Chapter 15. Forest Records

Tax Purposes for Forest Landowners

Systematic and timely recording of timber transactions by type, purpose, and amount is extremely important for a long-term forestry investment. Accurate records, coupled with a knowledge of the Federal income tax rules, allow you to ensure fair tax treatment of the income and expenses associated with your forest ownership as intended by Congress. Tax items that may be of interest to you as discussed earlier include: (1) qualifying timber revenue as long-term capital gain; (2) recovering invested capital through depletion, depreciation, and amortization; and (3) deducting management expenses while complying with the passive activity loss rules. Provisions concerning installment sales, involuntary conversions, like-kind exchanges, and cost-share payments also may be important.

As a general rule, you should keep accurate and complete documentation of your forestry activities to verify all entries made on tax returns. This includes invoices, contracts, receipts, canceled checks, and maps that validate woodland holdings and forestry operations. See Form T (Timber) on page 145 for examples of informational entries that may be required. Your woodland records should be preserved for a minimum of 3 years from the date the tax return reflecting them is filed. This is the ordinary limit for audit by the IRS. In some cases, this limit can reach to 6 years after the return is filed. If a return is false or fraudulent, however, or if no return is filed, an action by the IRS generally can be brought at any time. The documents relating to acquisition of land, timber, and other capital items (discussed in Chapter 5) should be held for the period of ownership plus a 3-year or longer period following disposition. Taxpayers should keep books and records adequate for audit (that is, the books and records exist, are in proper form, and are readily accessible). An IRS auditor could compel you to produce the records needed to audit your return. If you are unsure about the appropriate records to keep after reading this chapter, you should consult with a qualified tax accountant as discussed in Chapter 3. The income tax accounts needed for recording forestry expenditures and timber sale revenue will be briefly outlined in this chapter.

Management Information

Good records are essential for a successful forest management program as well as for tax purposes. They show the status of the timber inventory, timber growth rates, current cost and revenue information, and projected cash flows for your forest land. This information can be used to analyze the efficiency of proposed management options, enabling you to make informed choices in a timely manner. The records also serve as historical documents to help you avoid repeating mistakes.

Accounting Methods

You may adopt an accounting method that provides the most favorable tax treatment for your forest land ownership as long as it “clearly reflects” income and cost. It may be the same as one followed by you in other businesses or investments, or it may be different as dictated by the nature and scope of your timber activities. The two accounting methods in general use are cash basis and accrual basis.

Cash Basis Method

With the cash basis method, revenue is reported when actually or constructively received, and expenses are deducted when actually paid. Most small service firms and farms (including forest land) have adopted cash basis accounting methods that are simple, flexible, and effective.

Accrual Basis Method

Under the accrual basis method, revenue is recorded when it is earned, whether or not you receive it at that time. Also, expenses are deducted when they are incurred rather than when you actually pay them. An accrual accounting method is preferred by accountants and is used by many incorporated timber businesses. It has the advantage of evenly matching income and expense so that revenues and costs are recorded closer to the time they actually occur. Thus, the accrual basis more nearly reflects economic activity—which may or may not be matched by a concurrent cash flow.

One disadvantage of the accrual method is that it does not postpone the payment of tax until cash actually is received.

Taxpayers may use combinations of the cash and accrual methods as long as the procedure adequately reflects income and is followed consistently. The installment method of reporting revenues is an example of a hybrid accounting method (see Chapter 10). IRS approval generally is necessary before an accounting method can be changed.

RECORDKEEPING SYSTEMS

Shoebox

You should develop a systematic recordkeeping approach for your forest land records, even for small tracts held as an investment. The much joked-about shoebox system is better than nothing at all if organized and followed routinely. If you adopt this system, you can use business envelopes and label one for each tax category that applies to your forest land ownership. You then file a receipt or other document for each activity by category as it occurs. The categories that are important are discussed in previous chapters and illustrated by the example later in this chapter.

A Forest Landowner's Journal

To improve on the shoebox system, you could maintain a journal to record forest management information. A journal is a chronological business diary that contains the details of each business transaction—description, purpose, date, and dollar amounts involved. See Evergreen Tree Farm: Journal (Figure 15-1) for an example. In addition to recording financial information on your woodland activities, you should include the time expended on each if you will need such information to establish the extent of your material participation for purposes of the passive loss rules as discussed in Chapter 5. For forest landowners with limited management activities, such a journal may provide a sufficient record of transactions for tax purposes. You should, however, sort entries by tax categories—capital transactions, deductions from gross income, deductions from adjusted gross income, timber sale revenue, expenses of timber sale activities, and others.

A Forest Landowner's Journal With Accounts

As forestry operations increase in complexity, a journal becomes most useful as a diary of day-to-day tree farm activities that can be transferred (posted) systematically to appropriate accounts. Ledger accounts are established for each separate business or tax activity needed for efficient operation of the business, and for the timely reporting of financial and tax information.

The number and kind of ledger accounts will vary with the details of your forestry business. Accounts typically used include those that are specifically related to timber operations plus those that are generally needed for any business. Only the basic accounts needed to illustrate tree farm records are introduced here. To save space, repetitive costs (for example, annual property taxes) are shown in the journal once but not repeated. Forestry expenditure accounts include accounts for both capital and expense items. Revenues are placed in either capital gain or ordinary income accounts.

ACCOUNTS

Capital Accounts

Forest land assets generally include: (1) land, (2) timber, and (3) other improvements. Each item that adds significantly to the value of the property should be reflected in an account. Then, when an item is disposed of, worn out, or used up, it can be properly treated with respect to its contribution to the production of income.

Land Account. The land account contains entries for the land and land improvements (Figure 15-2). Permanent land improvements include such things as nondepreciable roadbeds of roads, land leveling, and impoundments—items that have indeterminate useful lives. The amounts for land and nondepreciable improvements should remain separate in the basis of the land account because future events may require you to substantiate the basis of an improvement. For example, if a casualty resulted in destruction of a roadbed, you would need to know the basis in the affected property—the roadbed—to claim a casualty loss (see Chapter 8). The basis in the land account is recovered for tax proposes as an offset against income when the land is sold or otherwise disposed of.

Timber Account. A timber account may contain subaccounts for merchantable timber, nonmerchantable young natural growth, and plantations. One or more merchantable timber subaccounts may be kept, depending on your management goals, but a single averaging account is the simplest for small to medium-sized forest land holdings. A merchantable timber subaccount should include the merchantable volume that could have been harvested at prevailing utilization standards when the property was acquired (Figure 15-3). It also should include that portion of the original purchase basis (see Chapter 8) attributable to the initial merchantable volume.

Young-Growth Subaccount. When premerchantable natural growth timber is acquired, its allocable portion of the total acquisition cost on an acreage basis is established in a young-growth subaccount (Figure 15-4). You are required to establish a young-growth subaccount if the premerchantable natural growth timber makes a substantial contribution to the total value of the forest property (see Chapter 5). The young-growth timber basis is transferred to a merchantable timber subaccount as the young growth reaches merchantability. Merchantability standards vary with local market conditions as well as by agreement with the IRS. An estimate of the volume per acre being transferred also is required as the unit for measuring timber changes from area to volume. The transfer is made by increasing the basis and volume in the merchantable timber subaccount while reducing the basis in the young-growth subaccount by a corresponding amount. For example, in the case that follows, the basis of $22,323 on 60 acres in the Evergreen Tree Farm: Young-growth Subaccount (see Figures 15-1 and 15-4, ref. 32) is estimated to represent a merchantable volume of 1,350 cords when transferred to a merchantable pulpwood subaccount (not shown).

Plantation Subaccount. A plantation subaccount (not shown) is similar to the young-growth subaccount. It is created when a new timber stand is established by artificial regeneration (planting or seeding) following a harvest. Replanting costs following a failure of the initial establishment effort also must be capitalized. Note, however, that if Revenue Ruling 90-61—mortality due to drought—(page 144) applies, the remaining basis following failure may be reduced.

Amortization of Reforestation. Amortization of reforestation is an account for recording qualified reforestation amortization. An account must be established for each year that qualified reforestation expenditures are made (see Chapter 5, page 28, and Table 15-1, ref. 22).

Depreciation Accounts. Depreciation accounts are established for equipment and other depreciable assets that are used on your forest land (see Figure 15-5 and Table 15-1, ref. 10). The cost of equipment used in forestry operations is established in subaccounts according to the procedures discussed in Chapter 5, page 26, in the proportions that each account contributes to the total value of the forest land property. Bridges, culverts, gravel surfaces on a road, and fences are examples of depreciable land improvements for which subaccounts also may be established. They are depreciable because they wear out and have a determinable useful life. The cost of such items must be depreciated rather than deducted currently because their determinable useful life is greater than 1 year.

Expense Accounts

The number of expense accounts that you need depends on the nature of your operations. Property taxes, travel expenses, and expenditures for various timber stand maintenance operations are typical of costs that you may incur (for example, see Table 15-1). Maintenance operations include such activities as precommercial thinning, prescribed burning for hazard reduction, the purchase of small tools and supplies, and equipment maintenance. See Chapter 5 for a discussion of forestry expenses and their tax treatment, including the effect of the passive loss rules.

Capital Income Accounts

Timber normally generates capital gains or losses when you dispose of it (see the discussion on capital gains in Chapter 6). Accounts associated with timber dispositions include: Timber Sale Revenue, Cost of Timber Sold (Basis), and

Expenses of Sale (see Table 15-1 and Accounts 14, 15, and 16, respectively).

Ordinary Income Accounts

Ordinary income may be generated in many ways from a forest land asset. In fact, most income other than that from the sale of timber or land will be ordinary income. Examples are hunting lease payments, selling firewood from logging slash, sale of wild nuts, and sale of pine straw. Since ordinary income may be important for offsetting management expenses, appropriate accounts should be established to record it. A Hunting Lease Account illustrates this point (see Table 15-1, ref. 38).

General Business Accounts

You also need to establish accounts that are basic to any business. A Cash Account is used to handle revenues, pay bills, and make allocations to other business accounts. Categories of accounts for accumulating cash flows for business or tax decisions include: Interest Expense, Travel Expense, Vehicle Maintenance, Depreciation Expense, Accumulated Depreciation, Mortgage Payable, and Miscellaneous. These are shown in Table 15-1 in abbreviated form in order to provide continuity with the forestry accounts (Figures 15-2 through 15-6) in the following case example of forest land purchases.

A Comprehensive Example of Forest Land Purchases and Management

Records for Forest Land Purchases

Red Oaks purchased Evergreen Tree Farm from Bob Smith on June 1, 1993, for $275,000, and the adjoining Lonesome Pine tract from Mountain Realty on September 2, 1998, for $384,900. Oaks structures his timber management activities on the properties as a business in which he materially participates. The journal entries to record the acquisition of these properties, the allocation of purchase prices to the respective capital accounts, the payment of annual operating expenses, the selling of timber, and the reforestation of harvested stands are shown in the Evergreen Tree Farm Journal (Figure 15-1). They are then transferred (posted) to the respective capital accounts (Figures 15-2 through 15-6) and to the general business accounts that are shown in abbreviated form in Table 15-1.

An example of each type of transaction is briefly explained to illustrate the process of handling various cash flows and to indicate the tax treatment each should receive. E. Z. Cruiser, the consulting forester, prepared an appraisal of the Evergreen forest land property's estimated value, which is shown in Table 15-2. His appraisal fee of $2,500 (Figure 15-1, ref. 1) and related legal fees of $4,000 (Figure 15-1, ref. 3) are capital acquisition costs for purchasing the property. They are added to the $275,000 purchase price (ref. 2) of the property that was allocated to the capital accounts. The initial bookkeeping is handled with a temporary capital account that reflects the $281,500 total cost of the acquisition (ref. 4).

Allocation of the acquisition cost to the capital accounts is shown in Table 15-3. Note that the appraised values are somewhat higher than the actual purchase price. Nevertheless, they provide the proportion that each account bears to the total value of the property. The basis in land is recorded in the Land Account (Figure 15-2, ref. 5). Similarly, the basis in merchantable timber is recorded in the Merchantable Sawtimber Subaccount (Figure 15-6, ref. 6a) and to Merchantable Pulpwood (ref. 7, but not shown). A corresponding estimate of the merchantable volume—650 MBF—is reported in the Merchantable Sawtimber Subaccount (Figure 15-3, ref. 6b). Young growth is recorded in the Young-growth Subaccount (Figure 15-4, ref. 8). The basis of the bridge is posted to the Depreciable Land Improvement Account (Figure 15-5, ref. 9). It is depreciated using the straight line method with a 15-year recovery period and an assumed salvage value of zero. The first year's depreciation deduction is shown in Table 15-1 (Account No. 4, ref. 10) and accumulated depreciation is shown in Table 15-1 (Account No. 5, ref. 10). The information in these accounts should be used to complete Schedule B (Acquisitions) of Form T (Timber) if it is filed with your Federal income tax return. Form T (Timber) should be completed and filed with your records even if not required to be filed with the IRS.

As the $200,000 business loan on Evergreen Tree Farm is amortized at 8 percent over 20 years, the interest expense, which is deductible (Figure 15-1, ref. 11), and reduction of principal, which is not deductible (Table 15-1, Account 3), are recorded in separate accounts.

Records for Forest Land Management

Various operating and maintenance expenses for the Evergreen Tree Farm also are shown in Table 15-1. These include supplies (ref. 12), maintenance (ref. 13), and property taxes (ref. 14). See Chapter 5 for a discussion of forest management and operating expenses, including treatment of the business interest discussed above.

When Red Oaks decided to sell timber in 1995, he asked his consulting forester to prepare and market the sale for a fee of $10,950 (a commission of 5 percent, ref. 15). To qualify the gain for treatment as a long-term capital gain, the timber is disposed of under a Section 631(b) sale-by-the-unit contract. The sale revenue consisted of a bid deposit of $21,900 (10 percent) and an advance payment of $191,100. They are recorded in Account 14, Timber Sale Revenue (Table 15-1, refs. 16 and 17, respectively). The cost of timber sold (allowable basis) is calculated on Schedule F of Form T (Timber) using information from the Merchantable Sawtimber Subaccount (Figures 15-3 and 15-6). Cost of timber sold is subtracted from gross sale revenue in calculating net taxable gain or loss (see Chapter 6). This amount of $97,100 (ref. 18a) is recorded in Account 15, Cost of Timber Sold (Table 15-1). Schedule C of Form T also should be completed.

The harvested 60 acres are site prepared at a cost of $15,000 (Figure 15-1, ref. 19). Red Oaks received FIP cost-share payments of $5,000 (ref. 21). The amortization schedule is shown in Table 15-4. Schedule E of Form T should be completed. The first year's amortization deduction is shown in Table 15-1, Account 17, Amortization of Reforestation (ref. 22). The expenditures for reforestation are recorded in the Reforestation Account (not shown). The tract as site prepared was planted the following year for $3,600, for which no cost-share payment was received (Figure 15-1, ref. 23). The amortization is shown in Table 15-1, Account 17.

Red Oaks spent $1,500 on timber stand improvement operations in natural stands to maintain the quality and growth of selected crop trees. This is a deductible expense shown in Table 15-1, Account 13, ref. 25.

In 1998, the adjoining tract—Lonesome Pine—was purchased by Red Oaks. The purchase price and allocation of capital are similar to the establishment of the original accounts. These additions show the adjustments to basis in the Land Account (Figure 15-2, ref. 29), Merchantable Timber Subaccount (Figure 15-4, ref. 30b, and Figure 15-6, ref. 30), and Young-growth Subaccount (Figure 15-4, ref. 31).

When the young growth in the original purchase reaches merchantability in 1998, it is transferred from the Young-growth Subaccount (Figure 4, ref. 32) to the Merchantable Pulpwood Subaccount (not shown). Note that this is an option chosen by Red Oaks based on his timber management goals. He is keeping the merchantable accounts separate by products (that is, sawtimber and pulpwood), although they could have been combined into a single merchantable timber subaccount.

In 1998, Red Oaks' fortunes were not good, resulting in zero taxable income. To avoid the loss of deductible expenses, he elected to capitalize as carrying charges the costs for travel (Figure 15-1, ref. 33), property taxes (ref. 34), and business interest (ref. 35). The total of $5,454 is proportionately allocated to the timber accounts (Figure 15-1, ref. 37).

The diversity of Evergreen Tree Farm, including mixtures of timber species, various age classes, and openings caused by harvesting, offers good hunting prospects. Oaks leased the property for 5 years to the Laid Back Hunt Club for $1,200 per year ($4 per acre per year). Most members are neighbors, and the agreement includes clauses for insurance coverage, fire protection, and prevention of trespass. The first payment is received at the end of 1998 (Table 15-1, Account 18, and Figure 15-1, ref. 38).

Blank ledger forms for beginning a forest land journal with accounts for merchantable timber, young growth, and reforestation can be found in most business supply offices. These are the minimum needed for efficiently recording information in forest land capital accounts. Other general business accounts, such as those suggested in Table 15-1, should be added as needed to reflect the complexity of your forest land operations.

Figure 15-1. Evergreen Tree Farm: Journal.

Date	Accounts and Explanation	Ref.	Debits ($)	Credits ($)
06/01/93	Temporary capital account	1	2,500	
	Cash			2,500
	E. Z. Cruiser, Consultant for forest land appraisal report			
06/01/93	Temporary capital account	2	275,000	
	Cash			75,000
	Mortgage Payable			200,000
	Purchase Evergreen tree farm			
06/15/93	Temporary capital account	3	4,000	
	Cash			4,000
	L. Lawyer, attorney for title search, filing, and closing			
06/21/93	Evergreen tract (Figure 15-2)	5	59,537	
	Merchantable sawtimber (Figures 15-3 and 15-6)	6a	161,834	
	Merchantable pulpwood (not shown)	7	24,407	
	Young growth (Figure 15-4)	8	22,323	
	Equipment-Bridge (Figure 15-5)	9	13,399	
	Temporary capital account	4		281,500
	Allocation of tree farm purchase to permanent capital accounts			
12/31/93	Depreciation expense	10	521	
	Accumulated depreciation			521
	First year depreciation of bridge			
12/31/93	Interest expense	11	9,285	
	Mortgage payable		2,425	
	Cash			11,710
	Interest expense and mortgage			
	Principal reduction for 1993 (see Interest Expense and Mortgage Payable Accounts, Table 15-1)			
01/15/94	Operating expense	12	421	
	Cash			421
	Forest Suppliers for purchase of axes, posted signs, flagging			
06/01/94	Bridge maintenance	13	582	
	Truck maintenance		217	
	Road maintenance		897	
	Cash			1,696
	Forestry expenses for servicing truck, grading, pulling ditches, and repairing bridge			
12/31/94	Property tax expense	14	820	
	Cash			820
	Treasurer, Local County			
02/15/95	Expenses of sale (Table 15-1)	15	10,950	
	Cash			10,950
	E. Z. Cruiser, consultant for sale preparation (also see Table 15-2)			

Figure 15-1. Evergreen Tree Farm: Journal (continued).

Date	Accounts and Explanation	Ref.	Debits ($)	Credits ($)
04/10/95	Cash		16	21,900
	Timber sale revenue			21,900
	Deposit (10 percent) on timber sale from Sawyer Lumber Co.			
05/07/95	Cash	17	197,100	
	Timber sale revenue			197,100
	Balance of sale revenue from Sawyer Lumber Co. (also see Table 15-1)			
12/31/95	Cost of timber sold*	18	97,100	
	Merchantable sawtimber subaccount (value) (see Table 15-6)			97,100
	Allowable as basis for sale			
	Merchantable sawtimber subaccount (also see Chapter 6)			
06/15/96	Reforestation account (not shown)	19	12,500	
	Cash			12,500
	B. Dozer, contractor for site preparation on 60 acres of cutover land			
08/26/96	Bridge maintenance	20	352	
	Road maintenance		578	
	Cash			930
	M. Truck, contractor for road grading, bridge repair			
09/01/96	Cash	21	5,000	
	Reforestation account (not shown)			5,000
	Receipt of FIP cost-share payments for site preparation (also see Table 15-2)			
12/31/96	Amortization of reforestation	22	509	
	Reforestation account (not shown)			509
	Amortization of site preparation (see Table 15-4)			
02/10/97	Reforestation account (not shown)	23	3,600	
	Cash			3,600
	E. Z. Cruiser, contractor for planting pine on site prepared 60-acre cutover (Table 15-4)			
12/31/97	Amortization of reforestation	24	1,262	
	Reforestation account (not shown)			1,262
	Second year of site preparation amortization ($1,018) and first year of planting amortization ($244) (see Table 15-4)			
08/06/98	Timber stand improvement	25	1,800	
	Cash			1,800
	Tom Cleary, contractor for timber stand improvement in 60-acre natural pine stand			
09/01/98	Temporary capital account	26	384,900	
	Cash			384,900
	Mountain Realty Co., acquire Lonesome Pine-120 acres total			

Figure 15-1. Evergreen Tree Farm: Journal (continued).

Date	Accounts and Explanation	Ref.	Debits ($)	Credits ($)
09/02/98	Temporary capital account	27	6,400	
	Cash			6,400
	Mountain Realty Co., appraisal, title search, and legal fees to acquire Lonesome Pine tract			
09/15/98	Total cost of property (6,400 + 384,300)	28		391,300
	Land	29	60,998	
	Merchantable sawtimber (Figures 15-3 and 15-5)	30a	314,036	
	Young growth	31	16,256	
	Allocation of Lonesome Pine purchase to permanent capital accounts			
09/31/98	Pulpwood timber subaccount (not shown)	32	22,323	
	Young growth			22,323
	Young growth transferred to pulpwood timber subaccount (value not shown)			
11/01/98	Travel expense	33	276	
	Cash			276
	Routine inspection of boundaries, roads, and fire lines from travel diary (not shown)			
12/31/98	Property tax expense	34	1,280	
	Cash			1,280
	To Local County Treasurer for property tax expenses			
12/31/98	interest expense	35	13,992	
	Mortgage payable		6,092	
	Cash			20,084
	Interest expense and mortgage principal reduction for 1993			
12/31/98	Temporary capital account	36	15,548	
	Travel expense			276
	Property tax expense			1,280
	Interest expense			13,992
	Election to capitalize carrying charges for 1993			
12/31/98	Temporary capital account	37		15,584
	Merchantable sawtimber subaccount		14,041	
	Pulpwood subaccount (not shown)		905	
	Young subgrowth subaccount		602	
	Allocation of carrying charges to timber accounts			
12/31/98	Cash	38	1,200	
	Hunting lease			1,200
	Receipt of hunting lease payment from Laid Back Hunt Club			

Figure 15-2. Evergreen Tree Farm: Land Account.

Date	Accounts and Explanation	Ref.	Debits ($)	Credits ($)
06/21/93	Allocation of Evergreen T. F. purchase cost to land: Red Oaks Tract (see Table 15-3)	5	59,537	
09/15/98	Allocation of Lonesome Pine purchase cost to land	29	60,998	
09/15/98	Adjusted balance (basis) carried forward		120,535	

Figure 15-3. Evergreen Tree Farm: Merchantable Sawtimber Subaccount—Volume Basis.*

Date	Accounts and Explanation	Ref.	Additions MBF	Removals MBF
06/21/93	Estimated merchantable volume of pine and hardwood sawtimber at date of purchase (see Evergreen T. F. cruise in Table 15-2)	6b	650	
01/02/95	Growth for 1993-95 (2 years: see cruise report, Table 15-2)		80	
01/02/95	Adjusted volume carried forward		730	
12/31/95	Volume removed in sale	18b		438
12/31/95	Adjusted volume carried forward		292	
09/15/98	Estimated volume on Lonesome Pine tract when purchased (see Table 15-2)	30b	750	
09/31/98	Adjusted volume carried forward		1,042	

*See Figure 15-6 for corresponding value.

Figure 15-4. Evergreen Tree Farm: Young-Growth Subaccount.

Date	Accounts and Explanation	Ref.	Debits ($)	Credits ($)
06/21/93	Allocation of Evergreen Tree Farm purchase cost to young growth (60 acres of pine, see Table 15-3)	8	22,323	
09/15/98	Allocation of Lonesome Pine purchase cost to young growth (40 acres, see Table 15-3)	31	16,256	
09/31/98	Transfer young growth to Merchantable Pulpwood Subaccount (value); volume estimated (cruised) to be 1,350 cords by E. Z. Cruiser	32		22,323
09/31/98	Adjusted balance carried forward		16,256	
12/31/98	Election to capitalize carrying costs, proportional allocation	37	602	
12/31/98	Adjusted balance carried forward		16,858	

Table 15-1. Evergreen Tree Farm accounts.

Ref.	Debits ($)	Credits ($)
1. Cash Account		
1		2,500
2		75,000
3		4,000
11		11,710
12		421
13		1,696
14		820
15		10,950
16	21,900	
17	197,100	
19		12,500
20		930
21	5,000	
23		3,600
25		1,800
26		384,900
27		6,400
33		276
34		1,280
35		20,084
38	1,200	
2. Temporary Capital Account		
1	2,500	
2	275,000	
3	4,000	
4		281,500
26	384,900	
27	6,400	
28		391,300
36	15,584	
37		15,584
3. Mortgage Payable		
2		200,000
11	2,425	
	Bal fwd	197,575
************		
	Bal fwd	177,531
35	6,092	*
	Bal fwd	171,439
4. Depreciation Expense		
10	521	
5. Accumulated Depreciation		
10		521
6. Interest Expenses		
11	9,285	*
35	13,992	
36		13,992
7. Travel Expenses		
33	276	
36		276
8. Operating Expenses		
12	421	
9. Truck Maintenance		
13	217	
10. Bridge Maintenance		
13	582	
20	352	
11. Road Maintenance		
13	897	
20	578	
12. Property Tax Expense		
14	820	
34	1,280	
36		1,280
13. Timber Stand Improvement		
25	1,800	
14. Timber Sale Revenue		
16		21,900
17		197,100
	Bal fwd	219,000
15. Cost of Timber Sold (Basis)		
18	97,100	
16. Expenses of Sale		
15	10,950	
17. Amortization of Reforestation		
22	509	
24	1,262	
18. Hunting Lease		
38		1,200

*Repetitious data omitted.

Figure 15-5. Evergreen Tree Farm: Depreciable Land Improvement Account.

Date	Accounts and Explanation	Ref.	Debits	Credits
			($)	($)
06/21/93	Allocation of Evergreen Tree Farm purchase cost to equipment, a 90-foot wooden bridge (see Table 15-3)	9	13,399	
12/31/93	Depreciation deduction for 1993 (Straight line: ($13,399 ÷ 15) x 7/12 months)	10		521
12/31/93	Adjusted balance carried forward (Subsequent depreciation entries are not shown)		12,878	

Figure 15-6. Evergreen Tree Farm: Merchantable Sawtimber Subaccount—Cost Basis.

Date	Accounts and Explanation	Ref.	Debits	Credits
			($)	($)
06/21/93	Allocation of Evergreen Tree Farm purchase cost to timber	6a	161,834	
12/31/95	Allowable as basis for sale	18a		97,100
12/31/95	Adjusted basis carried forward		64,734	
09/15/98	Allocation of Lonesome Pine purchase to timber (see Table 15-1)	30a	314,036	
09/15/98	Adjusted basis carried forward		378,770	
12/31/98	Election to capitalize carrying charges	37	14,041	
12/31/98	Adjusted basis carried forward		392,811	

*Volume removed in sale (see Form T) 438 MBF, is adjusted in Merchantable Sawtimber Subaccount (Figure 15-3).

Table 15-2. Summary of cruise (appraisal) reports for Evergreen Tree Farm and Lonesome Pine forest land purchases.

Description of Assets	Value
Evergreen Tree Farm (01/15/93):	
1. 200 acres of average site land @ $400/acre	$ 80,000
2. Merchantable pine and mixed hardwood sawtimber on 100 acres*	217,500
Pine: 400 MBF @ $450/MBF = $180,000	
Hardwood: 250 MBF @ $150/MBF = $37,500	
3. Pulpwood-pine and mixed hardwood on 40 acres*	32,800
Pine: 880 cords @$30/cord = $26,400	
Hardwood: 320 cords @ $20/cord = $6,400	
4. Young-growth pine averaging 8 years old on 60 acres @ $500/acre	30,000
5. Used wooden bridge-90 feet (15-year recovery period with no salvage value)	18,000
Total estimated fair market value:	$ 378,300
Lonesome Pine Tree Farm (08/01/98):	
1. 120 acres of fair quality land @ $500/acre	$60,000
2. Merchantable pine-hardwood sawtimber on 80 acres*	308,900
Pine: 470 MBF @$550/MBF = $258,500	
Hardwood: 280 MBF @ $180/MBF = $50,400	
3. Young-growth pine averaging 5 years old on 40 acres @ $400/acre	16,000
Total estimated fair market value:	$384,900

*Submitted by E. Z. Cruiser, Registered Forester No. 424.

Table 15-3. Allocation of Evergreen Tree Farm assets to capital accounts.

Account	Fair market value (FMV) ($)	Percent of Total FMV (%)	Allocation of Acquisition Cost ($)	Allocation of Purchase Price to Original Cost Basis ($)
Land	80,000	21.15	1,375	58,162
Sawtimber	217,500	57.49	3,737	158,097
Pulpwood	32,800	8.67	564	23,843
Young Growth	30,000	7.93	515	21,808
Bridge	18,000	4.76	309	13,090
Total	378,300	100.00	6,500	275,000

Table 15-4. Evergreen Tree Farm: Reforestation tax credit and amortization schedules for 1996 and 1997.

For 1996 Federal Tax Returns	
Site preparation cost (see ref. 19)	$ 12,500
Less FIP cost-share payment (see ref. 21)	5,000
(payment excluded from gross income-Internal Revenue Code (Code) Section 126)	
Total out-of-pocket cost eligible for credit and amortization	$ 7,500
Investment credit (report on IRS Form 3468): $7,500 x 10%	$ 750
Amortization schedule (report on IRS Form 4562):	
1. Reduce amortizable basis on one half of credit claimed: $7,500 - ($750 x 0.5)	$ 7,125
2. Compute deductions over 84 months (8 tax years) using half-year convention (that is, only 6 months is claimed in first and last years)	
1996 and 2003 returns (see ref. 22)	
$7,500 x (1/14)	$ 509
1997 to 2002 returns (see ref. 24)	
$7,500 x (1/7)	$ 1,018
For 1997 Federal Tax Returns:	
Planting cost (see ref. 23)	$3,600
Total out-of-pocket reforestation cost eligible for credit and amortization (that is, cost-share payment was not received on this activity)	$4,320
Investment credit: $3,600 x 10%	$360
Amortization schedule:	
1. Reduce basis for credit taken	
$3,600 - $180 ($360 x 0.5) =	$3,420
2. Amortization deductions:	
1997 and 2004 returns (see ref. 24)	
$3,600 x (1/14)	$244
1998 to 2003 returns	
$3,600 x (1/7)	$489