



Timber Severance Tax

This publication answers some basic questions pertaining to proper reporting under the severance tax laws with regard to timber producers. This publication provides general information. It is not a substitute for tax laws or regulations.

Q1. What is the severance tax?

Severance tax is imposed on the activity of severing, extracting, reducing to possession and producing for sale, profit, or commercial use, any natural resource product, including timber.

The amount of severance tax due is determined by application of various rates to the "gross value" of a natural resource. Unlike the former State business and occupation tax on most natural resources, the severance tax is a "value added" tax in some instances.

Q2. Who pays severance tax?

The person who has title to or an economic interest in the natural resource is responsible for paying the severance tax. When timber is severed or processed by one person for another who has title to the timber, the person who has title or an "economic interest" in the timber is still responsible for paying the severance tax. The determination of who has title or an "economic interest" in the timber is made after examination of such factors as depletion, royalties, control over sales, etc.

Q3. What is considered to be a severance activity?

The physical severing or cutting and delimiting of a tree in this State.

Q4. What is the tax base for the severance tax on timber?

Severance tax is imposed on the "gross value" of the timber at the point where production ends. Timber production ends when the tree has been severed and delimited. When a sale occurs at this point, the "gross value" subject to the severance tax is the gross proceeds of the sale.

State and federal taxes, royalties, sales commissions, or any other expense may not be deducted in determining the "gross value" subject to severance tax.

Q5. If the sale of the timber is not at the point of severing and delimiting, how is the "gross value" subject to the severance tax determined?

In the absence of sales at the point where the timber is severed and delimited, the "gross value" subject to severance tax must be determined using the most accurate and reliable information available and should correspond as nearly as possible to the gross proceeds from the sale of similar products of like quality or character. Some factors that are considered in determining this value are given below.

- (1) Character and quality of the timber as determined by species, size, age, condition, etc.
- (2) The quantity of timber per acre, total quantity, location of the timber, etc.
- (3) Accessibility of the timber.
- (4) Freight rates charged by common carriers to important markets.

In the absence of sales of similar products as a guide to value, the "gross value" may be determined by a cost basis. In such cases, there shall be included every item of cost attributable to the production of the timber, including direct and indirect overhead costs. The average mark-up realized by the taxpayer must be added to the total production cost.

The timber in each particular case will be valued on its own merits. The taxpayer bears the burden of keeping records to support the "gross value" of the timber at the point of severing and delimiting that was used for severance tax purposes.

Q6. Is there an alternate method of determining "gross value" at the point of severance and delimiting besides using gross proceeds from sales of similar products or cost records?

The following set of rules may be used at the election of the taxpayer or in the absence of books and records to substantiate the fair market value of the timber. To apply these rules, the timber producer must find the rule which is similar to his situation, and apply the appropriate percentages to his gross proceeds of sale.

- (1) A person who produces timber and sells his logs, and by-products of timber production and bucking operations, on the ground, either where the trees were felled in the forest or at a central collection point, shall report seventy-five percent (75%) of the gross proceeds of sale under the severance tax.

- (2) A person who produces timber and sells and delivers his timber products, in the same condition as when those products leave the forest, to a sawmill, other manufacturer or consumer, shall report fifty percent (50%) of his gross proceeds of sale under the severance tax.
- (3) A person who produces timber and further saws, mills or otherwise manufactures the same into lumber, cross ties, timbers, veneers and other products for sale, profit or commercial use shall report twenty-five percent (25%) of his gross proceeds of sale under the severance tax. Where no sale is made, the fair market value of lumber, cross ties, timbers, veneer or other products must be determined and twenty-five percent (25%) of that amount shall be reported under the severance tax.

Q7. How do I file for severance tax?

With one exception for the month of May, for those taxpayers whose estimated tax liability exceeds one thousand dollars per month, estimated severance tax returns (Form WV/SEV-400T) must be filed monthly on or before the last day of the month for the previous month's activity. The estimated return for May's activity is due June 15th.

For taxpayers whose estimated tax liability is one thousand dollars per month or less, estimated returns are due in quarterly installments on or before the last day of the fourth, seventh and tenth months of the taxable year.

An annual severance tax return (Form WV/SEV-401T) shall be filed on or before the last day of the first month after the end of your taxable year.

Beginning July 1, 1998, the five hundred dollar (\$500) annual credit allowed to timber producers can only be deducted on the annual return and not on periodic installment payments.

Q8. What is the severance tax rate for timber?

Effective January 1, 2007, the severance tax rate for timber is 1.22 percent.

Q9. What are the requirements for nonresident owners or purchasers of timber to be severed?

They must obtain a West Virginia Business Registration Certificate and give to the Tax Commissioner written notice of their intent to sever timber between 30 - 90 days before the timbering operation begins. An amount equal to four percent (4%) of the estimated gross value of the timber to be severed must be prepaid. In lieu of a cash payment, the nonresident owner or purchaser may furnish a corporate surety bond for that amount.

A nonresident purchaser of standing timber, logs or wood products in conjunction with a timbering operation must obtain from the seller a copy of their current Business Registration Certificate or a federal Form 1099 for the year of purchase. If the seller is not required to have a Business Registration Certificate, the seller must give the purchaser an affidavit stating that fact. The affidavit must also contain the seller's social security number and current mailing address.

<p style="text-align: center;">West Virginia State Tax Department Taxpayer Services Division P. O. Box 3784 Charleston, West Virginia 25337-3784 Telephone: (304) 558-3333 Toll free : 1-800-WVA-TAXS (1-800-982-8297) or visit our web site: http://www.state.wv.us/taxdiv TDD service for the hearing impaired: 1-800-2TAXTDD (1-800-282-9833)</p>
