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Are Hurricane Timber Damages Deductible?

October 21, 2020 Webinar

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Are Hurricane Timber Damages Deductible?

1. Welcome
2. Thanks to Sponsors
3. Louisiana Timber Damages from Hurricane Laura (\$1.1 Billion)
4. Help Available
 - a. Direct Assistance (Federal/State)
 - b. Tax Savings via casualty loss deduction

DISCLAIMER: Today's Webinar presentation is education, not legal or tax advice.

Consult your tax adviser for the proper application of the law to your facts.

Are Hurricane Timber Damages Deductible?

5. Definitions

a. **Casualty Loss:** “Sudden, unexpected and unusual” physical damage to property

b. **Business Property Damaged:** Profit motive; active management

c. **Timber Tax Basis: 3 Types**

1) Cost Basis: Purchase Price, less prior depletion

2) Carry-Over Basis: Donor’s Basis is carried over to Donee

3) Stepped-Up Basis: Fair Market Value on Decedent’s date of death

d. **Single Identifiable Property (SIP).** Rev. Rul. 99-56; Westvaco; Weyerhaeuser

1) A single tract of land affected, or

2) Multiple tracts comprising a single block of land affected

Are Hurricane Timber Damages Deductible?

6. Deductible Casualty Loss is the lesser of:
 - a. Decrease in the value of SIP, or
 - b. Aggregate Tax Basis of SIP.
7. Tax Legislation Proposed: Allow deduction for entire decrease in value

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Example #1

Jack purchased 40 acres of land “years ago” and has made several managed thinnings over the years. The thinnings have depleted his tax basis. He has no remaining basis. The timber value before Laura was \$2,000 / acre for a total value of \$80,000. The value after Laura was \$-0- with no salvage value and no insurance.

RULE: Deductible Loss is lesser of

1. Reduction in Value = \$80,000

2. Tax Basis = \$-0-

RESULT:

Deductible Loss = \$-0-

(lessor of #1 or #2)

Tax Saving (25%) = \$-0-

Example #1A

In addition, Jack also owns three (3) additional nearby tracts of timberland that sustained no damage and having an aggregate timber tax basis of \$400,000. The “Block” containing four (4) tracts had an aggregate FMV of \$600,000 before the storm and aggregate FMV of \$520,000 after. Jack accounts for the four (4) tracts as a single identifiable property (SIP), comprising four (4) tracts of land.

RULE: Deductible Loss is lesser of

- | | | | |
|----|---------------------------------|---|-----------|
| 1. | Timber Block Reduction in Value | = | \$80,000 |
| | (\$600,000-\$520,000) | | |
| 2. | Timber Block Tax Basis | = | \$400,000 |

RESULT:

Deductible Loss	=	\$80,000
(lessor of #1 or #2)		
Tax Savings (25%)	=	\$20,000

To obtain the aggregate tax basis of \$400,000 Jack’s accounting should show a “Single Identifiable Property” as being all of his tracts comprising a single “Block”. The “Single Identifiable Property” Should include all four (4) tracts. See Revenue Ruling 99-56.

Example #2

Bill inherited 80 acres from his parents in January 2020. Bill owns no other land. The parents' timber tax basis immediately prior to their deaths was zero. The timber was valued at \$2,000/acre on date of death. The "step up" in basis is \$2000/acre, a total of \$160,000. After Hurricane Laura the timber had \$0 value (no salvage value and no insurance).

RULE: Deductible Loss is lesser of

- | | |
|---------------------------------|-------------|
| 1. Reduction in value of timber | = \$160,000 |
| (80 x \$2,000) | |
| 2. "Step up" Tax Basis | = \$160,000 |

RESULT:

Deductible Loss	= \$160,000
(lessor of #1 or #2)	
Tax Savings (25%)	= \$40,000

QUESTION: Assume the parents donated the 80 acres to Bill prior to their deaths.
What would Bill's tax savings then be?