



Northeast Texas Forest Landowners Association Newsletter

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Texas Watershed Steward Program –

The Texas Water Source (newsletter), November, 2010, (<http://texasforestservicetamu.edu/main/article.aspx?id=74&ptaxid=146&dtaxid=168&mp:taxid=238>)

The Texas Watershed Steward (TWS) program is a statewide one-day educational program designed to improve the quality of Texas' water resources by educating and informing local stakeholders about their watershed, potential impairments, and steps that can be taken to help improve and protect water quality in their watershed.

The program is sponsored by the Texas AgriLife Extension Service and the Texas State Soil and Water conservation Board (TSSWCB) and made possible through a clean Water Act §319(h) nonpoint source grant from the TSSWCB and the U.S. Environmental Protection Agency (EPA).

Active participation in local watershed management efforts is critical in addressing local water quality problems and concerns. The program is open to all watershed residents including homeowners, business owners, agricultural producers, decision-makers, community leaders, and other citizens. **Check <http://tws.tamu.edu> for information on the free and very informative online workshops.** Planned workshops: January 27 (Panna Maria, TX – Lower Cibolo Creek Watershed); March 24 (Orange, TX – Adams & Cow Bayous); March 29 (Bryan/

College Station, TX – Carter/Burton Creek Watersheds).

Free Aerial Photos

– *Chuck Coup, Staff Forester I, Water Resources, Texas Forest Service, Lufkin, TX*

Aerial photos are an excellent tool for planning forestry operations, especially when used in conjunction with topographic maps and soil surveys. They show the location of roads, towns, pipelines, lakes, wetlands, streams, and the arrangement of different land uses, and forest types across the landscape. They are useful for identifying existing road systems and cover type changes help to indicate drainage patterns or the presence of wetlands.

2010 aerial photos of Texas are now available on the Texas Natural Resource Information System (TNRIS) website. These photos were taken last year as part of the USDA's National Agriculture Imagery Program (NAIP) and provide the most current aerial view of the State. The photos are captured using color infrared (CIR) film. While natural color images display colors as they would appear to human eyes under normal conditions, a CIR image is set up to display the image with a red tone. This helps natural resource managers in determining the health of vegetation, distinguishing between land uses, and identifying surface water bodies.

The photos are available for free and can be downloaded at <http://www.tnrис.org/datadownload/download.jsp>. To access the imagery, select the county you are in-

terested in from the drop down menu and click search. That will bring up all the datasets for that particular county. Click "2010" under the NAIP Compressed County Mosaics to download the 2010 aerial imagery for that county. If you do not have Geographical Information System (GIS) software on your computer you will need to download and install LizardTech's free ExpressView Browser Plug-in (MrSID) for Windows <<http://www.lizardtech.com/downloads/plugins.php>> to open the .sid image file.

Predictions of a Warmer, Drier Winter for the South-

*Texas Interagency Coordination Center
Situation Report, November 5, 2010.*

NOAA has released its Winter 2011 Weather and Severity Outlook and indicates the presence of La Nina is expected to last through the spring, resulting in below normal precipitation and above normal temperatures for Texas. Southern Plains, Gulf Coast states and the Southeast are expected to have a warmer and drier than average winter, exacerbating drought conditions in these areas. **All southern states are at risk of having above normal wildfire conditions starting this winter and lasting into the spring.** The complete assessment can be found at http://www.noaanews.noaa.gov/stories/2010/20101021_winteroutlook.html



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FROM THE FOREST



Welcome to another year with Northeast Texas Forest Landowners Association (NETFLA) and the Texas Forestry Association (TFA), the statewide organization for forest landowners.

Many of you live outside the area, or have conflicts that prevent you from attending our quarterly meetings on a regular basis. I felt it that it would be appropriate to address how NETFLA utilizes your \$15 annual membership dues.

About \$5 of your dues has historically been directed into two programs offered by TFA. One is the Teachers' Conservation Institute (TCI), which is a weeklong workshop that uses the forest to teach environmental education. Activities are led by foresters, educators, natural resource conservationists and industry professionals. The workshop is a combination of classroom and field trips which include visits to a forest nursery, seed orchard, logging operation, sawmill, paper mill, a Tree Farm and the Texas Forest Museum. The workshops are available to elementary, middle school and secondary teachers at a cost of \$150, for which teachers receive 45 hours of State Board of Educator Certification. TCI is an effective way to communicate our forestry message, and NETFLA has covered the cost for two teachers to attend this workshop each year. At our March meeting, your Board of Directors will recommend that membership approve a contribution of \$300 to support two teachers in 2011.

The second program is the Woodland Clinic. Local Soil and Water Conservation Districts conduct clinics where youth from area 4-H Clubs and FFA compete in activities such as pine identification, hardwood identification, forage-wildlife relationships, tree measurements and volume determination, compass and pacing, site management and site productivity. Winners from local clinics compete at the State Woodland Clinic, and TFA offers a college scholarship to the winner of the competition. Your directors will recommend that membership approve a contribution of \$100 for this program in 2011.

The remainder of your dues is used to support the primary objective of the Association; to communicate, educate, inform and encourage membership to use sound management practices for their forest resources. Specific expenses include postage to mail the quarterly Newsletters, maintaining the website and room rent for programs.

Glenn Weiss

Program and Meeting Notes

Federal and state tax laws continually change. At this moment, the federal government is providing a break for some “high net worth” taxpayers, but this could vanish in a month as lawmakers scramble to find money without reducing spending. Avoiding estate taxes and probate as much as legally possible can be considered a fiduciary responsibility, particularly for those of us with holdings in high tax states outside Texas. Structuring timber interests to avoid friction among heirs and yet giving them the flexibility to use good management (and sales) timing can also be tricky. What’s a poor landowner to do?

Start by listening to our speaker on March 12, Mr. Eddie Moore, an estate tax and planning attorney with long and wide experience, including an extensive history of helping timber owners. He also has a reputation for being entertaining and very understandable, and we look forward to a great Q and A session.

Our field day will be the Mt. Enterprise Tailgate Rally on the TFA forestry site. We have TFS vans reserved for travel as a group, and are hoping the new one arrives in time for the event. Hats off to Brian Pope, our TFS forester, for snagging the vans. This will be an all-outdoor event with grilled burgers, sausage, trimmings, drinks, etc., and features many unique events and vendors from the timber industry, as well as nature walks, wagon rides, logger competitions in some old-time skills, door prizes on the hour, and a whole lot more. There are tables and shade for eating or just resting. Departure from Pittsburg will be about 8AM, and the day usually winds up about 2 PM.

This is a biannual event sponsored by the Texas Forest Landowners Council of the Texas Forestry Association. NETFLA is a member of the Council, and we are invited to help as we are able. There are usually plenty of hands so the work is light — feel free to jump in!

2011 PROGRAM CALENDAR

Saturday, March 12, 10:00 AM
**Estate Tax Strategies — LLC’s,
Trusts, Family Corporations**
Pilgrim Community Room
Pittsburg, Texas

Saturday, May 14, 9:30 AM
**TFA Tailgate Rally and
Family Fun Day**
Mt. Enterprise, Texas

August — TBA

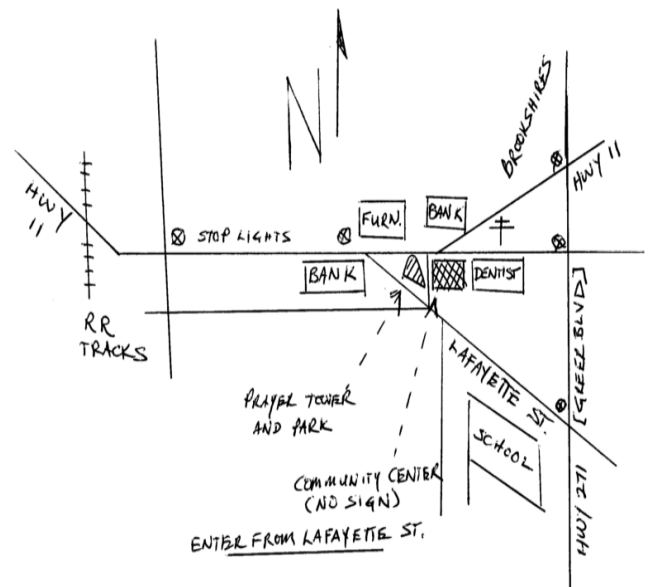
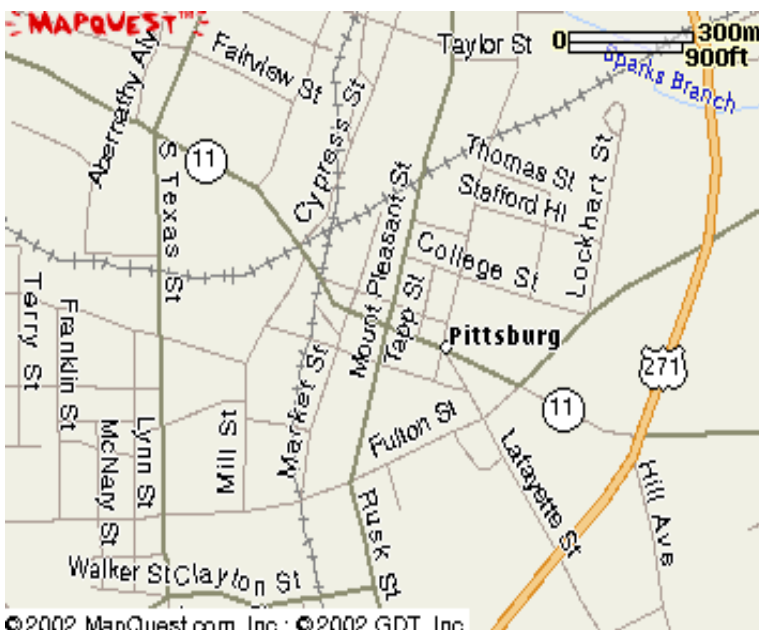
November — TBA
Elections

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**Please do not send cash. Your check
is your receipt for mailed funds.**



Updated Tax Tips for Forest Landowners for the 2010 Tax Year

by Linda Wang, National Timber Tax Specialist
and John L. Greene, Research Forester, Southern Research Station

This bulletin is updated as of Dec. 20, 2010, to include the changes from Public Law 111-312 enacted on Dec. 17, 2010. It 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 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 II. 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% ($\$8,000 \div \$10,000$). Report only a \$4,000 gain for 2010 ($\$5,000 \times 80\%$), 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 ($\$212,000 \div 1,000$ MBF) and your depletion is \$42,400 ($\212×200 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 expenses 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 2010. Deduct 1/7th of the \$7,000 (\$1,000) 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 programs 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 ($(\$2.50 \times 100 \text{ acres}) \div 7.63\%$). 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: $(10\% \times (\$9,600 \div 3)) \div 7.63\% = \$4,194 > \$4,000$. 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.

Forestry Practices Cost Estimate Sheet 2010

Prices can vary greatly depending on the location of the tract, vegetative cover and the size of the tract. Smaller tracts will typically see a higher per acre cost (or a minimum guaranteed expenditure). — Texas Forest Service

Practice Cost

Fireline Construction \$80 / hour or \$450 or
\$500 / mile

Boundary Line Marking \$150-500 / mile

Prescription Burning \$30-\$35 / acre

Site Preparation Methods

Control Burn \$30-\$50 / acre

Chemical (Herbicides)

Woody Site Prep

Aerial \$70-\$110 / acre

Ground \$90-\$125 / acre

Fall combo \$100-140 / acre

Woody Release & TSI

Ground \$70-\$100 / acre

Aerial \$55-\$75 / acre

Basal Spray \$40-\$80 / acre

Herbaceous Weed Control

Aerial \$35-\$75 / acre

Spot Treatment \$40-\$65 / acre

Openland Banding \$35-\$55 / acre

Wildland Banding \$40-\$70 / acre

Broadcast \$55-\$70 / acre

Mechanical

Push and Pile \$120-\$200 / acre

Drum Chopping \$90-\$150 / acre

Subsoiling (Ripping) \$60-\$125 / acre

3 in 1 plow \$160-\$250 / acre

Bedding \$60-\$100 / acre

Shear and Windrow \$200-\$300 / acre

Shear only \$100-\$150 / acre

Mulching \$80-\$250 / acre

Mowing \$20-35 / acre

Hand \$50-\$80 / acre

Hand (containerized) \$60-\$90 / acre

Openland Machine \$55-\$75 / acre

Wildland Machine \$60-\$90 / acre

Seedlings

Loblolly Pines

Bare root \$35-\$70 / 1,000

Containerized \$150-\$250 / 1,000

Longleaf Pine

Containerized \$150-\$250 / 1,000

Hardwoods

Bare root \$30-\$50 / 100

Fertilization

Broadcast

Early rotation \$40-\$60 / acre

Late rotation \$65-\$75 / acre

Hand Application (at planting) \$15-\$40 / acre

Did You Know...

That according to the bylaws, NETFLA dues are payable before or at the first meeting of the year, which is this year March 12. We need the dues collected as early as possible so we can budget for the year, and compete in and win TFA contests — based on paid members — such as the one providing us with a free lunch this year.

Officers and directors are considering cutting off mailing and membership to members whose 2011 dues are not paid by the Tailgate Rally date of May 14 this year.

Those paid for 2011 are:

Lester Prince Murphrey Reynolds Tucker

Laschinger Earl Handy-Sparks Pope Irby Lester

Please do the responsible thing and get your checks in promptly, and THANKS!

Bill Tucker, newsletter editor, for

Blanche Handy-Sparks, Secretary-Treasurer

Tree Planting

Stumpage Prices in Texas

Product /Region	Average Price		Last Period			Year Ago			Report	
PINE										
Sawlogs	\$/ton	\$/MBF	\$/ton	\$/MBF	Chg	\$/ton	\$/MBF	Chg	Number	
Northeast TX	24.46	197.31	26.51	220.55	-8% ↓	24.39	196.22	0% ↑	26	
Southeast TX	24.85	190.85	30.23	241.82	-18% ↓	20.64	165.14	20% ↑	7	
Statewide	24.74	192.54	28.36	231.35	-13% ↓	21.65	173.47	14% ↑	35	
USFS	**	**	**	**	**	**	**	**	**	
Pulpwood	\$/ton	\$/cord	\$/ton	\$/cord	Chg	\$/ton	\$/cord	Chg	Number	
Northeast TX	6.22	16.74	6.86	18.52	-9% ↓	5.72	15.41	9% ↑	41	
Southeast TX	6.65	17.96	6.10	16.48	9% ↑	8.64	23.32	-23% ↓	26	
Statewide	6.42	17.31	6.31	17.05	2% ↑	7.73	20.87	-17% ↓	67	
USFS	**	**	**	**	**	**	**	**	**	
Chip-N-Saw	\$/ton	\$/cord	\$/ton	\$/cord	Chg	\$/ton	\$/cord	Chg	Number	
Northeast TX	10.44	28.18	**	**	**	**	**	**	**	
Southeast TX	13.22	35.69	10.72	28.93	23% ↑	12.57	33.93	5% ↑	10	
Statewide	13.09	35.35	10.75	29.04	22% ↑	12.55	33.89	4% ↑	13	
HARDWOOD										
Mixed Sawlogs	\$/ton	\$/MBF	\$/ton	\$/MBF	Chg	\$/ton	\$/MBF	Chg	Number	
Northeast TX	23.37	210.29	26.13	239.76	-11% ↓	17.91	163.75	30% ↑	30	
Southeast TX	33.98	305.83	33.32	299.87	2% ↑	22.93	206.41	46% ↑	3	
Statewide	27.11	243.99	26.15	256.86	-4% ↓	18.27	166.84	46% ↑	33	
USFS	**	**	**	**	**	**	**	**	**	
Pulpwood	\$/ton	\$/cord	\$/ton	\$/cord	Chg	\$/ton	\$/cord	Chg	Number	
Northeast TX	7.56	21.17	6.41	17.96	18% ↑	8.13	22.76	-7% ↓	21	
Southeast TX	6.75	18.90	8.59	24.04	-21% ↓	7.28	20.52	-7% ↓	9	
Statewide	7.47	20.92	8.06	22.56	-7% ↓	7.59	21.35	-2% ↓	30	
USFS	**	**	**	**	**	**	**	**	**	

Table 6. Timber Stumpage Price in East Texas by Product, 1999-2009

Year	Sawtimber/Veneer		Pulpwood		Pine Chip-N-Saw	Pine Poles
	Pine	Mixed Hardwood	Pine	Mixed Hardwood		
	--- \$/MBF-Doyle ---		--- \$/cord ---		\$/cord	\$/ton
1999	383	139	29	12	68	62
2000	377	121	19	8	58	55
2001	325	120	13	15	42	56
2002	335	157	12	16	42	67
2003	289	158	15	16	42	68
2004	286	190	20	17	44	77
2005	306	164	17	20	48	77
2006	295	145	17	13	44	77
2007	321	163	33	30	47	59
2008	242	218	26	22	42	54
2009	181	177	17	18	33	58

SOURCE: Texas Timber Price Trends bi-monthly market report, with pine pole price from Timber Mart South.

Northeast Texas Forest Landowners Association
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Calendar of Events

- March 22-23, 2011 TFA's spring Board Meeting/Seedling Giveaway at the State Capitol. You can find additional information and register to attend on the TFA website at <http://texasforestry.org> or call (936) 632-8733.
- March 26, 2011 Texas Wildlife & Woodland Expo 2011. Lone Star College – Montgomery, 3200 College Park Drive, Conroe, TX. For more information: <http://expo.tamu.edu/>. Contact expo @tfs.tamu.edu or (936) 273-2261.