UNIVERSITY OF ARKANSAS
DIVISION OF AGRICULTURE
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Recovering the Value of Storm Damaged Timber from Taxes

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One of the crucial questions facing forest landowners after a disaster is how do I recover my losses to my timber from a tax point of view. Timber is considered a long-term investment and losses usually fall under the casualty loss classification.

To be allowed as a casualty loss deduction on your federal income tax return, a loss must be caused by natural or other external factors acting in a sudden, unexpected and unusual manner. A sudden event is one that is swift, not gradual or progressive. An unexpected event is one that is ordinarily unanticipated and one that you do not intend. An unusual event is one that is not a day-to-day occurrence and one that is not typical for the activity in which you were engaged when the damage or destruction occurred.

The language in Section 165(c)(3) of the Internal Revenue Code indicates that fires, storms and shipwrecks are casualty losses. The term has been limited by the courts and IRS to these and similar occurrences such as windstorm, sleet and hail. (**Note**: Losses from insect attacks such as southern pine beetle and drought losses to planted seedlings are not normally considered casualty losses because they do not meet the suddenness test.) Casualty losses also include destruction or damage from plane crashes, automobile accidents or similar events.

Determining the Amount of Deductible Loss – If your timber is destroyed by a fire, ice storm or other casualty, your deductible loss is the allowable basis (value invested) in the timber destroyed minus any insurance or other compensation received. Timber damaged but not made unmerchantable should be salvaged if possible. If a gain results from the salvage activity, there is no casualty loss with respect to the salvaged timber. Determine your gain or loss from the salvage cutting, sale or other disposal as you would for timber sales in general. If you are not able to salvage the timber after making a bona fide attempt to do so and claim a loss deduction, you should keep a record of your efforts in order to show that the timber was not salvageable.

Determining Volume of Timber Destroyed – To claim a loss deduction, the single identifiable object damaged or destroyed must be identified. For timber, this is expressed in terms of the specific units destroyed. The units of measurement used should be those utilized to maintain your timber accounts, such as board feet, cords, cubic feet or tons. The number of units of timber destroyed must be established by fair and reasonable measurement to justify a deduction. You may wish to employ a consulting forester to cruise the timber if the area is extensive and much work is involved. In some cases the county forester or other representative of the Arkansas Forestry Commission may be able to furnish you with an estimate of the quantity destroyed.

Determining Basis of Timber Destroyed – Determine the basis (value invested) in timber destroyed as you would for a timber sale. First, determine the depletion unit by dividing the adjusted basis for depletion as shown in your timber account by the quantity of merchantable timber in the account. Then, multiply the depletion unit by the number of units destroyed to find the amount allowable as a loss. The volume used to calculate the depletion unit for the loss should include adjustments for growth for the year of the casualty but is not reduced by the volume of timber destroyed. If your timber has no basis, you will not have a deductible loss.

Year of Deduction – A loss arising from a casualty generally is deducted in the year in which the casualty occurs. This is true even if you have not yet settled a reimbursement claim or have not received an agreed-upon insurance settlement or other compensation. If a claim for reimbursement has been made, and you think you will recover all or part of the loss even though you have not yet received payment by the time the tax return for the year of the casualty is due, reduce the reported loss by the amount you expect to recover. If you later recover less than the amount you estimated, you may deduct the difference for the year in which you become certain that no more reimbursement or recovery can be expected.

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