Winter on the south coast isn’t like winter in a lot of other places. Sure, the days are shorter and we can get our fair share of rain but it’s rare that the weather is too bad for a walk out in the woods. With the leaves off the underbrush, winter can be a great time to see your woods in a different light and perhaps do some thinning, pruning, transplanting or firewood cutting in the cool weather.

For the days when it really is miserable outside, consider putting some time and thought into developing or updating your woodland plan. These plans are useful for determining what you have to work with, what kind of activities you might want to undertake in the future and also for sharing your ideas and goals with family members. A written plan may also be required if you want to certify your woodlands or participate in cost-share programs. If you would like any help developing a plan, various tools and templates are available. Several area consulting foresters are also available to help in plan writing. Give me a call and we can talk over your options.

I also plan in 2011 to develop a reliable source of disease resistant Port-Orford-cedar seedlings. I have a soft spot for this important species and its continued existence on the South Coast is contingent upon the availability of disease resistant stock. I’m looking into ways disease resistant seedlings can be made readily available to small woodland owners for planting and I’ll also be conducting research to test the disease resistance of these seedlings.

For those of you who are not interested in large-scale clearcut harvests on your property but still want to derive income from selling timber, I am working on a set of case studies describing “alternative silviculture” (patch cuts, two-aged stands, uneven-aged stands) from all over Oregon. These can be used to give you all some ideas on how to harvest timber while still maintaining forest cover on your property.

That’s a snapshot of what I have going for 2011. Am I missing something important? As your link to Oregon State University, I am always open to ideas for research and education projects. Get ahold of me and we can talk it over.
Log Prices

Below are recent and past domestic prices for delivered logs in Coos/Curry Counties. All values are averages of quotes from sawmills and are reported in $/MBF (thousand board feet). Keep in mind that each mill will have a different price and different grading practices. These values, however, are good measures of general price trends. Last year’s values are not adjusted for inflation.

Prices are reported by Oregon Department of Forestry and can be found online at:


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<td></td>
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<td>CR</td>
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<td>535</td>
<td>500</td>
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All values reported are in $/MBF (thousand board feet)

P = Peelers
2S = No. 2 Sawmill (Logs suitable for the manufacture of Construction & Better lumber grades - 65%)
3S = No. 3 Sawmill (Logs suitable for the manufacture of Standard & Better lumber grades- 33%)
CR = Camp Run (Log production from the forest of the species or group of species being logged, that are better than Cull grade)

Spring Bump in Log Prices Causing Reforestation Difficulties this Winter

The slight uptick in log prices we saw in spring of 2010 was a welcome sight and allowed many of you to derive some income through harvesting timber. Indeed, many landowners who had been waiting to harvest mature stands until market conditions were favorable took advantage of the brief upswing. This unexpected increase in harvest levels is increasing demand for seedlings this winter and some landowners are having trouble locating trees to replant their harvested acres. Of course, it’s always best to order seedling well in advance of when you plan on harvesting timber. However, when market conditions experience a brief upswing and you take advantage by harvesting, you could get stuck without any seedlings come planting time. If you find yourself in this situation there are a few options to consider, each with their pluses and minuses.

1. **Delay Planting**
   Forest Practices Act rules gives you 24 month from the completion of harvest activities or 36 months after the beginning of harvest activities (whichever is earliest) to complete planting. This will give you more time to squire appropriate seedlings but competing vegetation will get a head start.

(Continued on page 3)
2. **Plant Off-Site Stock**
   Seedlings from another seed zone may be available this year for planting. Generally this isn’t a good idea so check with a forester before you buy.

3. **Plant Alternative Species**
   Sometimes species other than the one you were planning on planting are available. Species such as redcedar, Sitka spruce, hemlock, alder and many others might be available when no Douglas-fir is available. However, make sure the species you choose is appropriate for your site and your objectives.

4. **Transplant seedlings from other areas on your property**
   When you only need a small number of seedlings, you can often transplant seedlings from one portion of your property to another. This can be labor intensive though and transplanted wild trees may have slower early growth rates than nursery grown trees.

(Continued from page 2)

With a little forward planning more options are available including ordering trees from a nursery in advance, having trees grown on contract, or even growing your own seedlings.

### Sources for Seedlings

- **Oregon Department of Forestry**
  [http://www.oregon.gov/ODF/privateforests/docs/ForestNurserySeedlingSources.pdf](http://www.oregon.gov/ODF/privateforests/docs/ForestNurserySeedlingSources.pdf)

- **Forest Seedling Network**

### Growing your own seedlings:

- **Raising Forest Tree Seedlings at Home**
  [http://www.rngr.net/publications/rsah](http://www.rngr.net/publications/rsah)

- **Wood Plant Seed Manual.**
  [U.S. Forest Service](http://www.nsl.fs.fed.us/wpsm/)

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**Updated Tax Tips for Forest Landowners for the 2010 Tax Year**

*by Linda Wang, National Timber Tax Specialist, U.S. Forest Service*

*and John L. Greene, Research Forester, U.S. Forest Service*

This bulletin provides tax tips for woodland owners and their tax advisors in the preparation of the 2010 individual tax return. Please be aware the information presented here is not legal or accounting advice. Consult your legal and tax advisors for more complete information.

**Timber as Personal, Investment or Business Property**

The tax rules vary depending on whether your woodland is personal, income-producing (investment), or business property. You must make this determination for your holding each tax year. If you do not have a profit motive, your timber may be personal property, which provides limited opportunities for deductions. If you have a clear profit motive, your property may be an investment property, or it may be business property if your management activity is more regular, frequent, and intensive than required for an investment. A written management plan is one of the best places to document a profit motive. For a timber held as a business, you also must determine whether you materially participate in its operation, in order to establish whether you face restrictions (called passive loss restrictions) on the deduction of business losses. The tests for material participation are based on factors including the number of hours of your participation.

**Example 1:** You grow timber for profit and asset appreciation but do not conduct it as a business. Your woodland is investment property.

**Example 2:** You manage your timber as the sole proprietor of a business. You keep business records, including the number of hours of your participation in the business to establish that you materially participate in its operation. Your woodland is business property for tax purposes.

**Timber Sales**

The net sale amount, not the gross proceeds from a sale, is taxed. You may deduct depletion (see below) and expenses from the sale. Report the sale of timber held as an investment on Schedule D, as a long-term capital gain if you owned the timber more than 1 year or a short-term capital gain if not. Report the sale of timber held
Coos and Curry Woods News

as a business on Form 4797 and Schedule D, whether you sold it outright (lump-sum) or pay-as-cut (sec. 631 (b)).

Example 3: You sold for $8,000 standing timber held as investment more than 1 year and incurred $800 in sales expenses. Assuming your basis in the timber (see below) is zero your net taxable amount from the sale is $7,200 ($8,000 - $800), which you report on Schedule D. If you held the timber as a business, you would report the sale on Form 4797 and Schedule D.

Income from sale of cut (vs. standing) timber is taxed in two parts. The difference between the fair market value (FMV) of the standing timber on the first day of your tax year and your basis in it is taxed as a capital gain (to qualify as a long-term capital gain you must have held the timber more than 1 year before cutting it for use in your business). The difference between the proceeds from the sale of the cut products and the sum of the FMV of the standing timber and the cost of converting it into products for sale is taxed as ordinary income (sec. 631(a)).

Example 4: You paid a contractor $2,000 to cut standing timber you had held more than 1 year into logs, then sold the logs to a mill for $30,000. The FMV of the standing timber was $23,000 on Jan. 1 and your basis in it was $1,000. Make a sec. 631(a) election on Form T, Part I. Then report a $22,000 long-term capital gain ($23,000 - $1,000) on Form 4797, and $5,000 in ordinary income ($30,000 - 23,000 - $2,000) on Schedule C.

For 2010, the maximum rate for long-term capital gains is 15%, or 0% for amounts that fit under the ceiling for the 15% tax bracket if added to your ordinary income ($34,000 for single tax-payers, $68,000 for married tax-payers filing jointly).

Installment Sales
An installment sale involves receiving one or more payments after the year of sale. Interest is charged on deferred payments. The advantage of an installment sale is that it allows you to defer tax by spreading your gain over 2 or more years.

Example 5: You sold timber for $10,000 ($8,000 after deducting depletion and sales expenses) in 2010. The buyer paid you $5,000 in 2010 and $5,000 plus interest in 2011. Your gross profit percentage is 80% ($8,000 ÷ $10,000). Report only a $4,000 gain for 2010 ($5,000 x 80%), using Form 6252.

Timber Basis and Depletion
Your basis in purchased timber is the total cost of acquisition (e.g., purchase price, survey, legal fees). Your basis in inherited timber is its FMV on the date of death, but your basis in gifted timber is the lesser of its FMV or the donor’s basis. Your basis in land and timber acquired together should be divided in proportion to their FMV and kept in separate accounts. If you didn’t allocate basis when you acquired your woodland a professional forester can determine it retroactively, but you should weigh the cost against the potential tax savings.

Example 6: In 2010 you bought a deed to 1,000 MBF of timber for a total cost of $212,000. Your basis in the timber is $212,000, even though your forester estimates its FMV is $220,000.

If you have a timber sale or a casualty loss, you can take a deduction against your timber basis. To calculate your depletion deduction for a sale, divide your basis by the total volume of timber (the depletion unit) then multiply by the number of units sold.

Example 7: Continuing with example 6, you immediately sold 200 MBF of timber for $220/MBF. Your depletion unit is $212/MBF ($212,000 ÷ 1,000 MBF) and your depletion is $42,400 ($212 x 200 MBF).

Timber Management Expenses
If you have a profit motive for your woodland, you can deduct ordinary and necessary timber management expenses, such as costs incurred to protect the woodland from insects, disease or fire, control brush, or do a pre-commercial thinning or mid-rotation fertilization. Management expenses for property held as an investment are subject to a 2% of adjusted gross income (AGI) reduction on Schedule A. In contrast, expenses for business property may be deducted in full on Schedule C. You may add to your timber basis expenses subject to the 2% AGI reduction and recover them when you sell the timber.

Reforestation Costs
Sec. 194 allows tax deductions for the cost of reforesting your woodland following a harvest or afforesting open land. You may deduct the first $10,000 ($5,000 for married couples filing separately) per year of such ex-

(Continued from page 3)
penses per qualified timber property. Any additional amount may be deducted (amortized) over 84 months. Costs for both artificial and natural regeneration qualify.

**Example 8:** You spend $7,000 to reforest your woodland following a harvest. If you hold the woodland as an investment, deduct the full amount as an adjustment to gross income on the front of Form 1040; if you hold it as business property, deduct it on Form 1040, Schedule C or F (if you qualify as a farmer; see below).

**Example 9:** You spent $17,000 to reforest your property. Deduct $10,000 plus 1/14th of the remaining $7,000 ($500) in years 2011 through 2016, and the last 1/14th ($500) in 2017. Report the amortization deductions on Form 4562, Part VI.

**Depreciation, Bonus Depreciation, and First-Year Expensing**
Capital expenditures such as those for logging equipment, bridges, culverts, fences, temporary roads, or the surfaces of permanent roads may be deducted (depreciated) over the property’s useful life. For example light-duty trucks and logging equipment are depreciated over 5 years. You also may take bonus depreciation equal to 50% of the cost of qualified property placed in service on or before Sep. 8, 2010, and 100% through the end of year. If you purchased qualifying property (generally tangible personal property, but not improvements to land, buildings, or components of buildings) for your forest business in 2010, you can elect to expense up to $500,000, subject to a $2 million phaseout and business taxable income limitations (first-year expensing).

**Cost-share Payments**
Sec. 126 allows recipients of payments from approved public cost share programs to exclude all or part of the payments from their income. Approved federal programs include the Forest Health Protection Program (e.g., the southern pine beetle and mountain pine beetle cost-shares), the Conservation Reserve Program, Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, and Wetlands Reserve Program. Approved state pro-grans also qualify. The excludable amount is the present value of the greater of $2.50 per acre or 10% of the average annual income from the property over the last 3 years. You generally cannot claim an exclusion if the cost may be expensed. You also may not claim a deduction for an expenditure reimbursed with the cost share and at the same time exclude the cost share from your income.

**Example 10:** You received a $4,000 cost-share from the Conservation Reserve Program for your 100-acre woodland. Assuming no income from the property in the last 3 years, you can exclude $3,275 (($2.50 x 100 acres) ÷ 7.63%). The interest rate is from the Farm Credit System Bank. If you had $9,600 income from the property, you could exclude the entire cost-share: ((10% x ($9,600 ÷ 3)) ÷ 7.63% = $4,194 > $4,000. Attach a statement to your tax return describing the cost-share program and your calculations.

**Casualty and Theft Losses**
The loss of timber from a casualty—a sudden, unexpected, and unusual event such as a fire or storm—may result in a tax deduction. The deduction is limited to the lesser of the decrease in FMV caused by the casualty or your basis in the timber block (the area or unit you use to keep track of your basis in the timber that was damaged). Similarly, a theft loss deduction is limited to the lesser of the decrease in FMV or your basis in the stolen timber. A competent appraisal usually is required.

**Example 11:** A fire caused $5,000 in damage to your timber ($9,000 before-fire FMV - $4,000 after-fire FMV). Your basis in the affected block is $2,000. Your loss deduction is the lesser amount, or $2,000. Report the loss on Form 4684, Section B, and adjust your timber basis (reduce it to zero) on Form T, Part II.

**Example 12:** Continuing with example 11, you sold the damaged timber for $2,000 in a salvage sale. You have a taxable gain of $2,000 ($2,000 - $0 basis), but you can defer tax on the gain by using it to acquire qualified replacement property (e.g., reforestation) within the allowable replacement period (generally 2 years).

**Filing Form T**
You must file Form T, Forest Activities Schedule, if you claim a depletion deduction, sell cut products under sec. 631(a), or have a lump-sum sale of timber held as business property (sec. 631(b)).

**Schedules C and F**
Taxpayers in the trade or business of farming (e.g., crops, dairy, or livestock) file Schedule F. Woodland business owners also file Schedule F if their timber ownership is incidental to a farming operation; otherwise, they should use Schedule C.
A Swiss Needle Cast Update
with Dave Shaw
Director, Swiss Needle Cast Cooperative

Dr. Shaw will Cover:

- The biology of Swiss needle cast
- How to determine if you have Swiss needle cast on your land
- The results of the most recent aerial surveys

If you own timberland on the South Coast, you probably have Swiss needle cast. Dave Shaw will discuss the implications of this disease of Douglas-fir as well as how to determine if it is adversely affecting the growth of your trees.

Wed., February 23rd, 2010
5:30 to 7:00 PM
OSU Extension Office
631 Alder, Myrtle Point

Please register by contacting
Tristan Huff
541-572-5263 x 294
tristan.huff@oregonstate.edu
Coos Curry Small Woodlands Association
Annual Diner and Meeting

Friday, February 18th

You are invited to the 2010 Annual Dinner and Meeting on February 19th at the Red Lion Hotel in Coos Bay! It will be a great evening to socialize with other woodland owners, enjoy a program of interesting speakers and have dinner out complete with the ever-popular woodland raffle! The Dinner and Meeting is open to both members and non-members.

This year’s program will focus on planning for the future of your woodlands.

Jim James, OSWA Executive Director
Woodland Planning

Mary Sisock, Director - Ties to the Land Initiative
Succession and Estate Planning

The Annual Meeting will include an update to members, a report from the Scholarship Committee and 2010 elections for positions on the Board of Directors. If you are interested in running for a position on the Board of Directors, or know of someone who would be a good candidate, prepare to make a nomination at the meeting.

If you want to eat, RSVP by Sunday, February 13th!

Bob Beers: (541) 396-3577 or jbeers9843@aol.com

Other Upcoming OSWA Events

Tuesday, April 26th
Southport Forest Products Mill Tour,
Coos Bay

Friday, July 8th
Grover Property Tour, Brookings
Coos and Curry Woods News

Tristan Huff, Forestry Agent
Phone: 541-572-5263 x 294
E-mail: tristan.huff@oregonstate.edu

Summer, 2010

Inside This Issue:

- Projects in 2011
- Timber tax update
- Seedling availability
- Swiss needle cast class
- Log Prices

Coos/Curry OSWA Annual Meeting
February 18th!
(details inside)