1 shows how to calculate gross profit percentage. When the gross gain is reported each year, it is apportioned between capital gain and interest (ordinary income) as discussed in more detail later in this section.

In general, if the selling price is reduced for any reason at a later date, the gross profit percentage must be recalculated. The new gross profit percentage is then applied to any remaining payments. The gross gain left to be reported is spread evenly over the remaining installments. You cannot go back and refigure the gross gain you reported in previous years.

**Interest.** If the note or other document of indebtedness received from the buyer does not provide for interest on the

### Example 9.1.—*Calculation of Gross Profit Percentage.*

You sell standing timber at a contract price of \$10,000. The allowable basis of the sold timber is \$2,000 and timber sale expenses are \$500. The total gross gain on the sale is \$7,500 (\$10,000 – \$2,000 – \$500). The gross profit percentage is 75 percent ( $\$7,500 \div \$10,000$ ).

deferred payments, or provides for inadequate interest as defined in the IRS regulations, imputed interest is required to be calculated if some or all of the scheduled payments are due more than 6 months after the date of the sale under a contract in which some or all of the payments are due more than 1 year after the date of the sale. Imputed interest calculation is not required, however, if the total sale price does not exceed \$3,000. IRS Publication 537, *Installment Sales*, provides the necessary information for determining imputed interest.

**Capital Gain.** That portion of the timber sale gross gain that is not attributable to interest will be a long-term capital gain if the timber was held for more than 1 year. If the timber was held for 1 year or less, it will be a short-term capital gain if the timber is investment property. If IRC section 631(b) is required for capital gains treatment it will be ordinary income.

## Sales to Related Parties

If an installment sale is made to a related party, who then makes a second disposition of the property within 2 years of the first sale and before all payments are made under the first sale, a special rule comes into effect. In this situation, the amount realized by the related person from the second sale is treated as being received by the initial seller at the time of the second sale. A related person for this purpose includes the seller's spouse, child, grandchild, parent, grandparent, brother, sister, controlled corporation, partnership, trust, and estate. See IRS Publication 537 for details.

## Reporting Installment Sales

Installment sales are reported on IRS Form 6252: Installment Sale Income. This form is used to report the original sale in the year that it takes place and also to report payments received in later years. In addition, the sale should be reported on IRS Form T (Timber), if required (Example 5.1), but only in the year that it takes place.

## Electing Out

The seller can elect not to have the installment sale rules apply to the sale. If this election is made, the entire gain from the sale is reported on the return for the year of the sale, even though not all of the selling price will be received that year. The election is made by not reporting the sale on IRS Form 6252. Instead, it is reported on IRS Form 1040, Schedule D, if the timber was held as an investment or on IRS Form 4797 if the timber was held for use in a trade or business.

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## Alternative Minimum Tax

The purpose of the alternative minimum tax (AMT) for individuals is to make certain that if a person's regular income tax is reduced to a certain level because of specified tax benefits (termed *tax preference items*), at least a minimum amount of income tax will be paid. AMT is only owed if what is called the *tentative minimum tax* (TMT), which generally is the tax computed on taxable income as determined without the specified tax benefits, exceeds the regular tax, as computed with the benefits.

While not discussed here, corporations also are subject to the AMT—although an exemption exists for certain small corporations. The AMT calculations for individuals are made on IRS Form 6251: Alternative Minimum Tax—Individuals.

### Potential Liability for the AMT

Your potential liability for the AMT depends on the structure of your timber activities, your other sources of income and losses, and the tax preference items that you claim.

**Timber Sales.** Capital gains on timber sales or disposals do not generate a tax preference subject to the AMT—nor does deducting the allowable basis for the sale or disposal of standing timber or taking a depletion deduction for timber that you cut. Note that the discussion in the IRS Form 6251 instructions regarding adjustments to depletion deductions, and adjustments to gain or loss, does not apply to timber depletion or basis deductions—nor to gains and losses resulting from a sale or disposition of timber. Timber income, however, may increase total taxable income sufficiently to indirectly trigger an AMT liability because of tax preference items that become applicable at the higher income level. This could result if income is increased to greater than the specified AMT exemption amounts, which are discussed in the following section.

**Forest Management Costs.** Deduction of forest management expenses may trigger an AMT liability. This could occur if the expenses are recovered as miscellaneous itemized deductions on IRS Form 1040, Schedule A, discussed in chapter 4, “Timber Held as an Investment.”

**Other Considerations.** If you are not materially participating in the conduct of your timber business, as discussed in chapter 4, a passive activity gain or loss generated by your timber activity must be recomputed for AMT purposes by taking into account the AMT adjustments and preferences. Also, AMT liability could result if (1) you have an allowable AMT loss that

is less than the allowable regular tax loss, (2) you have a regular tax gain that is less than your AMT gain, or (3) you have an allowable loss for regular tax purposes but a gain for AMT purposes. For additional information on these items, see the instructions for IRS Form 6251.

**The Need To File IRS Form 6251.** A worksheet in the instructions for IRS Form 1040: U.S. Individual Income Tax Return will alert you to the potential need for filing IRS Form 6251. The IRS Web site also contains an electronic “AMT Assistant” to help you make this determination online. If it appears that the form must be filed, refer to the form instructions for completing it. Commercial tax preparation software also makes the AMT calculation if necessary.

### Alternative Minimum Taxable Income

To calculate the AMT, it is first necessary to determine alternative minimum taxable income (AMTI). It is through this figure that excessive tax savings are recaptured. The base for computing AMTI is your regular taxable income calculated with all applicable AMT adjustments and preferences included. For this purpose, AMT adjustments and preferences are those income and deduction items that are treated differently (generally more favorably) in computing regular taxable income than the way in which they are treated in computing AMTI. These items are then excluded to determine AMTI.

For example, the standard deduction and personal exemptions allowed in calculating regular taxable income are not allowed in calculating AMTI. If you itemize your deductions, medical expenses not compensated for by insurance are deductible in computing regular taxable income to the extent that they exceed 7.5 percent of adjusted gross income (AGI). In computing AMTI, however, medical expenses not compensated for by insurance are deductible only to the extent that they exceed 10 percent of AGI. State income taxes and property taxes that are deductible when computing regular taxable income are not deductible when computing AMTI. Also, in determining AMTI, miscellaneous itemized deductions are not allowed.

For depreciable property placed in service after 1998, if the 200-percent declining balance method is used for regular tax purposes for 3-, 5-, 7-, or 10-year property, then the 150 percent declining balance method and regular tax depreciation period must be used for AMTI purposes for these items. For all other depreciable property placed in service after 1998, no AMTI adjustment is required, as AMT and regular tax depreciation are identical. In addition, AMTI adjustments are required for certain depreciable property placed in service before 1998.

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Adjustments (that is, less favorable treatment in computing AMTI) also exist for tax shelter farm losses, incentive stock options, and certain types of tax-exempt interest. As well, an alternative tax net operating loss deduction is used in calculating AMTI in lieu of the regular tax net operating loss deduction. For a complete list of AMT adjustments and preferences, and the manner in which they are computed, consult IRS Form 6251 and its instructions.

## Social Security Self-Employment Tax

You may owe self-employment tax if you are engaged in a timber trade or business as a sole proprietor, independent contractor, or member of a partnership or limited liability company. This tax is used to provide Social Security and Medicare coverage to self-employed taxpayers. The tax is imposed on net earnings from self-employment, which includes earnings derived by an individual from a trade or business, less all business deductions allowed for income tax purposes. You must pay self-employment tax if you have net earnings for the year from self-employment of \$400 or more.

The self-employment tax of 15.3 percent is composed of two parts—12.4-percent Social Security tax, plus 2.9-percent Medicare tax (the 2010 Tax Relief Act reduced the Social Security tax paid by employees and self-employed individuals by 2 percentage points for 2011; the Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78) and Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96) extended the reduction through the end of 2012). Net earnings from self-employment up to \$110,100 (for 2012) are subject to the Social Security portion of the tax. If you also earn wages as an employee in 2012 that are subject to the Social Security tax, this tax will apply only to the first \$110,100 of your combined wages and net earnings from self-employment. All net earnings without limit from self-employment, however, are subject to the Medicare portion of the self-employment tax. You are not exempt from the self-employment tax if you are receiving Social Security benefits, are fully insured under Social Security, or are not otherwise required to file an income tax return. Nor are you exempt on account of age.

If income from timber operations is considered as received in the course of a trade or business, it may be subject to the self-employment tax, even if the timber transactions are infrequent and the taxpayer is primarily engaged in some other business or profession. For example, a farmer whose property includes

a tract of timber, or a person employed in the city who owns forest land outside the city, who occasionally cuts timber for firewood and sells it may be liable for self-employment tax on the income received.

## Treatment of Spouses

If you are a sole proprietor of a trade or business and your spouse works for you, he or she may be your employee. The treatment of employees for employment tax purposes is explained in the “Employment Status” section later in this chapter. If, however, you and your spouse join together in the conduct of a business and share in its profits and losses, a partnership may have been created (see, however, “Qualified Joint Ventures,” immediately following). If so, you and your spouse should report the business income on a partnership return, IRS Form 1065: U.S. Return of Partnership Income. Separate Schedules K-1 should be attached to the Form 1065, to show each spouse’s share of the net income. Separate Schedules SE of IRS Form 1040 also should be filed to report each spouse’s self-employment tax.

**Qualified Joint Ventures.** For tax years beginning after December 31, 2006, spouses who join together to conduct a qualified joint venture and who file a joint Federal tax return can elect to be treated as two sole proprietorships rather than a partnership for Federal income tax purposes. A qualified joint venture is any joint activity involving the conduct of a trade or business, if (1) the husband and wife are the only members of the joint venture, (2) each spouse qualifies as a material participant in the trade or business according to the passive activity loss rules, without regard to the rule that treats participation by one spouse as participation by the other (see chapter 4, “The Passive Loss Rules”), and (3) both spouses elect for the provision to apply. If the spouses make the election, then all items of income, gain, loss, deduction, and credit are divided between them according to their interests in the venture; each files his or her own business and self-employment tax forms; and each receives individual credit for paying Social Security and Medicare taxes. Under IRS guidance issued December 11, 2011, spouses can make the election by filing a joint IRS Form 1040: U.S. Individual Tax Return, with all items of income, gain, loss, deduction, and credit divided between them according to their respective interests in the joint venture, and each filing a separate IRS Form 1040, Schedule C, and if required, an IRS Form 1040, Schedule SE. If the spouses qualify as farmers, each should file a separate IRS Form 1040, Schedule F, and IRS Form 4835: Farm Rental Income and Expenses instead of a Form 1040, Schedule C.

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## Excluded Income

The following timber-related items are not included in computing net earnings from self-employment:

1. **Rental payments:** Payments received for the use of real estate, and for personal property leased with real estate, if the recipient is not a real estate dealer and does not provide substantial services with respect to the rental activity. Rental payments for leasing timberland for hunting generally are excluded unless the owner provides lodging, guiding, and other services.
2. **Gains that qualify for capital gain treatment:** Gains from the sale or other disposal of standing timber generally qualify as capital gains if the timber is not held primarily for sale to customers in the ordinary course of a trade or business, or if it is disposed of under the provisions of IRC section 631(b) as discussed in chapter 5. If you cut timber yourself or have a contract logger cut it for you, and you elect to treat the cutting as a sale under the provisions of IRC section 631(a)—again as discussed in chapter 5—the gain so determined also would not be included in net income from self-employment. The profit on the sale of the logs or manufactured products, however, may be subject to the self-employment tax.

## Other Considerations

**Christmas Tree Growers.** Growers of Christmas trees are subject to the rules applicable to timber producers in general. The self-employment tax applies to ordinary income received from the sale of the trees. Gains from the sale of Christmas trees, however, may qualify as capital gains as discussed in chapter 5 and therefore not be subject to the self-employment tax.

**Other Forest Products.** The sale of forest products other than standing timber generally produces ordinary income, as discussed in chapters 5 and 11. Net receipts from these products, thus, are included in self-employment income.

**Cost-Sharing Payments.** Net payments received under Federal cost-sharing programs, as well as those received under certain State cost-sharing programs, are included in self-employment income if the activity is considered a business, unless the payments meet the requirements under IRC section 126 to be excluded from reportable income for Federal income tax purposes, and the taxpayer makes a specific election to exclude them. Part or all of such payments may qualify for exclusion under the rules discussed in chapter 5, “Government Program Payments.” Only the amount actually excluded from gross income may be ignored for self-employment income purposes.

**Conservation Reserve Program Rental Payments.** USDA Conservation Reserve Program (CRP) cost-sharing payments fall under the rules discussed in the immediately preceding paragraph (see the summary of Revenue Ruling 2003-59, appendix A). CRP annual rental payments, however, are subject to the self-employment tax, whether the recipient qualifies or does not qualify as a material participant in their farm operation. This position is based on a two-fold rationale: first, that the activities required to fulfill a CRP rental contract—including but not limited to tilling, seeding, fertilizing, and weed control—themselves meet the continuity and regularity of activity requirements for participation in a trade or business, and second, that CRP rental payments are not land rental payments in the usual sense of the words and cannot be excluded from net income from self-employment under IRC section 1402(a)(1) as rentals from real estate (see IRS Notice 2006-108 for more information).

## How To Calculate Self-Employment Tax

The self-employment tax is calculated by completing IRS Form 1040, Schedule SE: Computation of Social Security Self-Employment Tax. If you work as an employee and earn wages or salary subject to withholding that equals or exceeds the maximum amount subject to the Social Security portion of the self-employment tax, and also have income from a trade or business, you do not pay Social Security tax on your earnings from the trade or business. If you earn wages subject to withholding that total less than the maximum amount, however, and also have income from timber operations subject to the self-employment tax, the net timber income will be taxed to the extent of the difference between your wages and the maximum amount. In addition, all self-employment income is subject to the Medicare tax.

## Including Timber Gains in Self-Employment Income To Guarantee Benefits

Qualification for Social Security benefits for you or your dependents depends in part on how much Social Security and/or self-employment tax you have paid. For example, certain public employees and some school teachers do not pay Social Security tax. If you are not certain about whether you will qualify for full benefits on retirement, you can check your status by contacting the Social Security Administration office listed in your telephone book under “United States Government, Social Security Administration,” or online at <http://www.ssa.gov/>. You also should be able to make this determination from the annual report you receive from the Social Security Administration.

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If you need to make additional contributions to obtain full benefits, you may prefer not to elect under IRC section 631(a) to treat the cutting of timber as a sale. In this situation, if you are a farmer who cuts and sells timber, report your timber income and expenses—and the basis of the timber cut—on IRS Form 1040, Schedule F. Such income would then be ordinary income and not a capital gain. As such it would be subject to the self-employment tax and would be reported on IRS Form 1040, Schedule SE. Remember, however, that if you have made a section 631(a) election in a prior year you generally may not forgo the election in any following year without permission from the Commissioner of Internal Revenue. Two one-time exceptions to this rule, however, are described in chapter 5, “IRC Section 631(a) Cutting of Standing Timber With an Election to Treat as a Sale.”

If you dispose of standing timber held primarily for sale to customers in the ordinary course of a trade or business, in general, the gain will be ordinary income subject to the self-employment tax unless you dispose of it in such a way that the provisions of IRC section 631(b) apply, as discussed in chapter 5.

If timber is not held primarily for sale, and it is sold “on the stump” (lump-sum sale), the gain usually is a capital gain and thus is not subject to the self-employment tax. Capital gains cannot be reported as self-employment income simply to receive Social Security credit.

For more information on the self-employment tax, see the “Instructions for Schedule SE (Form 1040)” and IRS Publication 334, *Tax Guide for Small Business*. If you are a farmer, also see IRS Publication 225, *Farmer’s Tax Guide*.

## Employment Status

If you hire an individual to do work on your forest property, that person may be your employee. If so, as an employer you have several tax responsibilities. Most employers must withhold, deposit, report, and pay the following employment taxes:

1. Income tax withheld from an employee’s wages.
2. Social Security and Medicare taxes (both employer and employee portion). The employee’s portion is withheld from the employee’s wages by the employer.
3. Federal unemployment tax (FUTA). FUTA is paid by the employer, but not withheld from the employee’s wages. This tax is coordinated with any State unemployment tax paid.

An IRS Form W-2: Wage and Tax Statement, which shows wages paid and taxes withheld during the past year, must be prepared by the employer at the end of each year. Copies are

sent to the Social Security Administration and to the employee. IRS Publication 15, (*Circular E*), *Employer’s Tax Guide*, provides information concerning an employer’s tax responsibilities. You also should check with your State regarding any State income and unemployment tax requirements.

## Employee Status Determination

An individual is an employee for Federal employment purposes if he or she has the status of an employee under the common-law rules applicable in determining an employer-employee relationship. In general, the relationship of employer and employee exists when the person for whom the services are being performed has the right to control and direct the individual who performs the services—not only as to the result to be accomplished by the work, but also as to the details and means by which that result is to be met. In other words, an employee is subject to the will and control of the employer, not only as to what is to be done, but also as to how it is to be done. It is not necessary that the employer actually direct or control the manner in which services are performed—it is sufficient if the employer merely has the right to do so. Independent contractors are not subject to this right of control and direction.

If the tests for defining an employee are met, it does not matter that the person performing the services is designated as anything other than an employee—or how the payments are measured or paid, or what they are called. Therefore, it is irrelevant if a *bona fide* employee is called an independent contractor, a partner, or an agent.

## The 20 Factor Test

The IRS has developed a set of 20 factors to use as a guide in determining whether a worker is an employee or an independent contractor. These factors are described and discussed in IRS Publication 15-A, *Employer’s Supplemental Tax Guide*. Reviewing them can help ascertain whether sufficient control is present to establish an employer-employee relationship. The factors should be used with caution, however. The degree of importance of each factor varies, depending on occupation and the factual context under which services are performed. The factors are grouped into three categories.

**Behavioral Control.** Facts that show whether the person for whom the services are being performed has a right to direct and control how the worker does the task for which hired. These facts include, among others, the type and degree of the following:

1. Instructions given to the worker: An employee generally is subject to instructions about when, where, and how to

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work. Even if no instructions are given, sufficient behavioral control may exist if the person doing the hiring has the right to control how the work is done.

2. Training given to the worker: An employee may be trained to perform services in a particular manner. Independent contractors ordinarily use their own methods.

**Financial Control.** Facts that show whether the person or business doing the hiring has a right to control the business aspects of the worker's job. These facts, among others, include the following:

1. The extent to which the worker has unreimbursed business expenses: Independent contractors are more likely than employees to have unreimbursed business expenses. Fixed ongoing costs that are incurred regardless of whether work currently is being performed are especially important. Employees also may incur unreimbursed expenses in connection with the services they perform, however.
2. The extent of the worker's investment: An independent contractor often has a significant investment in the facilities and equipment he or she uses in performing services for someone else. A significant investment is not necessarily required, however, to be termed an independent contractor.
3. The extent to which the worker makes his or her services available to other businesses or individuals in the relevant market.
4. How the worker is paid: An employee generally is paid by the hour, week, or month. An independent contractor usually is paid by the job. It is common in some professions, such as consulting forestry, however, to pay independent contractors hourly.
5. The extent to which the worker can realize a profit or incur a loss: An independent contractor can make a profit or incur a loss.

**Type of Relationship.** Facts that show the type of relationship between the two parties, including the following:

1. Written contracts that describe the relationship the parties intend to create.

2. Whether or not the person or business doing the hiring provides the worker with employee-type benefits. Employee-type benefits may include insurance, a pension plan, vacation pay, and sick pay.
3. The permanency of the relationship. If the person for whom the services are being performed encourages a worker with the expectation that the relationship will continue indefinitely, rather than for a specific project or period of time, this generally is considered evidence of intent to create an employer-employee relationship.
4. The extent to which services performed by the worker are a key aspect of the regular business of the person doing the hiring. If a worker provides services that are a continuing and important component of the regular business activity of the person doing the hiring, it is more likely that person will have the right to direct and control the worker's activities. If, for example, a consulting forestry firm hires a forester to mark timber for its clients, it is likely that the firm will present the forester's work as its own and would have the right to control or direct that work. This would indicate an employer-employee relationship.

## Obtaining an IRS Ruling

If you pay a worker for services rendered on your forest land, and you are not certain whether the payee is an employee, you can obtain an IRS ruling on the question. This is done by filing IRS Form SS-8: Determination of Worker Status for Purposes of Federal Employment Tax and Income Tax Withholding.

## Information Return Requirements

If a worker is determined to be an independent contractor and you make payments to that person aggregating \$600 or more in a calendar year, you must file an information return—IRS Form 1099-MISC—that shows the total amount paid. The return must be filed with the IRS by February 28 of the following year, with a copy to the payee by January 31 of that year.

