

June 30, 2004

Scott County Timber Times Newsletter

“ENHANCED FORESTRY EDUCATION PROGRAM”

UPCOMING EVENTS!!!

Forestry Short Course September 21 and 28 Timber Tax Fundamentals

Forest landowners often pay more than their fair share of taxes. Many landowners, forestry consultants, and even accountants are not informed about the special tax breaks available to forest landowners. Planning before a timber sale is needed to make income eligible for capital gains tax rates and to allow maximum use of timber basis. In order to inform you of these tax incentives a Timber Tax Fundamentals Short Course is being offered.

A Timber Tax Fundamentals Short Course has been scheduled for Tuesday September 21 and 28, 2004 from 7 – 9 p.m. at the Scott County Vo-Tech Center in Forest Dr. Debbie A. Gaddis is Assistant Extension Specialist at Mississippi State University Department of Forestry specializing in forest taxation and will be leading this course. To register please call the Scott County Extension Office at 601-469-4241. Space is limited so call early.

New Ruling Affects Timber Taxes Paid

A new wrinkle in the tax code allows timber owners to deduct the cost of fertilizer as an ordinary and necessary business expense.

Deborah Gaddis, forestry specialist with the Mississippi State University Extension Service, said before the Internal Revenue Service ruling, fertilizer costs were treated as a capital expenditure and handled differently. Landowners now can deduct this cost all at once, up to certain limits, rather than recovering it over the expected life of the fertilizer, generally three years.

"Allowing forest landowners to deduct the cost of post-establishment fertilization as an ordinary and necessary expense is a sound decision on the part of the IRS," Gaddis said. "This ruling will improve the profitability of forest investment by individuals, which will encourage the establishment and maintenance of privately owned forests."

Gaddis said landowners are using fertilizer on their timber stands more often than in the past, and this tax deduction will benefit them. The IRS is careful to note this deduction applies to fertilizer applied to existing, growing stands of timber. It does not apply to fertilizer put out when the trees are planted.

"Where this fertilization is necessary to establish a new forest, it becomes a reforestation expense eligible for the reforestation tax credit and special early deduction rules," Gaddis said.

The Extension Service offers short courses across the state each year to encourage good record keeping and to help landowners and tax preparers understand the provisions of the timber tax laws. Known as the Timber Tax Fundamentals short course. — Bonnie Coblenz, Mississippi State University

Land Transfers Without Wills Confuse Ownership

Mississippi's population is reflecting national trends as it undergoes a generational shift in assets, and that means a lot of forest land is changing hands without clear ownership.

Glenn Hughes, forestry professor with the Mississippi State University Extension Service in Purvis, said a recent survey indicated that many Mississippi landowners do not have a written will and are unprepared for the transfer of land and other assets.

Without a written will or more comprehensive estate plan, state law determines how assets are distributed, and many survivors may not like how the estate is divided.

"The main reason many people own forest land is as an asset for children," Hughes said. "However, more than 40 percent of these landowners don't have a written will."

To ensure heirs receive this asset as the owners desire, Hughes encouraged landowners to seek legal assistance in preparing a satisfactory plan for their estate. Attorneys can make recommendations for specific situations and can tailor a document to address individual concerns. Without an individual will, state law will distribute the assets.

David DuBard, a certified estate planning professional with the Estate Planning Network in Hattiesburg, said a will is just the first tool a person should have when planning an estate.

"Depending on the size of the estate, other tools such as a revocable living trust are of more benefit to the landowners," DuBard said. "A will guarantees probate, and probate can be horrendous as assets are frozen until the probate court releases them. Without a will, the estate goes to probate and the judge determines how and when the assets will be distributed."

If landowners wish to designate how and when property is distributed, having a will drawn up is the first, most basic step they should take.

A simple will costs about \$600 for a married couple. More comprehensive estate plans that create a revocable living trust and include other documents such as guardianship papers for minor children, durable powers of attorney for health care and financial issues, and a living will cost more.

"A person doesn't need to be turned off by the price of a will or estate plan preparation, which often is much less than the cost of having that estate probated," DuBard said. "With a properly drawn revocable living trust, you can settle an estate in a few hours instead of the six months or more that is common when an estate is sent to probate court."

The Extension forestry professor recommended families have a frank discussion on the subject of assets planning to ensure that the matter is handled correctly.

"This conversation can be difficult because parents might assume the child wants to gain control of assets or they just might want to avoid an unpleasant discussion of their own mortality," Hughes said. "Others don't think their estate is large enough to justify the expense of preparing a written will."

Tax implications of a large estate can be significant, so Hughes recommended landowners explore ways to reduce or eliminate the tax burden. Wills and living trusts should be updated as required by births, deaths, weddings, divorce or changes in financial condition.

Not having a written will can indirectly reduce the landowner's selling price of timber. When land changes hands without a will, it can quickly become owned by several people. Differences often arise about whether or how to harvest timber.

"The best timber buyers, the ones who will offer top dollar for the timber and take the greatest care when logging, will often avoid such sales because of bad experiences they have had in the past," Hughes said. "In such cases, the lack of a written will can cost several thousand dollars."

Bonnie Coblentz-Mississippi State

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A handwritten signature in black ink that reads "Trey DeLoach".

Trey DeLoach