



Income Tax on Cost Share Payment from the Forest Health Protection Program

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Dr. Linda Wang

National Timber Tax Specialist, US Forest Service

Forest Health Protection Cost Share Payment Approved for Income Exclusion

The IRS has approved that the Forest Health Protection cost share program is eligible for income exclusion under Section 126 of the Internal Revenue Code (Revenue Ruling 2009-23, August 10, 2009, IRB 2009-32). This determination allows forest landowners to exclude part or all of the cost share payment(s) received under this program from their income provided they also meet capital expenditure requirement under Section 126. Prior to this ruling, the payments were not excludable and were thus taxable as income for the taxpayer.



What Forest Health Protection Programs Are Included?

This ruling applies to programs that treat forest insects such as southern pine beetles and western bark beetles; forest diseases; and forest invasive plants where landowners are paid a portion of the cost to practice integrated pest management.

How to Correctly Report the Cost Share Payment from the Forest Health Protection Program?

If the payment was not used for capital improvement, report all cost share as other income and deduct the treatment expenses. The expense deduction, however, is limited by (reduced by) 2% of your adjusted gross income if your property is an investment. Business property is not subject to such restrictions.

Example 1: Your timberland is an investment property. In 2012, you received \$2,000 Southern Pine Beetle cost share payment and used it for noncapital expenditure. Your out-of-pocket expense was \$3,000. You report \$2,000 as income but your \$5,000 expense is deductible, subject to 2% of your adjusted gross income floor (on Schedule A).

If the payment was used for capital improvement (such as reforestation), you may elect to exclude income (see below for exclusion calculation). This may lower your taxes, but the calculation may appear complex. *Attach a statement to your tax return indicating the amount of cost shares received, the value of the improvement, and the calculations of the amount of exclusion.*

How to Calculate the Exclusion?

- Step 1. calculate 10% of your average annual income from the property in the last three years (zero if none)
- Step 2. calculate \$2.5 per acre times the number of affected acres
- Step 3. dividing the greater amount from Step 1 and 2 by an interest rate gives you the exclusion amount.

Example 2: You own 100 acres of woodland and received \$2,000 Southern Pine Beetle cost-share that you used for capital improvement. Your income from the property was \$1,800 in the last three years. Assuming a 7.56% interest rate, choose the bigger of the following two calculations (where \$2.50 is fixed): $\$2.50/\text{acre} \times 100 \text{ acres} = \250 and $10\% \times (\$1,800 \div 3) = \60 , which is \$250. Then, $\$250 \div 7.56\% = \$3,307$, which is the maximum amount of exclusion. Attach a statement to your tax return showing the calculation of the excludable amount.

Even if

all of your cost-share payment can be excluded from your income, you are required to attach your exclusion calculation to your tax return.

Note: The IRS does not establish which interest rate to use. Farm Credit System Bank rates may be a reasonable reference.

Form 1099-G

The forestry agencies will report the cost-share payment on Form 1099-G to the IRS and the recipients. See the form instructions for more information.

Form W-9

The forestry agencies are required to use W-9 to obtain your taxpayer identification number if you haven't provided it on the cost share application. The forestry agencies use such identification number to issue 1099-G.

This guide is not legal, tax or accounting advice; consult your personal tax professional for your specific case.