

# Determining Timber Casualty Loss: Examples

*Editors Note: (ex. The following examples are intended to help readers further understand the issues associated with claiming a timber casualty loss. These examples address the National Disaster Relief Act of 2008 and the impact it has for claiming a casualty loss in a federally declared disaster area. For more information on determining timber casualty loss please see the revised version of last issue's article entitled "Determining Timber Casualty Loss", it can be found at [www.ca.uky.edu/KYWoodlandsmagazine/Vol4\\_No\\_3/Timbercasualtylosspg14-15c.pdf](http://www.ca.uky.edu/KYWoodlandsmagazine/Vol4_No_3/Timbercasualtylosspg14-15c.pdf). IRS publication 547 contains information on casualty deductions and addresses disasters in 2008 and 2009.*

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## A Timber Example

A woodland owner has experienced damage to his woodlands during a recent ice storm and needs to decide if and how to file for a timber casualty loss on their tax return. In order to make the decision, the woodland owner **MUST** have established a timber basis (a tax concept to determine the cost of owning a capital asset) and know the value of the loss. The IRS allows you to claim the smaller value. Example one addresses a casualty loss in a non-federally declared disaster area, while the second example addresses a casualty loss in a federally declared disaster area. While individual tax and casualty loss figures vary by individual, the examples provided assume the following financial conditions:

- **Adjusted Timber Basis (ATB) : \$20,000**
- **Fair Market Value (FMV) Loss: \$28,000**
- **Woodland Owners Adjusted Gross Income: \$45,000**

*While these figures represent one possible condition, please consult your tax advisor for your individual circumstance.*

### Example 1: Non-Federally Declared Disaster

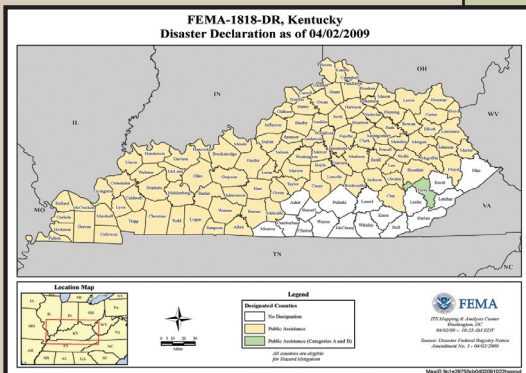
When a catastrophic loss occurs in a non-federally declared disaster area, deductions are based solely on whether the timber is held as investment/business or if it is held as personal property. Please review the following example on determining the timber casualty loss for personal property **not** covered in a federally declared disaster.

Example 1. Non-Federally Declared Disaster	
<b>Timber held as Investment or a Business</b>	ATB (\$20,000) is less than the FMV (\$28,000) so the deduction is <b>\$20,000</b>
<b>Timber held as Personal Property</b>	<b>Non-Federal Disaster</b>
ATB (\$20,000) is less than the FMV (\$28,000) so the deduction is the ATB	\$20,000
Fixed Reduction	\$100 (\$500 if in 2009)
10% of adjusted gross income	\$4,500
<b>Total Deduction</b>	<b>\$15,400 (\$15,000 if in 2009)</b>

### Example 2: Federally Declared Disaster

When a federally declared disaster is declared the U.S. Congress will often pass a law that addresses how deductions are handled in a federally declared disaster area such as Hurricane

Example 2. Federally Declared Disaster		
<b>Timber held as Investment or a Business</b>	ATB (\$20,000) is less than the FMV (\$28,000) so the deduction is <b>\$20,000</b>	
<b>Timber held as Personal Property</b>	Tax Year	
	2008	2009
ATB (\$20,000) is less than the FMV (\$28,000) so the deduction is the ATB	\$20,000	\$20,000
Fixed Reduction	\$100	\$500
10% of adjusted gross income	N/A	N/A
<b>Total Deduction</b>	<b>\$19,900</b>	<b>\$19,500</b>



*This map shows the Kentucky counties that were federally declared disaster areas associated with the 2009 ice storm. For more information and a complete listing of the counties covered visit [www.fema.gov/news/event\\_fema?id=11088](http://www.fema.gov/news/event_fema?id=11088)*

Katrina or the ice storm much of Kentucky experienced in January 2009. **Therefore, it is important to consult a tax expert when federal disasters occur.** For example, the U.S. Congress passed the National Disaster Relief Act of 2008 which increased the potential amount of deductions for timber held as personal property in the wake of a bad hurricane season. Example 2 shows how deductions were calculated for federally declared disasters that occurred in 2008 or 2009 (including Kentucky's ice storm of January 2009, see map showing the counties covered under the National Disaster Relief Act of 2008). If necessary an amended tax return can be filed; April 15, 2010 was the deadline for claiming a loss in 2008.