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March 19, 1998

Accountant

Re: Reporting of Small Total Volume Deduction

This is in response to your letter of December 24, 1997, in which you request our opinion regarding the correct method of reporting for purposes of calculating the small total volume deduction when two companies, Holding Company ( ) and The Lumber Company ( ), are sharing one timber harvest plan. Specifically, you want to know if the two companies are required to report their harvests separately or jointly for purposes of calculating the small total volume deduction. Per this deduction, the Board allows deductions from harvest value amounts when volumes on harvest operations are below specified amounts in recognition of the fact that the fixed costs of harvesting timber are higher for small volume harvesting operations.

In October 1997, staff of the Board's timber tax section sent a letter to each company following a review of its tax returns, which advised that small total volume deductions had not been taken and that possible overpayments of tax had occurred. However, the letters offered conflicting advice; one letter had combined the harvest volume for a shared Timber Harvest Report, the other treated the harvests as separate. You would prefer to report each harvest separately for your record keeping convenience.

We apologize for any confusion caused by the conflicting letters on this matter, which apparently, was due to the fact that each company's tax returns were reviewed independently by a different tax technician who was not aware that the other company was reporting under the same Timber Harvest Plan. As will be discussed further below, the above-stated companies are required, for purposes of calculating the small total volume deduction, to combine their harvest volumes for each quarter in which they are harvesting from the same assessor's parcel under one timber harvest plan.

The instructions for the Timber Tax Return state: "Two or more timber owners who elect to combine their harvest under one harvest permit may report each harvest as a *separate operation so long as each owner has a distinct timber parcel and each has a separate yield tax account.*" The parcel number referred to in the instructions is the assesssor's parcel number. Thus, the requirements for reporting each harvest separately under one timber harvest plan for purposes of calculating the small total volume deduction are that each timber owner must have a separate timber yield tax account and must separately own the land from which the timber was harvested, as identified by the assessor's parcel number.

Your letter states that each company has a separate timber yield tax account, but in many cases, is land owner and Lumber is the timber owner. Under these facts, where each company has a separate timber yield tax account but has harvested from property that does not have a separate assessor's parcel number, the companies, harvesting under one timber harvesting plan, would not be allowed to report each harvest as a separate operation for purposes of calculating the small total value deduction. Thus, refunds, if any, would only be owed to the extent that taxes were overpaid after determining if any small total value deduction would be allowed based on the combined volumes of both companies reported for each assessor's parcel for each quarter under a single timber harvesting plan. However, a review of the timber tax returns for each company for the third quarter of 1997 indicates that generally, the combined harvests of the two companies under one harvest plan far exceeds the volume allowed for purposes of claiming the small total volume deduction.

I hope this letter has been responsive to your concerns. If you have further questions, please do not hesitate to call.

Sincerely,

Mary Ann Alonzo

Mary Ann Alonzo
Tax Counsel

MAA:jd
h:/property/precednt/timbertx/1998/98005.maa

cc: Mr. Dick Johnson, MIC:63
Mr. Bill Jackson, MIC:60
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Mr. Dave Mayer, Eureka Office