

# THE #1 WAY CHRISTMAS TREE GROWERS SAVE TAXES

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## About Me

- Born and raised in Toledo, OH
- Graduated from Miami University (OH) with degrees in Accounting and Finance
- **Certified Public Accountant**
- **Former IRS agent** in Cincinnati, OH
- Owned and operated **Miami Valley Tree Farm** in Cedarville, OH from 2015 - 2018
- **Tax attorney** in Charlotte, NC
- Author of **tax articles** in *Christmas Trees Magazine*, *Great Lakes Christmas Tree Journal*, and *Journal of Taxation*
- Provides **tax, accounting, and consulting services** to Christmas tree growers and forest landowners at [AndrewBosserman.com](http://AndrewBosserman.com)





*With Blue Spruce seedlings - 2018*



*With tree spade - 2018*



*Hiking in Pisgah National Forest - 2020*

# DISCLAIMER

- The information presented is for informational purposes only and is not intended to provide specific tax or legal advice. Each individual situation is different and consultation with your own personal tax professional is strongly recommended before acting on any of the information contained in this presentation.


**“THE HARDEST  
THING TO  
UNDERSTAND IN  
THE WORLD IS THE  
INCOME TAX.”**

*Albert Einstein*

**#1**

**ELECT CAPITAL GAIN  
TREATMENT FOR SALES  
OF CUT CHRISTMAS  
TREES**

# How an Average Christmas Tree Grower Can Pocket an Additional \$27,782 Each Year

 April 28, 2020


CHRISTMAS TREE TAX RESOURCES | CHRISTMAS TREES MAGAZINE | SAVING TAXES

*My previous articles have emphasized that the most effective way for a Christmas tree grower to save taxes is by making a capital gain election under IRC § 631.*

*This article analyzes in-depth just how much an “average” Christmas tree grower would save by making a capital gain election.*

# WHAT TO DO WITH TAX SAVINGS?

*It could be life-changing!*

- 
- **Expand farm** (acquire more land, plant more seedlings)
  - **Save for retirement**
  - **Pay off debt**
  - Fund children/grandchildren's **education**
  - Buy **new farm equipment**
  - **Advertise** and reach more potential customers
  - Take more time away from the farm by **hiring another employee**
  - **Hire an accountant** to do taxes and/or bookkeeping
  - **Travel** more for fun!



# ORDINARY INCOME VS CAPITAL GAIN INCOME

Ordinary Income	Long-Term Capital Gain Income
Most often <b>wages</b> and <b>interest</b> income	Profit from the sale of an investment <b>held more than one year</b>
All income other than capital gain income	Most often from the sales of <b>stocks, bonds,</b> or real estate
Taxed at ordinary income rates ( <b>highest rates</b> )	Taxed at <b>preferential rates</b>
May be <b>subject to</b> employment taxes	<b>Not</b> subject to employment taxes
	<b>Sales of cut Christmas trees can qualify</b>

# WHY A CAPITAL GAIN ELECTION IS POWERFUL

## *Tax Rate Comparison & Avoiding Self-Employment Tax*

2021 Taxable Income (Married Filing Joint)	Ordinary Income Tax Rates	Long-Term Capital Gains Rates*
\$628,301+	37%	20%
\$418,851 - \$628,300	35%	20%
\$329,851 - \$418,850	32%	15%
\$172,751 - \$329,850	24%	15%
\$81,051 - \$172,750	22%	15%
\$19,901 - \$81,050	12%	0%
\$0 - \$19,900	10%	0%

\* Combined chart for illustrative purposes only. Capital gains brackets vary slightly.

### Note: Self-Employment Tax

- An **additional 15.3%** on top of the above rates
  - Social Security & Medicare tax
- **Only assessed on ordinary, earned income** (not capital gain income)

# QUALIFYING FOR CAPITAL GAIN TREATMENT

*Internal Revenue Code §631*

## General Rule

- Business income is taxed at **ordinary rates** and also subject to **self-employment tax**

## Timber Exception

- Tax law permits sales of “**timber**” to be taxed at **capital gain rates**, even in a business
- Christmas trees are considered “timber” if they meet **four requirements**

# WHEN ARE CHRISTMAS TREES TIMBER?

*Four Requirements*

1

Evergreen  
Trees

2

More Than 6  
Years Old

3

Severed from  
the Roots

4

Sold for  
Ornamental  
Purposes

# WHAT SALES QUALIFY FOR CAPITAL GAINS?

## Qualify

- **Cut Christmas trees more than 6 years old that you raised or had the right to cut for more than 1 year**
  - Most average-sized Christmas trees sold will qualify since more than 6 years old
  - **Age of the seedling or transplant is included in the calculation**
    - *Ex: A 2-2 transplant that has been in the ground for 3 years is 7 years old*

## Do not Qualify

- Young trees (6 years old or less)
- **Potted trees**
- **Balled and burlapped trees**
- **Pre-cut trees purchased from another grower** (unless pursuant to a special arrangement)
- Wreaths
- Non-evergreen trees sold
- **Merchandise**
- **Fees to shake and bale trees**

**PROPER BOOKKEEPING &  
RECORDKEEPING IS  
CRUCIAL!**

# BENEFITS OF ORGANIZED RECORDKEEPING



- **Necessary to elect capital gain treatment**
- **Efficient tax reporting**
- **Accurate farm profit and loss for future planning**
- **Precise financial statement for banks or potential purchasers**
- **Freeing-up time** to work on farming tasks
- **Less stress during an IRS audit**
  - Many assessments for additional tax are due to taxpayers not being able to substantiate expenses

# HOW TO ELECT CAPITAL GAIN TREATMENT

*Must prove trees sold meet the four “timber” requirements*

## Recordkeeping

- Point-of-Sale System
  - **Record qualifying sales separately from non-qualifying sales**
- Bookkeeping System
  - **Separate qualifying sales from non-qualifying sales**
  - **Capitalize cost of seedlings** and other planting costs

## Tree Count

- **Count all trees on farm once per year**
- Number of trees by **height and species is best**
- **Required by IRS** since Christmas trees are “inventory”
- Can take count by drone

## Tax Return

- Capital gain income must be separated from ordinary income
- Some **additional tax forms must be filed**
- Make sure to properly **elect capital gain treatment on Form T**



# OTHER BOOKKEEPING BEST PRACTICES

## 1

### Establish a **Regular Bookkeeping Schedule**

- At least monthly - enter income and expenses, pay bills, reconcile bank statement, etc.

## 2

### **Organize Receipts and Documents**

- Consider cloud storage options, such as Dropbox or Evernote

## 3

### **Clean Up the Chart of Accounts**

- Get rid of unnecessary accounts
- Rename accounts with useful titles

## 4

### **Maintain a Proper Mileage Log**

- Log trips, as well as take a yearly odometer reading



# CONNECT WITH ME!



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