Timber damaged by hurricane, fire, earthquake, ice, hail, tornado, high wind and other storms are “casualty losses” that may allow timberland owners to claim a deduction on their federal income tax returns. But in many cases the specific requirements on loss calculation set by the tax law and rules may actually result in low or no deductions.

**Tip**: It is important to weigh the cost of hiring professional forestry and/or appraisal services to establish the required tax records against the potential tax savings before proceeding.

### Determining the Amount of Casualty Loss

Deductible casualty loss for timber held for business or investment purpose is the smaller of the **adjusted basis** of timber and the difference of the **fair market value** immediately before and after the casualty. Salvage sale is reported separately.

### An Example

A tornado damaged your woodland tract. Before the tornado, the fair market value of the timber was $10,000. But after the storm, the timber is worth only $1,000. So the FMV loss of your timber is $9,000 ($10,000 - $1,000). Assuming your timber basis is $5,000, the amount of casualty loss deduction is only $5,000, not $9,000.

### Calculating the Adjusted Basis

The key for most cases is to figure out the “adjusted basis” of the timber. Generally, the cost of a property (standing timber here) is termed “basis” in tax. The “adjusted basis” is the original basis reduced or added by adjustments over the term of ownership (e.g., new purchase or timber sale).

- **purchased timber property** is the purchase price and related costs (such as legal fee and timber cruises).
- **gifted timber property** is the donor’s adjusted basis in most instances.
- **inherited timber property** is the **fair market value** (or alternative value if so elected) on the date of death (or alternative valuation date).

If you have not determined the basis of your timber at the time of acquisition, you may use the current volume, growth over the years, and timber price at the time of acquisition to establish it retroactively ((IRS Timber Casualty Loss Audit Technique Guide). Use Form T to document your timber basis.

### What You Need from Your Forester

To establish the timber basis and appraise the fair market value loss of the timber immediately before and after the casualty, you may need to consult a professional forester to determine the relevant **timber volume** in thousand board feet, cords or tons and **timber prices**.

### “Single Identifiable 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. For example, you own a tract with 100 MBF of pine sawtimber ($4,000 basis) kept in one account. A fire destroyed 20 MBF. The adjusted basis for the casualty loss determination is $4,000, not just $800 ($4,000 x 20 MBF/100 MBF). But the loss valuation must also be appraised for the entire tract/block, which can cost more.

### Where to Report the Casualty Loss

Casualty losses are claimed 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. Form T should also be prepared, although you may or may not be required to file it (see filing instruction on Form T).

### What If a Net Gain Is Realized from Salvage Sale

You have a taxable gain when the salvage sale exceeds the adjusted basis of the timber and the sales expenses. But you may elect to postpone paying taxes on the gain if the proceeds is re-invested in timber such as planting trees, purchase of timberland and stock (at least 80%) of the timber corporations.
Tax Pointers

Appraisal Fee and the Cost of Photos:
- Appraisal fees and the cost of taking photos are not part of the casualty loss deduction. They are deductible expenses claimed as miscellaneous itemized deductions (subject to the 2% adjusted gross income reduction).
- Any cleanup costs after the casualty are not casualty loss.

When to Claim the Loss:
- In general, you can deduct a casualty loss only in the tax year in which the casualty occurred.
- However, for federally declared disaster area, you may elect to apply the casualty loss in your prior year’s tax return. Compare your current year and last year’s tax bracket and any expenses in amending the prior year’s tax return.

Special Rules for Damage to Your House and Landscape Trees:
- The initial casualty loss deduction, first calculated as the smaller of the fair market value loss and the adjusted basis, is then reduced by $100 per casualty event and 10% adjusted gross income to arrive at the allowable amount of loss.
- Insurance, reimbursement and salvage value must be subtracted from the casualty loss.
- Report such casualty loss as an itemized deduction (Line 20, Schedule A of Form 1040, for 2010)
- If you don’t take itemized deduction, a casualty loss on personal-use property such as your house and landscape trees is lost.

Note: Combine the house and the landscape trees as one property for calculating the loss (Reg. §1.165-7).

Tips on Tax Records for Proof

- Gather information about the casualty (time, nature of the event and the area affected)
- Take photos as quickly as possible after the casualty
- Document the federal or state assistance or payment received
- Gather legal, insurance, and accounting papers, if necessary, from the court, title company, the bank, or the insurance company to establish ownership and possible insurance claims if any
- Forest management records such as management plan
- Carefully document the appraisals from the hired services by professional foresters and/or appraisers

It is important that you have records that support your casualty loss deduction, but do not attach them to your return.

Recommended Readings

1. USDA Forest Service Publication: Forest Landowners’ Guide to the Federal Income Tax, Chapter 5 (Cost Considerations), Chapter 6 (Income Considerations) and Chapter 8 (Casualties, Thefts and Condemnations) , available free on-line by key words search using the book’s title.
2. National Timber Tax Website: www.timbertax.org/getstarted/casualty
5. IRS Publication 547: Casualties, Disasters, and Thefts
6. IRS Publication 584: Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
7. IRS Publication 584B: Business Casualty, Disaster, and Theft Loss Workbook
8. A tax preparation software can be an effective tool for casualty loss calculation and form selection, saving your time.

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