

THE #1 WAY CHRISTMAS TREE GROWERS SAVE TAXES

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Andrew Bosserman, CPA

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.

#1

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

ORDINARY INCOME VS CAPITAL GAIN INCOME

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

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

