



## *Taxation of Road and Road Abandonment Examples, Department of Natural Resources Timber Sales*

This flyer is being provided to help purchasers of Department of Natural Resources (DNR) timber sales determine what costs, other than bid price, are taxable under the Forest Excise Tax (FET). The Department of Revenue's policy on road, road abandonment and "other consideration" costs is explained in WAC 458-40-610.

To summarize, permanent road construction costs are taxable, temporary road construction costs are not taxable; costs of abandoning existing roads (roads that were already in place prior to a timber sale and do not require reconstructing) are taxable, costs of abandoning roads that were built (or reconstructed) and then abandoned under the same timber sale contract are not taxable. "Other consideration" costs (for example: gates, bridges, road maintenance, rock pit development and stockpiling) are taxable.

Below are excerpts from actual DNR timber sale prospectuses and road plans, and an explanation of what activities are subject to the FET.

**Example 1:** On this sale, the text on the front of the prospectus provides adequate information to determine whether road abandonment is a taxable activity. The text specifically identifies the road abandonment as pertaining to roads built for this sale (temporary roads: not taxable).

**ROADS:** 47.60 stations of required reconstruction. 6.91 stations of optional construction. 6.91 stations of road to be abandoned if built. 397.71 stations of road to be maintained. Rock is available from pits on State land in Sections 7 and 34, Township 37 North, Range 5 East. W.M. Road construction will not be permitted from November 1 to March 31 unless authorized in writing by the contract administrator to reduce soil damage and siltation. The hauling of forest products will not be permitted from November 1 to March 31 unless authorized in writing by the contract administrator to reduce road damage and siltation.

Thus, the following activity costs are taxable under the FET:

- 47.60 stations for required reconstruction (road remains after sale: permanent road.)
- 397.71 stations of road maintenance (benefits seller: other consideration in lieu of cash.)

The following activity cost is not taxable:

- 6.91 stations of construction and subsequent abandonment (road is temporary, activity does not benefit seller.)

**NOTE:** new roads must be abandoned as defined by DNR Forest Practices WAC 222-24-052(3). Inactivation, deactivation, or closure that does not meet the WAC definition is a taxable activity.

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State of Washington  
Special Programs Division - Forest Tax Section  
PO Box 47472  
Olympia, WA 98504-7472

Toll Free - (800) 548-8829  
Local - (360) 570-3203  
Fax - (360) 664-8438  
Internet – <http://dor.wa.gov>  
Teletype – (800) 451-7985

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**Example 2:** On this sale prospectus, it is not clear whether the road abandonment requirement refers to existing roads or new roads.

**ROADS:** 16.61 stations of required construction. 32.66 stations of required reconstruction. 38.63 stations of optional construction. 2.50 miles of pre-haul maintenance. 12.44 stations of required road abandonment. Rock is available from any commercial source.

Therefore, the road plan must be consulted to determine the nature of the abandonment. The relevant sections of the road plan are “General Clauses,” which lists each road/spur by number of stations, and “Road and Landing Abandonment,” which lists each road/spur to be abandoned, the number of stations, and type of abandonment required.

### **Section 1 – General Clauses**

1.1-3

Construction of the following roads is not required. Roads used by the Purchaser shall be constructed on the State’s location and in accordance with this Road Plan.

<u>Road</u>	<u>Stations</u>	<u>Type</u>
Spur 1	0+00 to 6+92	Construction
Spur 2	0+00 to 5+08	Construction
Spur 3	0+00 to 3+92	Construction
Spur 3A	0+00 to 1+59	Construction
Spur 4	0+00 to 14+19	Construction
Spur 4A	0+00 to 3+92	Construction
Spur 5A	0+00 to 3+64	Construction

### **Section 10 – Road and Landing Abandonment**

10.1-1

The following roads shall be abandoned by the Purchaser prior to the termination of this contract. All abandonment work shall be in accordance with Forest Practice regulations.

<u>Road</u>	<u>Stations</u>	<u>Type</u>
Spur 3	0+00 to 3+92	Light
Spur 3A	0+00 to 1+59	Light
Spur 4A	0+00 to 3+29	Light
Spur 5A	0+00 to 3+64	Light

The following activity costs are taxable under the FET:

- 16.61 stations for required construction (road remains after sale: permanent road.)
- 32.66 stations of required reconstruction (same as above.)
- 26.19 stations of optional construction if built [(Spur 1) 6.92 + (spur 2) 5.08 + (spur 4) 14.19] (road remains after sale: permanent road.)
- 2.5 miles of pre-haul maintenance (benefits seller: other consideration in lieu of cash.)

The following activity cost is not taxable:

- 12.44 stations of construction and subsequent abandonment [(Spur 3) 3.92 + (spur3A) 1.59 + (spur 4A) 3.29 + (spur 5A) 3.64] (road is temporary, activity does not benefit seller.)

***If you have questions about taxable costs on a DNR timber sale, call us at 1-800-548-8829.***