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Tax Tips for Forest Landowners: 2025 Tax Year

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As a forest landowner, you may think about Federal income taxes only when you sell timber. However, many of your forestry activities can have tax implications. Understanding the forest-related tax rules and integrating tax planning into your forest management decisions can help increase your after-tax return.

New legislation enacted in 2025 reinstates and makes permanent several tax provisions affecting forest landowners and adds new incentives for capital investment. Although many key provisions take effect starting in 2026, some are already effective for the 2025 tax year.

This publication provides general information to support you and your tax advisor. It is not financial, tax, or legal advice. Please consult your tax advisor about your specific tax situation. The information is current as of December 15, 2025.

Know the Tax Classification of Your Forest Ownership

The classification of your forest ownership affects your applicable tax rates, the deductions you can claim, and filing requirements. Your forest property generally falls into one of the following three broad categories:

(1) ***Personal use or hobby.*** You own the property primarily for personal use, enjoyment, or hobby, rather than to earn money.

(2) ***Investment.*** You intend to make a profit from the property either from timber income or asset appreciation (profit motive); however, your activities and involvement do not rise to the level of a trade or business (see below).

(3) ***Trade or business.*** You have a profit motive, and your forestry activities are conducted in a business-like manner. Your involvement in the business may be material participation or passive (determined annually). Material participation implies regular, continuous, and substantial involvement and typically results in greater tax deductions and faster cost recovery. Losses from passive activities can only offset passive income.

Both profit motive and material participation are determined based on many factors. Objective facts carry more weight than a taxpayer's statement. Record keeping is crucial to substantiate your profit motive and level of involvement. See Internal Revenue Service (IRS) Publication 925 and FS-2007-18 for details.

Some farmers may own forests as a small part of their overall operations and receive incidental income from timber sales. In these situations, the tax rules for timber sales generally apply. However, forestry (growing trees for commercial timber production) usually is not included within the definition of a farming business under most sections of the Internal Revenue Code (IRC), although a few exceptions do exist.

> ***Example 1.*** You own a 40-acre forest property primarily for timber income, and you visit it occasionally to enjoy the outdoors. A forester has developed a forest management plan with timber production as one of the management objectives. You follow the plan and update it as needed. Based on these factors, your timber holding may be classified as an investment for Federal income tax purposes.

Understand Timber Sale Income and Recovery of Timber Basis

Your taxes on timber sales depend on many factors, including your forest ownership classification, holding period, and the method of selling timber. You pay taxes on the net income from timber sales, rather than the gross proceeds. To find your taxable net income, subtract the following from your gross proceeds:

- Selling expenses (e.g., forester fees, appraisal, attorney fees)
- State/local severance, harvest, or yield taxes
- Timber depletion allowance (or allowable timber basis)

Sale of Standing Timber

Usually, income from the sale of standing timber held for more than 1 year qualifies for the lower long-term capital gains tax rate (0, 15, or 20 percent—depending on your taxable income). If you inherited timber, you are considered to have held the property longer than 1 year, regardless of how long you actually held it.

> ***Example 2.*** In 2025, you sold standing timber for $20,000 in a lump-sum sale. The timber was purchased 5 years ago and held as an investment with a cost basis of $6,000. You can subtract the timber basis, selling expenses ($2,500), and the yield tax ($1,000) from the sale proceeds to calculate your net income of $10,500 (= $20,000 − $6,000 − $2,500 − $1,000). This income qualifies as a long-term capital gain.

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Personal-use and investment timber owners use Form 8949 and Schedule D (Form 1040) to report a lump-sum timber sale. Use Form 4797 (Part I) and Schedule D (Form 1040) to report the sale if sold under a pay-as-cut contract.

Under section 631(b) of the IRC, income from the sale of standing timber in a trade or business (for sale or for use) and held for more than 1 year may be treated as long-term capital gains (section 1231 gain). Both lump-sum and pay-as-cut timber sales qualify. The major tax treatment includes:

- The gain is taxed at the lower capital gains tax rate rather than the ordinary income tax rate.
- The gain is not subject to self-employment tax.
- It can offset ordinary income when you have a net section 1231 loss.

Use Form 4797 (Part I) and Schedule D (Form 1040) to report the sale. See below for filing requirement of Form T (Timber), "Forest Activities Schedule."

Example 3. In 2025, you had a lump-sum sale of standing timber held in your business at a gain. Because you held the timber for over 1 year, the income is a section 1231 gain and qualifies for long-term capital gains tax treatment under section 631(b).

Sale of Cut or Processed Timber

You may cut (or have someone cut) your timber (or timber held under a contractual right to cut) and sell the processed timber or use it in your trade or business. The income would be taxed as ordinary income unless the timber has been held for more than 1 year and a special "election" is in effect. You may make a section 631(a) election by indicating it in Part II of Form T and completing the required calculations under sections 631(a) and 1231. Once made, the election remains in effect for future years unless you revoke it with IRS consent.

Under section 631(a), your net income from the sale of cut timber or further processed timber products includes two portions:

(1) **Gain from the cutting of standing timber is treated as a long-term capital gain (section 1231 gain).** It is the difference between the adjusted basis of the standing timber and its fair market value (FMV) on the first day of the tax year in which it is cut. For tax purposes, the cutting is treated as if you have sold the standing timber to yourself at its FMV on that tax year's first day.

(2) **Income from selling the cut timber or further processed timber products is ordinary income.** Gain (loss) is determined by subtracting the FMV of the standing timber in (1), harvesting and processing costs, and selling expenses from the sale proceeds.

Example 4. You are a calendar-year taxpayer. In May 2025, you hired a logger to cut your timber (owned for more than 1 year) and sell the logs to a mill you specified for $20,000. You paid the logger $4,000. The FMV of the standing timber on January 1, 2025, was $15,000, and your timber depletion (see below) was $2,000. If you made a section 631(a) election, you would treat $13,000 (= $15,000 − $2,000) as a long-term capital gain, and $1,000 (= $20,000 − $15,000 − $4,000) as ordinary income.

Timber Basis and Depletion Allowance

To figure net gain or loss on a timber sale or exchange (or casualty or theft loss, or gifting), you need to determine your adjusted basis in the timber. Timber basis generally represents your capital investment in the timber for tax purposes. It starts from the original basis, increases as you make capital improvements or capitalize expenditures, or decreases as you take deductions due to a sale, exchange, or other disposition of timber. The adjusted basis is the remaining unrecovered costs after these adjustments. If no adjustments have been made, the adjusted basis is the same as the original basis. Timber basis does not include the cost of your land.

The original basis depends on how you acquired the property. If you purchased it, the original timber basis is the amount of your total acquisition costs allocated to the timber. If you inherited it, the original timber basis generally is its FMV on the deceased person's date of death. If you received it as a gift and it has appreciated, the basis generally is the donor's basis plus part of any gift tax paid by the donor.

Example 5. You bought a pine tract for $33,000, including purchase price and expenses. The total costs were allocated proportionally among the land and the timber based on their FMVs (assuming $10,000 and $20,000 for the land and timber, respectively). Therefore, the original basis for timber was $22,000 [= $33,000 × ($20,000 ÷ $30,000)]. The basis for the land was $11,000.

"Timber depletion allowance" and "allowable timber basis" refer to the recovery of a portion of your timber basis when timber is cut, sold on the stump, or lost. The allowable deduction is based on the portion of the timber that was sold or otherwise disposed of. However, timber depletion is not allowed for timber cut for your personal uses, such as firewood for your home.

Example 6. You sold 500 tons of sawtimber and 3,000 tons of pulpwood on a tract held as an investment. Your timber account contained 1,000 tons of sawtimber ($10,000 basis) and 6,000 tons of pulpwood ($6,000 basis) before the sale. The depletion unit was $10/ton ($10,000 ÷ 1,000 tons) for the sawtimber and $1/ton ($6,000 ÷ 6,000 tons) for the pulpwood. Your allowable basis for the timber sale was $8,000 (= 500 tons × $10/ton + 3,000 tons × $1/ton).

Other Tax Issues Related to Timber Sales

Net investment income tax (NIIT). If you hold standing timber as an investment or a passive business activity, you may owe an additional 3.8-percent tax on timber sale income. NIIT applies if modified adjusted gross income (MAGI) is over a stated threshold ($200,000 for single taxpayers and $250,000 for married couples filing jointly). Material participants in timber businesses are not subject to this tax.

Form T. You need to file Form T if you do any of the following:

- Claim a timber depletion deduction
- Sell cut products in a business under section 631(a)
- Sell standing timber held in a trade or business in a lump-sum sale under section 631(b)

However, Form T is not required if you only have occasional timber sales (one or two sales every 3 or 4 years). Even if you are not required to file the form, you need to maintain adequate records of these transactions and other timber-related activities.

Installment sale. An installment sale occurs when you sell standing timber outright but receive at least one payment after the year of the sale. Under the installment method, you prorate the gain and recognize it over the years as each payment is received. Part of each payment is treated as interest and must be reported as ordinary income. You cannot use the installment method if the sales agreement (or a later agreement) requires the buyer to deposit the remaining installments and interest in an irrevocable escrow account. If a sale qualifies as an installment sale, the installment method applies automatically unless you elect out of it.

Consider the Reforestation Tax Incentives

You may deduct, in the year incurred, up to $10,000 of qualifying reforestation expenditures ($5,000 for married couples filing separately) per year for each qualified timber property (QTP) [section 194(b)]. You can deduct (amortize) the remaining amount over 84 months [section 194(a)]. There is no limit on the amount of the amortization deduction for reforestation expenditures incurred in the year. Both owned and leased lands qualify as long as they are used for commercial timber production. Trusts are eligible for the amortization deduction only. A recapture provision applies if you sell the property within 10 years at a gain.

Reforestation expenses are direct costs incurred for reforestation by planting or natural regeneration. They include costs for site preparation, seeds or seedlings, labor, tools, depreciation on equipment used in planting, and replanting. Your personal labor cannot be included.

If you hold timber as an investment, make an election to deduct the reforestation expenses on Part II of Schedule 1, line 24d (Form 1040), "reforestation amortization and expenses." Sole proprietors use Form T and Schedule C (Form 1040), Part V or Schedule F (Form 1040), Part II, as appropriate. If Form T is not required, use Form 4562 to make the election to amortize and attach a statement about the date, location, and amount of the eligible reforestation expenditures to be amortized or deducted.

You need to maintain a separate account for each QTP and cannot combine them with other timber accounts until the timber is disposed of.

Deduct Operating Expenses and Carrying Charges

If you materially participate in your forestry business, you can generally deduct all ordinary and necessary expenses in full. Use Schedule C (Form 1040) or Schedule F (Form 1040), as applicable. Operating expenses may include expenditures for insect and disease control, prescribed burning, road and firebreak maintenance, overnight travel, precommercial thinning, and vegetation competition control, and certain fees for professional services, such as foresters, attorneys, or accountants. Carrying charges normally include recurring expenses such as annual property taxes, interest expenses, and insurance premiums.

Under section 212, investors can deduct ordinary and necessary expenses associated with management, maintenance, and conservation of forest property. However, given the higher standard deduction and permanent elimination of miscellaneous itemized deductions, you may want to consider capitalizing these expenses. Under section 266, you may elect (on a year-by-year basis) to add carrying charges to the corresponding property's basis (capitalize) in years when it produces no income. This increases the timber basis and reduces taxable capital gain when you sell timber later. You may also elect to capitalize necessary development-related expenses such as costs for silvicultural practices or timber stand improvement. Once you elect to capitalize these development costs, you must continue to do so for these types of expenses until the timber is disposed of.

You are generally not allowed to deduct the operating expenses if your forest land is held for personal use or as a hobby.

Recover Other Major Capital Costs

Depreciation is a deduction for the cost (or basis) of long-lasting equipment or property (e.g., logging equipment, tractor). It is available to investors or business owners. Land is not depreciable. You can recover your costs in land only when you dispose of the land. However, you can depreciate land improvements such as bridges, culverts, fences, temporary roads, and surfaces of permanent roads.

New legislation in 2025 permanently restores the 100-percent bonus depreciation for certain qualified property acquired and placed in service after January 19, 2025. However, you can elect to take a 40-percent special depreciation allowance for these properties in the first tax year ending after January 19, 2025. Properties placed in service between January 1, 2025, and January 19, 2025, or property acquired before January 20, 2025, and placed in service later remain subject to the rate of 40 percent. The remaining cost is subject to standard depreciation over time. Investors or businesses must take bonus depreciation for qualifying property unless they elect out of the provision for the entire property class.

Business taxpayers may immediately deduct up to $2.5 million for qualifying property in 2025, subject to phaseout and other limitations (section 179). Your section 179 deduction is limited to your business income for the year. You may also elect to use the de minimis safe harbor to expense qualifying tangible properties that cost less than $2,500 per invoice or item.

Deduct Casualty and Theft Losses

Timber loss may be tax deductible as a casualty loss if it is caused by a sudden, unusual, and unexpected (casualty) event such as hurricane, fire, earthquake, tornado, hail, flood, or ice storm.

For investment and business owners, the deductible casualty loss is the lesser of the decrease in FMV due to the casualty or your basis in the timber block (the unit you use to keep track of the timber basis). If the adjusted basis is zero, you would not be able to deduct any casualty loss, regardless of your actual loss. This is common if you have fully recovered your reforestation costs under section 194.

For investors, use Section B of Form 4684 and Schedule A (Form 1040) to claim it under other itemized deductions (line 16). For timber in a trade or business, report the loss in Section B of Form 4684, then enter it on Form 4797, line 14, as net gain or loss from Form 4684. If it results in a loss after netting with other section 1231 gains and losses, report it on Schedule 1 of Form 1040, line 4, as "Other gains or (losses)." To claim the casualty loss, investors need to itemize deductions. You may want to itemize only if the total of your casualty loss and other itemized deductions exceeds the standard deduction.

Casualty loss deductions and salvage sales may be handled separately and do not need to be combined for tax purposes. You can claim a casualty loss deduction before conducting a salvage timber sale. The casualty loss is taken as an ordinary loss deduction while salvage sale income may qualify for capital gain treatment. If your salvage timber sale results in a gain, you may postpone taxes on the gain by claiming an involuntary conversion and electing to purchase qualifying replacement property.

Example 7. Your 200-acre forest land ($6,000 in timber basis) is held as an investment. In 2025, the timber was damaged by a wildfire. A qualified professional assessed that the FMV of the timber block declined by $18,000 from $20,000 to $2,000 due to the fire. Your casualty loss deduction is limited to the lesser of the basis or the FMV decrease, or $6,000.

For 2025, the casualty loss deduction for timber or trees held for personal use is available only if the loss is attributable to a federally declared disaster. The deduction is subject to the $100 per casualty reduction and the 10 percent of adjusted gross income (AGI) reduction. Use Section A of Form 4684 and Schedule A (Form 1040) to claim the loss as casualty and theft loss (line 15). More favorable deduction rules may apply if it is a qualified disaster loss.

A theft loss deduction is made in the year you discover the theft and is limited to the lesser of the decrease in FMV or your basis in the stolen timber.

Consider Excluding Qualified Cost-Sharing Payments

In general, payments received from government programs are taxable ordinary income. However, all or part of some conservation-oriented cost-sharing payments may qualify for income exclusion (section 126). To be eligible for the exclusion, the cost-sharing payment is required to be from a qualified program and be used for capital expenditure.

Currently, qualified programs for the income exclusion include but are not limited to: Forest Health Protection Program (FHPP), Conservation Reserve Program (CRP), Environmental Quality Incentives Program (EQIP), and certain preapproved State-administered programs.

If you choose to exclude the payment from your income, you cannot deduct or add the related expenses to your basis. A recapture provision applies if the affected timber is sold within 20 years.

Consider Conservation Easement Donation

A conservation easement is a voluntary legal agreement between a landowner and a qualified government agency or land trust that restricts uses of the property for conservation purposes. Working forest conservation easements generally allow some form of timber harvesting. Under section 170(h), if you donate a qualified conservation easement to a qualified organization for qualified conservation purposes, you may claim a charitable deduction equal to the FMV of the donated easement. You could use this deduction to offset up to 50 percent (100 percent for some qualified forest landowners) of your AGI and could carry over any unused amount for up to 15 additional years.

In 2024, the U.S. Department of the Treasury and the IRS issued final regulations on disallowance of deductions for certain conservation contributions made by partnerships or S corporations. With a few exceptions, a conservation contribution may be disallowed if the claimed deduction exceeds 2.5 times the sum of each partner's or S corporation shareholder's relevant basis. This disallowance rule does not apply to easement donations made directly by individual landowners. Additionally, final regulations were issued to identify certain syndicated conservation easement transactions and substantially similar ones as reportable listed transactions.

Defer Taxes With Like-Kind Exchanges

Like-kind exchanges apply only to real property held for productive use in a trade or business or for investment. Exchanges of personal property no longer qualify for the tax deferral. Like-kind refers to the nature or character of the property, rather than its grade or quality.

Typical examples of like-kind real property include timberlands that differ in timber quality and quantity, timberland in one State for timberland in another, timberland for bare land, and timberland with reserved cutting rights for other timberland. However, rights to cut timber within a few years are considered personal property in most States and therefore are not eligible for like-kind exchanges. Speak with your tax advisor about the applicability of a section 1031 exchange before making a transaction.

Qualified Business Income (QBI) Deduction

Noncorporate taxpayers can take the QBI deduction under section 199A for certain income earned through sole proprietorship or other pass-through entities, subject to limitations. While most timber income is treated as capital gains and excluded from the QBI calculation, some forest landowners may claim the QBI deduction for certain ordinary income from other sources. They may include the ordinary income from selling cut timber products, pine straw, living trees, and products gathered or collected (e.g., wildflowers, vines, edible or medicinal plants or fungi, or botanical samples). Use Form 8995 (or Form 8995-A if applicable) to figure the amount of the deduction and report it on Form 1040.

Other Forest-Related Tax Considerations

Flow-Through Entities

Forest landownership can be structured through various entities, such as C corporations, S corporations, partnerships, and limited liability companies (LLCs). It is important to distinguish between the legal entity formed under State law and its Federal tax classification, as these are not always the same. S corporations and partnerships are considered "flow-through" entities because they are not taxed at the entity level, but rather net income and other relevant tax information is passed through to the owners, who are individually taxed. Single-member LLCs are disregarded for tax purposes unless they elect to be treated as a C or S corporation. If the owner is an individual, the activities of the LLC are reported on the individual's personal tax return. Multimember LLCs are generally considered partnerships for tax purposes, unless they elect to be treated as a C or S corporation. Partnerships annually must file Form 1065, as well as Schedule K, reporting each owner's share of net ordinary income (or loss) and separately stated information. Each owner in turn will receive a Schedule K-1 from the partnership. Similarly, S corporations file Form 1120-S, Schedule K, and send Schedule K-1 to owners.

Forest Carbon

Income received from generating forest carbon generally is taxable. Because the tax implications of forest carbon are not directly addressed in any existing statute or regulation, there is still uncertainty about the tax treatment of the income and its associated expenses. Factors such as the terms of the carbon programs, contract clauses and length, the purpose of forest holdings, holding period of carbon credits/offsets, and payment scheme will affect the treatment.

Forest carbon offset projects may be compatible with sustainable timber production and may allow participating forest landowners to keep timber production as their primary purpose. In these cases, payments are typically received in exchange for agreeing to and complying with certain use restrictions or management activities on their forest land for a specified number of years to sequester additional carbon or avoid carbon emissions. This income is similar to receiving payments for granting an easement for a term of years over the property. As a result, these payments are likely treated as rents for the use of forests/forest land. Accordingly, they are generally taxable as ordinary income to forest landowners, not subject to self-employment taxes if the forests are held in a trade or business.

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