

# Timber Tax Tips Casualty Losses

By Jim Burns

I know a number of loggers and landowners are involved in salvaging timber in our area that has been damaged by the recent ice storm. Timber that cannot be salvaged falls under the casualty loss provisions of the federal income tax code.

Income tax deductions are allowable for timber that has been destroyed in whole or part, or for loss by theft or condemnation for public use. These types of losses are termed *involuntary conversions*.

Theft or condemnation losses are obvious. Trees were there and now they are destroyed. Simple.

Casualty losses, physical destruction of all or part of your trees, is not as simple to understand. "My trees were fine ten-years ago, but now they all died from old-age."  
Is this a casualty loss? No.

If your tree plantation was just wiped out by a plane crash, this is a definite casualty of unusual nature.

Forest fires, ice storms, tornadoes or other windstorms are examples of sudden, unexpected casualty losses.

Losses caused by insects, disease or drought, usually do not qualify for a deduction. In these cases, the test of "sudden" and "unexpected" has to be applied.

For example, a drought may cause a loss of growth on your trees, which by itself is not a casualty, but if the weakened trees are then subjected to an insect attack, killing them before they can be salvaged, a casualty loss has occurred.

The salvage provision is another requirement of the tax law. If your trees were completely destroyed and rendered un-merchantable as in our plane crash example, then the salvage requirement does not apply.

In most instances where trees are damaged, a reasonable effort should be made to salvage whatever merchantable volume is left. This includes selling at less than market value if necessary.

Here again, the salvage provision is subject to interpretation. What is "reasonable" for a large acreage landowner may not be reasonable for the owner of 40-acres.

In any event, if you qualify for a loss, your deduction is your cost basis in the timber destroyed less any insurance received. A simple example would be if your plantation trees wiped out by a plane crash cost you \$600.00 per acre to establish, then you could deduct up to, but not more than \$600.00 for every acre destroyed.

In order to receive the maximum casualty loss allowable, or tax savings possible, readers are encouraged to consult with a timber tax consultant before reporting their timber transactions.

This article was written by Jim Burns, a professional forester who owned and operated Burns Timber Tax Services and worked in conjunction with Susan Metcalfe at Metcalfe Forestry Co. For more information, call Susan at (989) 348-3596 with your questions.

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