

**§ 1.194-1 Amortization of reforestation expenditures.**

(a) *In general.* Section 194 allows a taxpayer to elect to amortize over an 84-month period, up to \$10,000 of reforestation expenditures (as defined in § 1.194-3(c)) incurred by the taxpayer in a taxable year in connection with qualified timber property (as defined in § 1.194-3(a)). The election is not available to trusts. Only those reforestation expenditures which result in additions to capital accounts after December 31, 1979 are eligible for this special amortization.

(b) *Determination of amortization period.* The amortization period must begin on the first day of the first month of the last half of the taxable year during which the taxpayer incurs the reforestation expenditures. For example, the 84-month amortization period begins on July 1 of a taxable year for a calendar year taxpayer, regardless of whether the reforestation expenditures are incurred in January or December of that taxable year. Therefore, a taxpayer will be allowed to claim amortization deductions for only six months of each of the first and eighth taxable years of the period over which the reforestation expenditures will be amortized.

(c) *Recapture.* If a taxpayer disposes of qualified timber property within ten years of the year in which the amortizable basis was created and the taxpayer has claimed amortization deductions under section 194, part or all of any gain on the disposition may be recaptured as ordinary income. See section 1245.

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**§ 1.194-2 Amount of deduction allowable.**

(a) *General rule.* The allowable monthly deduction with respect to reforestation expenditures made in a taxable year is determined by dividing the amount of reforestation expenditures made in such taxable year (after applying the limitations of paragraph (b) of this section) by 84. In order to determine the total allowable amortization deduction for a given month, a taxpayer should add the monthly amortization deductions computed under the

preceding sentence for qualifying expenditures made by the taxpayer in the taxable year and the preceding seven taxable years.

(b) *Dollar limitation—(1) Maximum amount subject to election.* A taxpayer may elect to amortize up to \$10,000 of qualifying reforestation expenditures each year under section 194. However, the maximum amortizable amount is \$5,000 in the case of a married individual (as defined in section 143) filing a separate return. No carryover or carryback of expenditures in excess of \$10,000 is permitted. The maximum annual amortization deduction for expenditures incurred in any taxable year is \$1,428.57 (\$10,000/7). The maximum deduction in the first and eighth taxable years of the amortization period is one-half that amount, or \$714.29, because of the half-year convention provided in § 1.194-1(b). Total deductions for any one year under this section will reach \$10,000 only if a taxpayer incurs and elects to amortize the maximum \$10,000 of expenditures each year over an 8-year period.

(2) *Allocation of amortizable basis among taxpayer's timber properties.* The limit of \$10,000 on amortizable reforestation expenditures applies to expenditures paid or incurred during a taxable year on all of the taxpayer's timber properties. A taxpayer who incurs more than \$10,000 in qualifying expenditures in connection with more than one qualified timber property during a taxable year may select the properties for which section 194 amortization will be elected as well as the manner in which the \$10,000 limitation on amortizable basis is allocated among such properties. For example, A incurred \$10,000 of qualifying reforestation expenditures on each of four properties in 1981. A may elect under section 194 to amortize \$2,500 of the amount spent on each property, \$5,000 of the amount spent on any two properties, the entire \$10,000 spent on any one property, or A may allocate the \$10,000 maximum amortizable basis among some or all of the properties in any other manner.

(3) *Basis—(i) In general.* Except as provided in paragraph (b)(3)(ii) of this section, the basis of a taxpayer's interest in qualified timber property for