

 UI Extension Forestry Information Series

Financial Record Keeping for Forestland Owners: Developing A Good System

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Financial records are a way of life with most of us. We keep records of checking and saving accounts, retirement plans, Federal and State Income Tax information and various other financial records. However, many of us overlook a very important set of records: *Forestland Ownership Records*. The financial records kept on forestland investments can have a very long-term effect on taxes and management decisions.

The Internal Revenue Code has defined 3 basic types of forestland owners for tax purposes. These include, in order of increasing activity with their forestland, 1) investment, 2) passive business or trade, and 3) active business or trade. The distinction between the classifications of owners becomes important for the taxpayer when certain deductions are considered. The benefits of active ownership exceed the benefits of passive ownership and investment ownership. Federal tax publications define these classes and your records will be critical to meeting these definitions.

Formal records of your involvement with your forestland ownership are not only critical to compliance with income tax laws, they are also necessary for making long term management decisions. For the average forestland owner, one set of records should be adequate to provide information for both management decisions and federal tax regulations.

A well kept, complete set of records enables the forest manager to identify activities, prescriptions, and other inputs that have a real, measurable effect on the forest. This effect may be measured as increased wood volume, increased wildlife use, degrees of biologic diversity, or forest health. Further, the value of

your property is enhanced when you can provide the new owner, descendant, or heir with a complete set of records specifying what has been done to the property during your stewardship.

There are a few common denominators that should always be a part of a forestland record keeping system. Every financial transaction should be accompanied by the date, a brief description of the activity, an identification of the portion or unit of property that has been effected, the type of activity (harvest, reforestation, fertilization, thinning, hobby activity, etc.), personal time (including your spouse's time) expended, hired labor's time and cost, and other expense or revenue information. Consider developing a line entry system where you describe each activity that has occurred and attach a more detailed written summary to the permanent records. The written description can be as detailed or general as you desire. But remember, it is much easier to compress detail than to try to fill in sparse information at a future date. This type of record system is suitable for tracking expenses, revenues, your level of activity, and other events.

One efficient and complete method of record keeping is to use a file folder with a tablet of paper attached to one cover and contour maps of the property attached to the other cover. It can be taken to the property whenever working on the site. A forestland owner would record the date, times of arrival and departure, and comments about actions taken such as cleaning out a culvert, looking for beetle attack, checking on possible trespass. A detailed log can be completed for

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recording labor expenses and other necessary information while still on the site. When done on a continual basis this set of records can be sufficient to prove or disprove your active involvement.

In many cases, a forestland owner can keep and maintain records for a parcel with an annual investment of less than 10 hours including auditing and verification. Other parcels might need the advice and input of either a certified public accountant (CPA), a consulting forester, or both. In many instances the professional advice of the CPA and consulting forester is worth more than the fees they charge for their services.

For direct assistance with forest management and assistance contact a professional consulting forester in your area or a CPA specializing timber tax laws.

Additional reading resources are available from your local Extension Forester. Two resources of particular interest include:

- *Forest Owners Guide To Timber Investments, the federal income tax, and record keeping.* Hoover, Siegel, Myles, and Haney. Ag. Handbook No. 681 (USDA - Wa. D.C.)
- *Federal Income Tax Strategies for Timber Owners.* Haney & Siegel. Workbook and video series. Univ. of Georgia.

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