

Preparing for the 2025 Tax Season: Tips for Landowners

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For forest landowners, tax season brings a unique set of opportunities and challenges. From how your land is classified to how timber income is reported, small decisions can have a big impact on your bottom line. As you prepare your 2025 tax return, keeping a few key principles in mind can help ensure you're taking advantage of the tax code while staying compliant.

Below are several areas forest landowners should pay close attention to this year.

1. How Your Forestland Is Classified Matters

One of the most important, and often misunderstood, tax issues for forest landowners is how the IRS classifies your ownership. Forestland can fall into one of three categories: **business**, **investment**, or **personal use**. This classification drives what deductions you can take and how favorable your tax treatment will be.

From a tax perspective, being able to classify your forest operation as a **business** is usually the most advantageous. Deductions are significantly limited for investment or personal-use property. In general, harvesting timber every three to five years helps support the position that your land is being managed as an active business rather than a passive investment.

2. Don't Overlook Your Basis

Another critical concept is **basis**, which represents the portion of your investment in the land and timber that has already been taxed. Knowing your basis, and maximizing it where appropriate, can significantly reduce taxable income when timber is sold.

Basis is easiest to determine when you purchase property. However, complications often arise if land is inherited, gifted, or held through a family LLC or other entity. In those situations, working with a CPA is essential. If basis was never established at the time of purchase, a consulting forester may be needed to estimate timber values retroactively.

3. Reforestation Expenses and Tax Incentives

While the cost of reforestation generally cannot be deducted until timber is harvested, the tax code does provide a valuable incentive. Landowners may immediately deduct up to \$10,000 per year in qualified reforestation expenditures, including the cost of seedlings and site preparation.

These expenses are referred to as **qualified reforestation expenditures** and can provide meaningful tax relief in years when significant planting or regeneration work is completed.

4. Bonus Depreciation and New Tax Law Changes

Recent tax law changes have had a limited impact on most forest landowners, but one area worth noting is **bonus depreciation**. If you purchase equipment for your forestry operation, bonus depreciation may allow you to deduct **100% of the cost in the first year**, rather than spreading it out over time.

This accelerated deduction can improve cash flow and should be evaluated with your tax advisor when making equipment purchases.

5. Make Sure Timber Sales Qualify for Capital Gains

When timber is sold, proper reporting is essential. The tax code recognizes two main types of income: **ordinary income** (such as wages or interest) and **capital gains** (income from the sale of investments). Sales of timber held more than one year typically qualify for long-term capital gains treatment, which is taxed at lower rates than ordinary income.

To ensure this favorable treatment applies, many landowners rely on a CPA familiar with forestry taxation. Filing **Form T (Forest Activities Schedule)** is often overlooked, but if you meet the requirements to file it, you should do so. Proper documentation can make a difference if your return is ever reviewed.

6. Handling Cost-Share Payments Correctly

Many landowners receive **cost-share payments** from government programs to help fund reforestation or conservation projects. These payments can be handled in one of two ways on your tax return:

- Include the payment as taxable income and deduct the associated reforestation expenses, or
- Exclude the payment from income if it was fully used for the project.

What you cannot do is exclude the income and deduct the expenses — that would be considered double-dipping. Choosing the right approach depends on your overall tax picture.

7. Conservation Easements and Long-Term Planning

For landowners interested in preserving their forestland in perpetuity, **conservation easements** may be an option. These arrangements can provide income or charitable deductions while ensuring the land remains protected for future generations. Even if this isn't something you're considering now, it may be worth keeping on your radar as part of a long-term plan.

8. Estate Tax Considerations for Larger Landholdings

While estate taxes won't affect most landowners, those with significant assets should plan ahead. In 2026, a married couple with **less than \$30 million in total assets** will generally not owe federal estate tax. Assets above that threshold may be subject to a **40% estate tax**.

If you believe your estate could approach or exceed this level — now or in the future — early planning is critical. Ownership structures and long-term strategies can make a meaningful difference.

(All of the considerations above relate to federal taxes.)

9. Present-Use Value: A Key Property Tax Benefit in North Carolina

Beyond federal taxes, North Carolina forest landowners should pay close attention to present-use value (PUV) for property tax purposes. Under this program, land is taxed based on its current use, such as forestry, rather than its highest potential market value.

For qualifying forestland, PUV can result in **significantly lower property taxes**. If you're actively managing your land for forestry and haven't enrolled, it may be worth exploring whether you qualify.

Forestland is a long-term investment, and tax planning should be viewed the same way. Working with professionals who understand forestry-specific tax issues can help you avoid common mistakes and make the most of the incentives available to you. With the right planning, tax season can become another tool to support the long-term health and profitability of your forest. ■



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