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*Happy Holidays!*

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**Feature Articles**

**Recent Project Achievements**

During the summer of 2005, three of NRM’s clients owning property in the lower Mad River watershed teamed with the Humboldt Bay Municipal Water District (Water District) to improve fish habitat access in Leggett Creek. Access to approximately one-half mile of good coho salmon and steelhead spawning and rearing habitat was blocked by a culvert, which was installed above grade during the 1960’s. The landowners had previously identified the culvert as a fish barrier and were intending to replace it, but the cost of the project resulted in delays until budget conditions would permit moving forward.

The Water District learned about the project through NRM’s Fisheries Biologist and indicated they were willing to assist with funding. The Water District had \$15,000 budgeted for instream restoration as a mitigation requirement of their Habitat Conservation Plan. The funding provided by the Water District paid for a new bridge, while the landowners funded the heavy equipment, labor, excavation, and bank stabilization costs.

In the summer of 2006 it was confirmed that salmonids were once again using the reopened reach of stream when a NRM forester saw numerous juvenile salmonids upstream of the bridge. Fisheries biologists estimated that this segment of creek can support several spawning pairs of coho salmon and steelhead with the reproduction potential of more than 2,500 eggs per female. Other benefits to reproducing salmonids are not always readily apparent.

Scientists are discovering that the addition of marine-based nutrients (from dead adult salmonids) result in increased fish and aquatic insect productivity. In addition, productivity of riparian zones also improves since uptake of marine-origin nutrients has been identified in vegetation away from streams. The dead and dying fish also provide a seasonal food source for a variety of wildlife species. These benefits say nothing of the favorable human experience from seeing a wild population of salmon at work.

**Before Culvert Replacement.**

**After Culvert Replacement.**



If you are considering a restoration project that concerns wildlife habitat or could improve water quality, there are a number of grant opportunities available that can be used to reduce landowner’s costs and facilitate projects. NRM’s staff can help with grant applications, project planning, permitting, and implementation.

## How to Quantify Timber Casualty Loss

Timberland owners and harvesters can utilize Section 165 of the tax code to deduct for business casualty loss. Damage sustained, for example, from storms and fire, can be deducted. When damage is extensive, large timber operations may elect to deduct the diminution in fair market value of the damaged depletion block. Smaller timberland owners are more likely to value the damage by fair market value of board feet of timber. There are several methods for documenting the value of timber casualty loss that will satisfy the tax code requirements. The valuation methods include:

- to quantify the fair market value based on the quantity damaged (board feet) and the current reasonable sale price
- to appraise the asset before and after the loss
- to appraise the value of loss using an appropriate measure of unit for sale

## Income Tax Facts for Farmers and Ranchers

Farmers and ranchers have the option to reduce their taxes by either capitalizing or deducting certain soil and water conservation measures (Title 26 U.S. Code Section 175). The language of the Act is as follows:

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“A taxpayer engaged in the business of farming may treat expenditures which are paid or incurred by him during the taxable year for the purpose of soil or water conservation in respect of the land used in farming, or for the prevention of erosion of land used in farming, as expenses which are not chargeable to capital account. The expenditures so treated shall be allowed as a deduction.”

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The soil or water conservation measure must be consistent with any applicable State soil conservation plan or be approved by the U.S. Department of Agriculture or the Natural Resources Conservation Service (NRCS). This may not be as difficult as you first might think. The code section provides the following examples of expenditures:

- Treatment or moving of earth (e.g. leveling, grading, terracing, contour furrowing, restoration of fertility)
- Construction, control and protection of diversion channels, drainage ditches, earthen dams, watercourses, and ponds
- Eradication of brush
- Planting windbreaks

Importantly, “land used in farming” is defined as ‘land used before or simultaneously by the taxpayer or his tenant for the production of crops, fruit, or other agricultural products or for the sustenance of livestock.’ Guidelines meant to help tax practitioners define a ‘farm’ indicate that this code section applies to stock, dairy, poultry, fish, fruit and truck farms.

There are some limitations. The land must have been used for farming previously or at the time of the expense. The tax break specifically excludes measures already subject to a tax deduction, the

filling or draining of a wetland, or preparation of certain irrigation systems. There is also a limit to the amount that can be deducted annually, which is 25% of the annual gross income derived from farming. Deductible amounts over this can be deducted in the next taxable year.

The first time that a farmer elects to deduct or capitalize an expenditure for water or soil conservation, there is a choice as to whether to capitalize or deduct the expense. However, once the election is made, the farmer must obtain approval of the Internal Revenue Service to change the reporting method and is otherwise enrolled under their original choice to either deduct or capitalize.

When deducting the expense is an option, the cost is immediately translated into a tax benefit in that tax year. To instead capitalize the conservation measure, the expenditure is added to the capital assets of the farm or ranch and the value translates into a tax benefit through depreciation over a period of ten years. That is to say that 10% of the asset’s value is estimated to depreciate every year and can therefore be recouped over a longer period of time through deductions for depreciation rather than as a one time business expense. In a given water or soil conservation measure, there may be infrastructure, e.g., pipes, water wells, concrete, however, that must be depreciated over years. To decide which method of reporting the expense is best, farmers should consider whether there is infrastructure that would require depreciating the cost over time and compare the potential immediate tax relief with the potential depreciation over a total of ten years.

In lieu of the Section 175 provision, taxpayers in the business of growing timber can turn to Section 194 of the tax code which entitles certain timber growers (excluding trusts) to expense up to \$10,000 or amortize the costs associated with reforestation, including site preparation (i.e. fertilization), seedlings, labor and tools.

There have been periods of time where the tax code allowed deductions for ‘environmental remediation costs’. For example, Section 198 of the tax code permitted deductions for remediation of sites that were contaminated by a hazardous substance. This Section, however, expired in December 2005 and is no longer available to taxpayers, but it does serve as a reminder to taxpayers to ask their accountants of any potential tax benefits relating to land stewardship, particularly that which is state or federally mandated.

The tax code and the implications therein are complicated and so we recommend that tax decisions be discussed with someone with professional knowledge of tax accounting and law. This article is intended to be informative and to provide agriculturists with tools to manage their businesses with the most information at hand.



**Reminder for Bird Hunters:** This hunting season is the first year that California Fish & Game’s SHARE Program is in effect. Consequently, an extended Aleutian Geese hunting season has been made available from February 24 – March 10, 2007. To obtain a permit for the extended season, please register for the SHARE Program through the California Waterfowl Association (CFA) website at: <http://www.calwaterfowl.org/flyers/share.pdf>