

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



Dr. Linda Wang

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Forest Tax Specialist, USDA Forest Service

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.