

Excise Tax Advisory

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Taxability of Standing Timber Sales

Purpose

This Excise Tax Advisory (ETA) explains the tax application on sales of standing timber, when the sale of standing timber is subject real estate excise tax (REET) under RCW [82.45.060](#), business and occupation (B&O) tax under RCW [82.04.260](#)(12)(d), or neither. This ETA does not address whether these sales are subject to the forest excise tax under chapter [84.33](#) RCW (Timber and forestlands), property tax under chapter [84.34](#) RCW (Open space, agricultural, timberlands – current use – conservation futures), retail sales tax under chapter [82.08](#) RCW, or other B&O tax under chapter [82.04](#) RCW.

NOTE: For guidance related to the tax application on timber harvest operations, including sales of severed timber, refer to our WAC [458-20-13501](#).

Overview of the taxability of sales of timber

Generally, REET applies to the sale of standing timber if the ownership of the timber is transferred while the timber is standing because the sale is a sale of real property. However, when the sale of standing timber that is apart from land and the buyer is required to sever the timber within 30 months from the date of the original contract, then the sale of the standing timber is subject to a preferential B&O tax rate under RCW [82.04.260](#)(12)(d). Sales of timber that is not standing or timber that has been severed or cut into logs), are typically taxed as a retail or wholesale sale; see WAC [458-20-13501](#) for the tax application for those types of timber sales.

The sale of standing timber (REET)

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The sale of standing timber is considered to be a sale of real property¹ as defined in RCW [82.45.010](#).² Thus, REET is due on the contractual gross sales price for the sale of standing timber and land. REET is also due on gross sales price of contracts for the sale of standing timber apart from the land that *do not require the buyer to sever the timber within 30 months* from the date of the original contract.³

When the gross proceeds of the sale are subject to REET under chapter [82.45](#) RCW, they are not subject to B&O tax per RCW [82.04.390](#).

However, RCW [82.45.010](#)(3) provides certain exclusions from the definition of a “sale” for REET purposes. When a sale of standing timber subject to REET is exempt from REET because the transaction meets one of the exclusions in RCW [82.45.010](#)(3), the sale is not subject to REET. Additionally, the gross proceeds from any sale of real property that is excluded under RCW [82.45.010](#)(3) is also not subject to B&O tax, per RCW [82.04.334](#).

The sale of standing timber apart from land where the standing timber is required to be severed within 30 months

While sales of standing timber are generally subject to REET, sales of standing timber apart (separate) from land may instead be subject to the preferential B&O tax rate when the buyer is required to sever (cut) the standing timber within 30 months from the date of the original contract.

The sale of standing timber apart from land, or “selling standing timber,” is defined in RCW [82.04.260](#)(12)(d) as the sale of timber apart from the land where the buyer is required to sever the timber within 30 months from the date of the original contract, regardless of the method of payment for the timber and whether title to the timber transfers before, upon, or after severance. Timber is defined under RCW [84.33.035](#)(18) as forest trees, standing or down, on privately or publicly owned land. However, the specific definition under RCW [82.04.260](#)(12)(d) requires that the timber be standing because: 1) the subsection states that it is a sale of “standing” timber that sold apart (separately) from the land and 2) the requirement of the buyer to sever the timber requires that the timber be standing at time of sale.

¹ RCW [84.04.090](#) defines “real property” to include all standing timber growing thereon, except standing timber owned separately from the ownership of the land upon which the same may stand or be growing.

² The definition of “sale” for purposes of REET includes any contract for conveyance, grant assignment, quitclaim, or transfer, along with any lease option to purchase standing timber. See RCW [82.45.010](#)(1); Also see WAC [458-61A-113](#).

³ As RCW [82.04.260](#)(12)(d) defines “selling standing timber” as a sale of timber apart from land where the buyer is required to sever the timber within 30 months from the date of the original contact. A sale of standing timber apart from land where the contract does not require the buyer to sever the timber within 30 months from the date of the original contract is a “sale” for REET purposes. Also see definition of “timberland” per RCW [82.45.060](#)(5)(d).

When gross proceeds from the sale of standing timber are subject to B&O under RCW [82.04.260](#)(12)(d), such gross proceeds are not subject to REET per RCW [82.45.195](#).

Common Types of Timber Sale Arrangements

The following examples briefly identify the common types of standing timber sale arrangements. The examples are intended to provide general guidance only. The tax treatment of a particular sales transaction depends on the facts and circumstances in each case.

Example 1 – Transaction subject to B&O tax under RCW 82.04.260(12)(d) only.

Facts: Landowner Association (LA) owns a large tract of standing timber in eastern Washington. LA enters into a contract with Harvesting Company (HC) for \$500,000. The contract requires HC to sever (cut) the standing timber on LA’s tract of land within 30 months from the contract date of September 1, 2024. On January 1, 2027, 28 months after acquiring the standing timber, HC severs the standing timber.

Result: Because the sale of standing timber between LA and HC meets the definition of “selling standing timber” as defined in RCW [82.04.260](#)(12)(d), the gross sales price LA receives from HC per their contract is subject to B&O tax under RCW [82.04.260](#)(12)(d). Because the transaction is classified as the “selling of standing timber” and taxed under RCW [82.04.260](#)(12)(d), it is exempt from REET under RCW [82.45.195](#).⁴

Example 2 – Transaction subject to REET only.

Facts: Same facts as Example 1, except that the contract does not require HC to sever the standing timber within 30 months from the original contract date, September 1, 2024.

Result: Because the sale does not meet the definition of “selling standing timber” in RCW [82.04.260](#)(12)(d), the gross selling price is subject to REET as a sale of real property under [RCW 82.45.010](#)(1). This transaction is not subject to B&O tax because the gross sale price received from a sale of real property is not subject to B&O tax, per RCW [82.04.390](#).

Example 3 – Transaction not subject to REET or B&O tax (transfer to wholly owned subsidiary exempt from REET).

Facts: Parent Company (PC) specializes in growing, harvesting, and manufacturing wood products from trees. PC is also the owner of several

⁴ The transaction as described in **Example 1** is also subject to Forest Excise Tax. The \$500,000 LA received from HC is also subject to forest excise tax.

wholly owned subsidiaries that provide various functions within PC's operations. On October 1, 2024, PC transferred one of its large tracts of land with standing timber located in western Washington to its wholly owned subsidiary, Subsidiary 1, Inc. (S1), for \$1 million. The contract between PC and S1 does not require S1 to sever the timber within 30 months from the contract date of October 1, 2024.

Result: Because the sale arrangement does not require the standing timber to be severed within 30 months from the contract, the contract between PC and S1 does not meet the definition of "selling standing timber" under RCW [82.04.260](#)(12)(d). The transaction is a sale of real property as defined in RCW [82.45.010](#)(1) and subject to REET. However, RCW [82.45.010](#)(3)(p) excludes the transfer of real property if it consists of a mere change in identity or form of ownership of an entity where there is no change in the beneficial ownership. This includes the transfers of real property to a wholly owned subsidiary.⁵ Thus, the transfer of the standing timber from PC to S1 qualifies for an exclusion under RCW [82.45.010](#)(3) and is not subject to REET. The transaction is also not subject to B&O because, under RCW [82.04.334](#), a sale of standing timber excluded from the definition of a "sale" in RCW [82.45.010](#)(3) is not subject to B&O tax.

Example 4 – Transaction subject to REET, but not B&O tax (transfer to subsidiary not exempt from REET).

Facts: On November 1, 2024, Company A (CA) finalizes its negotiation of taking 25% ownership of Sustainable Wood Products Inc (SWP). As part of the agreement, CA agreed to transfer 1,000 acres of land for \$1.2 million and transfer the newly grown timber attached to the land for \$300,000 for a total contract price of \$1.5 million. The contract did not specify any date by which SWP was required to sever the timber, only stipulating that the timber will continue to grow until maturity under the care and management of SWP.

Result: Because this is a sale of land and standing timber, where the standing timber is not required to be severed within 30 months from the contract date, the total contract price of \$1.5 million is subject to REET as a sale of real property. This transaction does not qualify for an exclusion from the definition of a "sale" for REET purposes under RCW [82.45.010](#)(3) because PC does not have 100% ownership of SWP. This transaction is a sale of real property and thus not subject to B&O tax, per [RCW 82.04.390](#). Because the transaction is not a "selling standing timber" sale as defined in RCW [82.04.260](#)(12)(d), the sale is also not subject to the preferential B&O tax classification.

⁵ See WAC [458-61-211](#)(2)(c).