

S. C. Registered Foresters:

The Internal Revenue Service has made SC's SPB Prevention and Restoration Program (SPB Program) eligible for income exclusion under 126 of the Internal Revenue Code. This ruling is retroactive and allows applicants of the SPB Program to exclude part or all cost share payments from their taxable income.

*About SC's SPB Program*

Because of increasing length and severity of SPB outbreaks, the USDA Forest Service and the Southern Group of State Foresters initiated a more proactive approach for mitigating the severity of outbreaks by creating the SPB Program, which is a federally funded cost share program for NIPF landowners implemented at the state level. This program seeks to mitigate pine loss by managing pine density from the beginning of a pine stand's rotation through Prevention and Restoration practices.

Prevention practices include reducing stems in over-stocked, immature pine stands by Precommercial Thinning, and are cost-shared at 60% of the statewide average cost.

Restoration practices include reforestation of stands previously in pine management to lower density loblolly or longleaf, or conversion to hardwood. Open land planting and converting existing hardwood stands to pine are not eligible for cost share. Planting first and releasing second is not allowed. All practices required for stand establishment are cost shared at 50% of the statewide average cost.

Since March 2006, SC's SPB Program has provided 449 SC landowners with \$1,982,985 of cost share to treat 21,170 acres: 12 Hardwood; 1,487 Hardwood Release (no longer allowed); 9,789 Loblolly; 4,351 Longleaf; and 5,531 Precommercial Thinning.

Funds are currently available for 2010. Contact your local SCFC Project Forester for a cost share application on behalf of your client. For more details regarding this announcement, please refer to the enclosure titled: "Income Tax on Cost Share Payment from the Forest Health Protection Program." Additional information about this announcement and the program's guidelines and application procedures can be obtained from the SCFC website, <http://www.state.sc.us/forest/id.htm>

Sincerely,

F. Chisolm Beckham  
Coordinator- SPB Program

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



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## 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. 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

The easiest, yet often not the most financially beneficial option, is to report all cost share as other income and deduct the treatment expenses. The expense deduction, however, is limited to 2% of your adjusted gross income if your property is an investment. Business property is not subject to such restrictions.

**Example 1:** You received \$2,000 Southern Pine Beetle cost share payment in 2009. Your out-of-pocket expense was \$3,000. You can elect not to exclude the payment from your income and *report \$2,000 as income*. Your \$5,000 expense is deductible, but the amount of deduction is limited to the excess over 2% of your adjusted gross income (on Schedule A). Alternatively, you may add the expense to the cost of timber and recover it upon timber sale or loss.

The second available option is exclusion. This will typically 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 determining 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 in 2009. Your income from the property was \$1,800 in the last three years. Using 7.56% as the interest rate, you may exclude all of the cost share payment :  $\$2.50 \times 100 \text{ acres} = \$250$  and  $10\% \times (\$1,800 \div 3) = \$60$ ;  $\$250 \div 7.56\% = \$3,307$ , which is more than the cost-share. 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 showing how it was determined.*

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

#### Form 1099-G

*When the cost share payment is \$600 or more, the forestry agency will generally report it on Form 1099-G to the IRS and the recipient. See the form instructions for more info.*

#### Form W-9

*The forestry agency is required to use W-9 to obtain your taxpayer identification number if you haven't provided it on the cost share application. This info is used to file 1099-G by the forestry agency.*