

Forestry Income Tax

Series: Basics of Basis

What Is Basis?

Basis is the book value of property. Forest owners may have a basis in their timber, in their land, or in other capital assets. Basis is not usually the current value of your property, except immediately after inheritance. Many people have no basis in their property, especially in forests, depending on how they initially acquired the timber, if it has been harvested, or if no costs were incurred in growing the timber.

Basis is used to determine net taxable income from sales of property. Forest owners who sell timber do not pay tax based on gross proceeds. They pay tax (generally at the long-term capital gains rate if the property owner holds the timber for the appropriate period) on the net taxable income. Net taxable income equals gross proceeds minus sales expenses and minus the basis in the property. Subtracting basis from gross proceeds is called basis recovery, and it can reduce taxes significantly. But basis recovery is a “use it or lose it” opportunity. If basis is not recovered when a property is sold (timber included), then the basis in that property is lost. To avoid this financial loss, you need to be aggressive in recovering basis. Besides property sales, recovery of basis also can occur following a casualty or theft loss.

Since you can buy and sell land and timber separately, it is to your advantage to set up different accounts for land and timber and keep separate records of basis. The Internal Revenue Service also requires landowners to keep separate land and timber accounts and to retain adequate records to support a claim of basis recovery. Completing IRS Form T: Forest Activities Schedule will fulfill this requirement. This form is available at www.irs.gov or from the IRS Tax Hotline at 1-800-829-3676.

Note: This publication is only accurate based on the One Big Beautiful Bill Act (OBBBA) and should be used with that in mind. This bill became public law in July 2025 and, unless overturned or altered, is valid indefinitely.

How Is Basis Set?

The way you acquire land and/or timber is important in setting the initial value of basis. You become a property owner in one of four ways:

- By purchasing property.
- By inheriting property.
- By receiving property as a gift.
- By establishing a new forest on land you own or lease.

It is important to know the difference between inherited and gifted property. Inherited property is passed to an heir through a will after the donor's death. It is subject to estate taxes if its value exceeds state or federal thresholds. Gifted property is given to an heir before the donor's death and is commonly called “deeding over the property.” A gift is subject to gift tax if it exceeds value thresholds.

Each of the four ways of acquiring property has a different method to determine basis, as discussed below. Ideally, as property is acquired, you should record basis by filling out IRS Form T, Part I: Acquisitions.

What Is the Initial Basis for Purchased Property?

When timberland is purchased, the initial value of basis equals the total expense of acquiring the property. This cost includes the amount paid for the property plus other acquisition costs. Acquisition costs include legal fees, surveying, title searches, title insurance, consulting fees, and any other costs incurred in purchasing the property. The allocation of purchase price into land basis and timber basis is guided by the percentage of fair market value (FMV %) each property contributes to total FMV as described in Example 1.

Example 1.

Account	FMV \$	FMV %	Basis \$
Land	40,000	44	30,800
Timber	51,000	56	39,200
Total	91,000	100	70,000

Calculations:
FMV % = (FMV \$ / Total FMV \$) × 100%

Land FMV % = (\$40,000 / \$91,000) × 100% = 44%
Timber FMV % = (\$51,000 / \$91,000) × 100% = 56%

Basis = FMV % of purchase price
Land basis = 44% of \$70,000 = \$30,800
Timber basis = 56% of \$70,000 = \$39,200

Example 1. Allocating basis between land and timber for purchased property.

Elliot Slash bought 40 acres of timberland for \$70,000. It was a good deal—an appraiser determined fair market value (FMV) for timber was \$51,000 and land FMV was \$40,000. The basis in the timber account was determined to be \$39,200 by using the same ratio or proportion that timber contributed to total fair market value to allocate part of the total acquisition cost attributable to timber.

What Is the Initial Basis for Inherited Property?

The initial value of basis for inherited property is equal to the fair market value (FMV) at the time of the person's death or alternative valuation date. If distribution of the estate is delayed, you may use the FMV on the date you take possession of the property instead.

Most inherited land and timber property will receive a step up in basis equal to FMV. But this is not true for a surviving spouse of jointly owned timberland in Mississippi and other non-community property states. Only half of a jointly owned property is inherited by the surviving spouse (from the decedent), so only half is stepped up to FMV.

An appraisal is needed to establish the FMV of your land and timber. Mississippi law states that only registered foresters can value timber for a fee. Again, the best and most accurate appraisal is a timely one, completed when you get the property.

Sometimes a timely appraisal is not made, but basis is still needed when the property (a portion of the timber or other assets) is sold. In this case, a retroactive basis appraisal may be used to establish basis. The FMV of property at the date it was inherited is estimated by reverse-projecting the timber

and land values (refer to Example 2). Any fees charged for a retroactive basis appraisal can be allocated to land and timber accounts, using the proportion of FMV in land and timber as a guide.

Example 2. Determining retroactive basis for inherited land and timber.

Betula White inherited 50 acres of timberland 10 years ago. This year, she paid a forestry consultant \$500 for a retroactive appraisal. The consulting forester determined the present sawtimber inventory at 5,000 tons. Past timber growth averaged 2 tons per acre per year. Timber prices 10 years ago were \$25 per ton. Comparable bare land was valued at \$600 per acre 10 years ago. The basis determinations were as follows:

Example 2.

Account	Initial FMV \$	Initial FMV %	Allocation of appraisal fee \$	Basis \$
Land	30,000	23	115	30,115
Timber	100,000	77	385	100,385
Total	130,000	100	500	130,500

Calculations:
Initial land FMV \$ = \$600/acre × 50 acres = \$30,000
Initial timber inventory = present inventory – 10 years' growth
= 5,000 tons – (2 tons × 50 acres × 10 years)
= 5,000 tons – 1,000 tons = 4,000 tons
Initial timber FMV \$ = \$25/ton × 4,000 tons = \$100,000
Allocation of appraisal fee = initial FMV % of fee
Land allocation = 23% of \$500 = \$115
Timber allocation = 77% of \$500 = \$385

While retroactive basis appraisal of land is straightforward through acquiring publicly available property tax and real estate records from the time a purchase was made, “ungrowing” trees can be quite difficult, and you should contact a registered forester to conduct this calculation. While it does not appear to be mandatory at the federal level, it may be at the state level (that is the case for Mississippi). Further, it will most likely cost you money, and you should consider whether the tax benefit is worth the expense. There is no hard and fast rule for this. Refer to the IRS publication [Timber Casualty Loss Audit Technique Guide](#) for the required steps for conducting a retroactive basis of timber. A rule of thumb is the further back the property was acquired, the less lucrative the basis, all other things remaining equal. Keep in mind, basis does not grow with inflation as timber and land values often do.

What Is the Initial Basis for Property Received as a Gift?

Gifted property has a carryover basis, which means your basis in the property is the same as your donor's basis. Special rules apply if a gift tax was paid, so consult IRS Publication 551: *Basis of Assets*, downloadable from the IRS website, to determine how much of the gift tax can be added to the basis of the asset.

To establish the donor's basis, you need to know how and when the donor acquired the property, if any timber was harvested, and what further investments were made in the timber. If no records were kept, you may have to accept a basis of zero.

What Is the Initial Basis for Planted Trees?

The initial value of basis of a new forest is the total reforestation cost minus the amount recovered by deducting it from taxes using the special reforestation tax provisions. Reforestation costs can include site preparation costs, purchase of seedlings or seed, planting or seeding costs, and other associated reforestation expenses. Reforestation costs involved in natural regeneration are handled the same as planting or seeding.

Reforestation cost-share assistance is available through the Mississippi Forestry Commission (or similar agency in your state). Federal cost-share programs are available through the U.S. Department of Agriculture Farm Service Agency and the Natural Resources Conservation Service. The amount of cost-share assistance exempted from income taxes is also subtracted from total reforestation costs to determine basis.

If a new forest is established for commercial timber production, the forest owner may deduct the first \$10,000 of reforestation costs incurred each year. This limitation applies to each qualified timber property (QTP), not to each taxpayer. Reforestation expense in excess of \$10,000 may be amortized (deducted) over 8 tax years using IRS Form 4562 (refer to Example 3).

All landowners, except trusts, can deduct the first \$10,000 in reforestation expenses per year. All landowners can amortize expenses over the first \$10,000. Passive business owners may face special restrictions. A 50 percent reforestation tax credit also is available for Mississippi taxpayers reforesting land in Mississippi.

Example 3.

Year	Amortized fraction	Amt. recovered \$	Net basis \$
1			28,000
1		8,000 cost-share	20,000
1		10,000 deduction	10,000 initial
1	1/14	714	9,286
2	1/7	*1,428	7,858
3	1/7	1,429	6,429
4	1/7	1,429	5,000
5	1/7	1,429	3,571
6	1/7	1,429	2,142
7	1/7	*1,428	714
8	1/14	714	0
Total	1	\$28,000	\$0

Calculations:

Amortized amount \$ = fraction × initial amortizable basis

Years 1 and 8

$$\text{Amortized amount} = 1/14 \times \$10,000 = \$714$$

Years 2 through 7

$$\text{Amortized amount} = 1/7 \times \$10,000 = \$1,429$$

*Amortized amounts were adjusted so the total amortization equals \$10,000.

For more information on reforestation tax incentives, refer to MSU Extension [Publication 2420 Paying for a New Forest Without Cost-Share Funding](#).

Taking full advantage of cost-share and reforestation tax incentives should drive your timber basis in reforestation to zero (Example 3). In case you have any remaining reforestation basis, add that amount to the timber account once the new trees are inventoried as merchantable.

Example 3. Amortization of reforestation expenses that exceed \$10,000 per year.

Sassy Fras paid \$28,000 for reforestation expenses in one year. She received \$8,000 reimbursement from a government cost-share assistance program and claimed it as tax-exempt following the special rules for exemption. Because Mrs. Fras considered the property as one qualified timber property (QTP), only \$10,000 in cost was deducted. The remaining \$10,000 was amortized (deducted) according to the schedule above. Net basis in reforestation went to zero by year 8.

What Records Are Needed in a Land Account?

A land account summarizes your land ownership. Keep records of land acreage owned and basis or costs associated with land (refer to Example 4). Add to the basis any expenses made to improve the land that are not allowed to be deducted, such as permanent roads, dams, or other permanent improvements. Calculate the average land basis per acre before any land is sold; average basis equals total land basis divided by the total acres. Following a land sale, update the land account by subtracting the acres of land sold and the amount of basis recovery that was claimed. Basis recovery equals acres sold multiplied by the average basis (refer to Example 4).

Separate accounts should be used to keep up with the depreciation of temporary land improvements like bridges, culverts, and gravel. Once the IRS-specified lifespan is achieved, basis should be zero.

Example 4. Land account recordkeeping.

Tulip Poplar paid \$40,000 for 40 acres of land. Other acquisition fees that were part of the land purchase totaled \$1,000. Tulip built a permanent access road immediately after the purchase, which cost \$5,000. Total land basis averaged \$1,150 per acre. Later, Tulip sold 5 acres and recovered basis of \$5,750. Her updated land account now has 35 acres and \$40,250 basis.

Example 4.

Transaction	Acres	Basis	Average basis
Purchase	40	\$40,000	
Acquisition fees		+1,000	
Road building		+5,000	
Total	40	\$46,000	\$1,150 / acre
Land sale	–5		
Basis recovery		–5,750	
Updated total	35	\$40,250	

Calculations:

Average cost = total land basis divided by acres

Average cost = \$46,000 / 40 acres = \$1,150 per acre

Basis recovery = average cost × acres sold

Basis recovery = \$1,150 per acre × 5 acres = \$5,750

What Records Do You Need in a Timber Account?

A timber account keeps a record of two numbers: timber basis and timber inventory (Example 5). The IRS provides Form T, Part II: Timber Depletion to help you update the timber account as information becomes available. Update the account in preparation for a timber sale; when management costs are capitalized and added to the basis; and following any changes in the inventory, such as a timber sale, casualty, non-casualty loss, or theft loss.

The timber inventory is constantly in motion because timber is a property within living trees. However, for nonindustrial landowners, it is not necessary to update the timber volume each year—only when there is a taxable event that increases basis or that uses up basis. A new appraisal of your timber may be needed when a timber sale is to be made or when a casualty loss is claimed. Once a final harvest is made and all timber is cut, the basis will be zero.

To make recordkeeping easier, you may combine all types of timber from all properties into one blended, or average, timber account (Example 5). To begin, choose a common unit of measure for all timber products—the preferred unit is tons (2,000 pounds). Next, add the basis and the inventories for all timber holdings together. This blended account will have one basis and one tonnage for all timber. This simplifies basis recovery. On the other hand, owners of large or scattered acreages may prefer to divide their timber property into several accounts: one account for each tract of land; one account for each management unit or stand; or one account for all the land in one region. Hardwood and pine timber may be lumped together or treated separately within the same timber account.

The industry standard for timber measurement has changed from volume to weight for most timber products. Landowners may be caught in the middle with older inventories in volume and new inventories in weight and find them difficult to blend together. To convert pine inventories in volume to weight, refer to MSU Extension [Publication 2244, Pine Timber Volume-to-Weight Conversions](#). General rules of thumb for converting hardwood inventories are 9 tons per MBF (1,000 board feet) and 2.8 tons per cord.

Depletion Unit: Recovering Basis in the Timber Account

The portion of the basis recovered for a particular taxable event is called depletion. Basis when expressed as dollars per ton (or dollars per cord, dollars per MBF, etc.) is called the depletion unit. The depletion unit is calculated in the timber account by dividing basis by inventory. The depletion unit is needed to recover basis following a timber sale (refer to Example 5). The basic formula for depletion is depletion unit multiplied by the tons (or other appropriate measurement units) of timber sold. Depletion is recorded on Forest Activities Schedule Part II: Timber Depletion. Then the information may be transferred to Part III: Profit or Loss from Land and Timber Sales and then onto the appropriate income tax or business tax form.

Please note that the blended account creates one depletion unit for all timber products. This blended depletion unit can greatly speed up basis recovery under normal management—that is, where poorer trees are harvested first and the best are saved for the future. In Example 5, Stella Oak sold 600 tons of pulpwood for \$5,000. By using a blended account, Stella's depletion, or basis recovery, was \$10,002. That makes the timber sale a net capital loss of \$5,002 (refer to Example 5). Stella reports the capital loss on Schedule D, IRS Form 1040.

Example 5.

Time	Basis \$	Inventory (tons)	Depletion unit (\$/ton)
Initial inheritance	50,000	2,300	21.74
5-year growth		+700	
Begin current year	50,000	3,000	16.67
Timber sale		-600	
Depletion	-10,002		
End current year	39,998	2,400	

Calculations:

Initial inventory = sawtimber + pulpwood = 1500 + 800 tons = 2,300 tons

Initial depletion unit = \$50,000 / 2,300 tons = \$21.74 / ton

Begin current year depl unit = \$50,000 / 3,000 tons = \$16.67 / ton

Depletion = depletion unit × tons sold = \$16.67 × 600 tons = \$10,002

Capital gain (loss) = sale income – cost – depletion

Capital loss = \$5,000 – 0 – \$10,002 = -\$5,002

Example 5. A blended timber account for inherited timber.

Five years ago, Stella Oak inherited 1,500 tons of sawtimber and 800 tons of pulpwood valued at \$50,000. Timber grew by 700 tons in the past 5 years. This year Stella thinned her timber and sold 600 tons of pulpwood for \$5,000. She had no sales cost. Using the blended timber account, Stella claimed \$10,002 depletion and a capital loss of \$5,002. The account at the end of the current year was \$39,998 basis and 2,400 tons in inventory.

When Does Timber Basis Increase?

Basis increases only when expenses are capitalized and added into the timber account. Deducting costs, if possible, is always preferable to capitalizing them into basis because costs are deducted at ordinary tax rates, while basis generally is recovered at capital gains tax rates. Ordinary rates are higher than capital gains rates. Timber basis will not change as trees grow in size or value, nor will it change with inflation.

As mentioned before, part of the fees to do a title search, survey, and appraisal can be added to the timber account. The allocation is based on FMV % in timber. Some annual carrying charges may also be easily added to basis. In years that investors claim a standard deduction (instead of filing Schedule A itemized deductions), property taxes, mortgage interest, and insurance should be capitalized or added into the basis. Capitalizing these costs one year will not threaten deducting the same type of costs from income the next year. Investors will have to capitalize most other forest management costs.

Basis in reforestation and young trees can be transferred to the timber account once trees reach merchantable size. This occurs at age 8 to 15 years. Add the tons of product to the inventory and the pre-merchantable basis to timber basis.

If you own your forest primarily for profit, refer to MSU Extension [Publication 2420 Paying for a New Forest Without Cost-Share Funding](#), for a better strategy for utilizing basis that would accrue from reforestation efforts.

Note: Calculating basis for premerchantable trees is an often-missed basis opportunity. If you are buying a stand of trees that is not ready for market (there are no prices for the diameter timber), make sure your consultant knows how to conduct a premerchantable stand valuation so that you do not lose this additional basis. MSU provides a [precommercial timber stand calculator](#) as part of their FORVAL software package.

How Is a Timber Casualty or Theft Loss Handled?

The loss claimed is the lesser of the entire basis in the timber account or the FMV loss caused by the casualty or theft. Depletion units are not needed. Thus, the blended timber account described above may help increase your casualty or theft loss deduction. The account establishes a large, single-identifiable property that will suffer the loss (hopefully with a large basis, also). Losses are reported on IRS Form 4684: Casualties and Thefts. For more information on casualty losses, refer to MSU Extension [Publication 2619 Forestry Income Tax Series: Frequently Asked Questions about Timber Casualty Losses](#) and [Publication 3871 Casualty Losses of Shade Trees and Landscape Elements](#).

How to Use this Publication

This publication is for educational purposes only and is based on typical situations of forest landowners. It should not be used to replace advice from a qualified tax professional based on your individual facts and circumstances. A qualified tax professional, along with a consulting forester, may help you determine your best forest management and tax position.

Information on timber taxation is available at extension.msstate.edu or at your [local MSU Extension Service office](#). Additional information is available online at www.timbertax.org.

Information Sources

Timber Casualty Loss Audit Technique Guide. Available at <https://www.irs.gov/pub/irs-pdf/p6115.pdf>

Publication 1983 (POD-06-26)

Revised by **Curtis VanderSchaaf**, PhD, Associate Professor, Central Mississippi Research and Extension Center, and **Sabhyata Lamichhane**, PhD, Assistant Professor, Forestry.



Copyright 2026 by Mississippi State University. All rights reserved. This publication may be copied and distributed without alteration for nonprofit educational purposes provided that credit is given to the Mississippi State University Extension Service.

Produced by Agricultural Communications.

Mississippi State University is an equal opportunity institution. Discrimination is prohibited in university employment, programs, or activities based on race, color, ethnicity, sex, pregnancy, religion, national origin, disability, age, sexual orientation, genetic information, status as a U.S. veteran, or any other status to the extent protected by applicable law. Questions about equal opportunity programs or compliance should be directed to the [Office of Civil Rights Compliance](#), 231 Famous Maroon Band Street, P.O. 6044, Mississippi State, MS 39762.

Extension Service of Mississippi State University, cooperating with U.S. Department of Agriculture. Published in furtherance of Acts of Congress, May 8 and June 30, 1914. ANGUS L. CATCHOT JR., Director