



# Income Tax Deduction on Timber and Landscape Tree Loss from Casualty

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Timber or landscape trees destroyed by the hurricane, fire, earthquake, ice, hail, tornado, and other storms are “casualty losses” that may allow the property owners to take a deduction on their federal income tax returns. The key for most cases is to figure out the “adjusted basis” of the timber.

## The “Adjusted Basis” of Timber

Generally, the cost or the measure of your investment in the property you own is the property’s basis. The “original basis” is defined as follows: 1) for purchased timber property, it is the purchase price and related costs; 2) for gifted timber property, it is the donor’s adjusted basis in many instances; 3) for inherited timber property, it is the fair market value on the date of death (or alternative value if so elected, on alternative valuation date). The “adjusted basis” of a property is the “original basis” reduced or increased by adjustments over the term of the ownership (e.g., an increase of the timber basis by new purchase or a decrease of the timber basis by timber sales).

If you have not determined your timber basis at the time of acquisition, you may use the current timber volume, timber growth over the years, and the timber price at the time of acquisition to retroactively establish it. You may need to consult a professional forester to help you set up your timber basis.

## Tax Deduction Rules for Casualty Loss

### For Timber Held as Investment or Business

**Loss Determination.** Deductible casualty loss for timber held mainly for business or investment purposes is the smaller of the adjusted basis of timber and the difference of the fair market value immediately before and after the casualty.

Example 1: A fire damaged Mrs. Smith’s woodland tract. Before the fire, the fair market value of the timber was \$10,000. But after the fire, the timber is worth only \$1,000. So the fair market value loss of her timber is \$9,000 (\$10,000 - \$1,000). Assuming her timber basis is 5,000, the amount of casualty loss deduction is limited to \$5,000.

**Tax Reporting.** Casualty losses are reported first on Form 4684. For timber investment property, the loss is then entered into Schedule A of Form 1040. For timber business property, the loss is entered on Form 4797.

In general, you can deduct a casualty loss only in the tax year in which the casualty occurred. However, for Federally declared disasters, you may elect to apply the casualty loss in your prior year’s tax return.

**“Single Identified Property”.** Treasury regulations require that casualty loss is determined with respect to the “single identifiable property”. This can be the “timber block” (even if only a portion of it is actually damaged) if you keep the timber tax records (account) together for the block.

Example 2: Mrs. Smith own a timber property that contains 1000 MBF of pine sawtimber (\$9,000 basis) on it. She kept the property in one account. A tornado destroyed 300 MBF. The adjusted basis for the casualty loss purpose is \$9,000, not just \$2,700 ( $\$9,000 / 1000 \text{ MBF} \times 300 \text{ MBF}$ ). But the loss valuation must also be appraised for the entire tract or block, which may cost more.

**Gain from Salvage Sale.** A taxable gain may result if the salvage sale exceeds the adjusted basis of the timber and related selling expenses. But you may elect to postpone paying taxes on the gain if the proceeds is reinvested in timber such as planting trees, purchase of timberland and stock (at least 80%) of the timber corporations. Salvage sale is reported separately.

**For Timber Held for Personal Use Loss determination.** A personal-use timber property is defined as one that is held primarily for personal enjoyment (vs. income production from the timber). For tax years 2018 through 2025, the personal casualty loss deduction is limited to losses from Federally declared disasters. The term “Federally declared disaster” means any disaster subsequently determined by the President of the United States to warrant assistance by the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The amount of personal casualty loss deduction is limited to the lesser of the fair market value loss of the property or the adjusted basis of the property. Insurance or other reimbursement you received reduce the casualty loss. Also, the loss is deductible only if the amount of loss exceeds \$100 per casualty. Further, the loss is deductible only to the extent that it exceeds 10 percent of your adjusted gross income (AGI).

Example 3: Mr. Thompson owned timber primarily for personal enjoyment, not for profit. In 2018, his timber was completely destroyed by a storm that was a Federally declared disaster. The fair market value of the timber immediately before the loss is \$9,000. But his timber basis is \$5,100. Assuming his adjusted gross income is \$40,000, his timber casualty loss deduction is limited to \$1,000 ( $\$5,100 - \$100 - 10\% \times \$40,000$ ).

**For taxpayers impacted by Hurricane Harvey, Irma and Maria.** Congress passed special tax law on September 29, 2017 to provide tax relief. The dollar limitation is increased to \$500 per casualty from the \$100 limit. Also the 10 percent AGI reduction for personal casualty loss and the “itemized deduction” requirements are waived.

**Tax reporting.** Personal casualty loss deduction is claimed under “itemized deductions” on Schedule A of Form 1040.

### Special Rules for Landscape Trees Casualty.

Personal-use property casualty loss rules discussed earlier apply in calculating the deductions from the loss of landscape trees and/or residence. Casualty loss of trees in the private residence is measured based on the entire property (that is, the land, the improvement (house), and trees). In other words, the measure of the casualty loss is based on the tree loss that contributes to the overall decrease in the fair market value of the entire property immediately before and after the casualty.

Example 4: Mr. Walter purchased his house at \$110,000 five years ago. He spent \$10,000 planting landscape trees and shrubs in the yard. After the 2018 fire destroyed the trees in Federally declared disaster, the property value decreased \$20,000. Assuming the insurance paid him \$5,000, the tentative deductible landscape tree casualty loss is \$14,900 ( $\$20,000 \text{ loss} - \$5,000 \text{ insurance} - \$100 \text{ per casualty}$ ). If Mr. Walter’s adjusted gross income is \$60,000, the casualty loss deduction would be \$8,900 ( $\$14,900 - \$6,000$  (10% of \$60,000)).

### Summary

The current tax laws provide a deduction for the loss of timber and landscape trees caused by casualty, provided such losses meet the deduction requirements. Because of the complicated restrictions on the casualty loss calculation, if the timber basis is low or zero, there may be little or no deductions. It is important that you have records to support your casualty loss deduction. Carefully prepare the appraisals by qualified professional foresters and/or appraisers.

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