

Reforestation tax credit



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www.oregon.gov/DOR

If you develop underproductive forestland into a commercial forest, you may receive a tax credit for your eligible costs to develop the forest. Trees planted after December 31, 2001, are eligible for a 50 percent credit. (Trees planted prior to 2001 are eligible for a 30 percent credit.) Eligible development costs include site preparation, tree planting, and silviculture treatments considered necessary and reasonable by the state forester.

Who can claim the credit?

An individual, corporation, S corporation, or other nonpublic legal entity can claim the credit. You must:

1. Own, be purchasing under a recorded contract of sale, or lease at least five acres of land in Oregon capable of growing a commercial forest, and
2. Have at least \$500 of net eligible costs in the project. Funds provided by any state or federal incentive programs are not considered money spent on the project, and
3. Develop the land into a commercial forest. You may not claim the credit to grow Christmas trees, ornamental trees, shrubs, or plants. The credit is not allowed to reforest any forestland that has been commercially logged to the extent that reforestation is required under the Oregon Forest Practices Act.

Exception: Credit is allowed when qualified hardwood harvests are conducted to convert underproductive forestland.

Partnerships or S corporations. Partners can claim a credit for costs incurred by the partnership, based on each partner's percentage of ownership interest. Shareholders in an S corporation can also claim this credit. The credit is computed using the shareholder's pro rata share of the corporation's certified reforestation project costs.

Change in ownership. Only the original owner may claim the balance of the credit if there is a change in ownership between the time the project is completed and the forest is established. If the forest is sold, the unused credit cannot be transferred to the new owner(s). If the forest is not established, the original owner must

repay the credit previously received. The new owner does not qualify for any credit on a project started by the original owner.

What are qualifying expenses?

You can claim actual expenses incurred for labor, supervision, materials, and equipment operating costs. **Costs must be reasonable.** Do not claim the cost of equipment or tools used in the project that have a useful life of more than one year. These items must be depreciated. You can claim the allowable depreciation expense as a cost of the project limited to the actual years of the project. Your personal labor is **not** an eligible expense.

You must reduce your cost by the amount reimbursed from any state or federal incentive programs.

How to claim the credit

A service forester can tell you if your project will qualify for the credit before the project begins. After the trees are planted, the service forester must inspect the land. If the project qualifies, costs seem reasonable, and the annual limit has not been exceeded, the Department of Forestry will issue a preliminary certificate. Claim one-half of the credit (25 percent of the costs) for the year the trees were planted. Keep a copy of the certificate with your Oregon tax records.

You will claim the balance of the credit (25 percent of the costs plus 50 percent of any additional maintenance costs) after the trees have survived two or more growing seasons. The service forester must inspect your land again. If the forest is established in accordance with state specifications, and your costs appear reasonable, the final certificate will be issued. Keep a copy of the completed final certificate with your tax records.

Annual limit

By statute, the state forester must limit the total dollar amount of reforestation credits available each year.

When you request a preliminary and/or final certificate, include all information required by the state forester and an estimate of the amount you expect to claim on your return.

The state forester considers requests in the order they are filed. If you meet all the necessary requirements, you'll get a preliminary certificate, unless the annual limit has already been reached by prior requests for other projects.

Recapture. If the new forest is not established (according to Forest Practices Act standards) for reasons within your control, you must repay the 25 percent credit you received when you filed the preliminary certificate. If the failure is due to causes beyond your control (fire, drought, etc.), you do not have to repay it. However, you cannot claim the second 25 percent. After the trees are replanted, you can reapply for the tax credit in areas where reforestation failed.

Depreciation and basis. You can still claim any depreciation or amortization otherwise allowed. Do not reduce your basis in the property by the amount of the credit.

Carryforward. The credit cannot be more than your tax liability for Oregon. You can carry forward any unused credit to the next three years. Any credit unused within three years is lost.

Questions about reforestation? For a brochure or more information, go to the Oregon Department of Forestry website at www.oregon.gov/ODF or call 503-945-7368 in Salem.

Taxpayer assistance

General tax information www.oregon.gov/DOR
Salem 503-378-4988
Toll-free from an Oregon prefix 1-800-356-4222

Asistencia en español:

Salem 503-378-4988
Gratis de prefijo de Oregon..... 1-800-356-4222

TTY (hearing or speech impaired; machine only):

Salem 503-945-8617
Toll-free from an Oregon prefix 1-800-886-7204

Americans with Disabilities Act (ADA): Call one of the help numbers for information in alternative formats.