



Forest Property Taxation in Eastern Oregon

Alternatives for the Small Woodlands Owner



Prepared by Dr. Charles F. Sutherland, Jr., Extension Forest Economist, Oregon State University. The author acknowledges the contributions of members of the State of Oregon Department of Revenue and members of the faculty at Oregon State University.

Extension Circular 898



OREGON STATE UNIVERSITY
EXTENSION SERVICE

June 1976

Extension Service, Oregon State University, Corvallis, Joseph R. Cox, director. This publication was produced and distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. Extension work is a cooperative program of Oregon State University, the U. S. Department of Agriculture, and Oregon counties.

FOREST PROPERTY TAXATION
IN
EASTERN OREGON

1976

In Oregon property taxes are used to finance local government. With some exceptions, they are determined by computing a tax rate and multiplying the market value of each owner's property by this rate. The tax rate is calculated each year by dividing the total budget for each taxing district (minus revenue from other sources) by the total property value in the district.

Forest property taxes in eastern Oregon

If you own forest property in eastern Oregon, it may be taxed under the Eastern Oregon Severance Tax or the Forest Fee and Yield Tax (Reforestation Lands Tax). The Eastern Oregon Severance Tax applies to forest property in counties east of the summit of the Cascades. You may, however, elect to have your property taxed under the Forest Fee and Yield Tax. Let's examine each of these laws and compare their application to forest property.

Eastern Oregon Severance Tax
(ORS 321.405)

In discussing forest property taxation it is convenient to separate land taxation from timber taxation.

Land taxation

If your forest land is taxed under the Eastern Oregon Severance Tax, the land is appraised by appraisers from the county assessor's office at least every six years. This appraised value must represent the market value of forest land primarily used for timber production. These values are published yearly for each land use class and are the values assigned on January 1 for calculating the tax on your forest land.

Compare the land values used for assessing your forest land with those published by the assessor for forest lands. In areas zoned for forest use these published values and the values used for your land should be equal. Ask the assessor to explain any discrepancies.

In areas zoned for other, higher uses, your appraised value may be higher than the published values for forest lands. If you are managing your land for forest production, you may apply to have it "designated" as forest land and taxed on its potential for forest production.

Each separate parcel of forest land must be two acres or more to be eligible for consideration as designated forest land.

To have it "designated" as forest land you must obtain a blue form titled "Application for Designation of Land as Forest Land" from the county assessor's office or from the local office of the Department of Revenue. Fill

this out and return it to the county assessor's office. If the assessor approves your application, he will assign a forest land value to all of your property eligible for forest land classification.

Calculation of tax on forest land

Assuming that your land is classed as forest land, how will it be taxed? To calculate your tax, the assessor will multiply the tax rate for the district in which your forest land lies by the total value of the forest land you own in the district.

An example will help explain the procedure.

A taxpayer has fifty acres of forest land in Klamath County in eastern Oregon, currently assessed at \$25 per acre for forest use. The tax rate for the year is \$11 per thousand dollars of assessed value. Here is how your total land tax will be calculated.

Fifty acres x \$25 per acre = \$1,250 total assessed forest land value
1.250 thousands of dollars x \$11 per thousand of assessed value
= 1.250 x \$11 = \$13.75 taxes due.

Therefore, by November 15 you must pay the tax collector \$13.75, or at least a fourth of this amount, if you elect to postpone tax payment without penalty.

Timber taxation

Under the Eastern Oregon Severance Tax, your timber is exempt from taxation until it is harvested. When you cut your timber, a severance tax of 5 percent is levied on the stumpage value of this timber.

The stumpage values for all timber classed under the Eastern Oregon Severance Tax are assigned by the Oregon Department of Revenue. These vary by geographical (market) area within a county, by species and by log size, within the ponderosa pine species class.

By July of each year, the Department of Revenue determines these stumpage values for the following fiscal year and publishes them in a "Schedule of Immediate Harvest Values and Area Descriptions." This schedule is available at the county assessor's office or the local office of the Department of Revenue. When you calculate your severance tax for the preceding quarter, you will use the stumpage values from this schedule to fill out your Timber Severance Tax Return. The Department of Revenue will automatically send a Timber Severance Tax Return to the individual or company filling out a Permit to Harvest Timber. If your logger completes the permit, the Department will send the Timber Severance Tax Return to him. Be sure to ask the logger to send it to you. You may also obtain a copy of the Timber Severance Tax Return at the county assessor's office or the local office of the Department of Revenue.

In reporting timber harvest by quarters, any harvest occurring before September 30, December 31, March 31 or June 30 is reported for the preceding three month period. The date of harvest is considered to be the date the

quantity of timber cut is normally measured. For example, if following usual procedure, your timber is cut on September 25 and hauled to the mill on October 6th where it is first measured, then you would report this harvest for the second quarter of the fiscal year.

To complete the Eastern Oregon Timber Severance Tax Return you must know the map location of your timber to find the proper area number. Next you must have the volume of each species cut in each area and for ponderosa pine, the average log volume for 16-foot logs by area.

For species other than ponderosa pine, the stumpage value (immediate harvest value) for each species by area is found in the "Schedule of Immediate Harvest Values" and entered in the Severance Tax Return. The total volume in thousands of board feet, multiplied by value per thousand board feet, equals the total value to be taxed.

For ponderosa pine the same procedure is used, except that you must know the average log volume for timber cut in the quarter to find the stumpage value used in the calculation of the tax. First, calculate the number of 16-foot ponderosa pine logs harvested by adding the lineal lengths of all ponderosa pine logs harvested from an "area" in the three-month reporting period. Divide this total by sixteen feet to get the number of 16-foot logs cut. Next, divide the total ponderosa pine harvest volume by the number of 16-foot logs to get the average log size. The average log size is then used in the "Schedule of Immediate Harvest Values" to find the ponderosa pine stumpage value per thousand board feet for the area. The total stumpage value is calculated as for other species.

The total stumpage value for all timber harvested in all areas is then multiplied by 5 percent to find the timber severance tax you owe for the quarter.

If your tax liability for any quarter is less than five dollars, (equivalent to an exemption of \$100 of stumpage value) you are not required to pay the tax, but you must file a severance tax return for the quarter.

Calculation of tax on timber

Here is an example to show how the tax is calculated.

On the fifty acres of land in the previous example, assume you cut 75,000 board feet of ponderosa pine. All cutting occurred in August, 1975, in Klamath County and was scaled at the mill.

The area description on the Schedule of Immediate Harvest Value shows that your land is located in Area 18-1.

First you must determine from the Schedule of Immediate Harvest Value the stumpage value for tax purposes for any species you harvest. All stumpage values are listed by area (18-1 in this case). For ponderosa pine you must also know the average log volume to find the stumpage value used in the tax calculation.

To calculate the average log volume for ponderosa pine, add the lineal feet of ponderosa pine logs from the scale slips at the mill for the quarter. Divide the total lineal feet by 16 feet to get the equivalent number of 16-foot logs produced in the quarter. In our example, a tally of mill scale slips shows that 10,432 lineal feet of ponderosa pine logs were scaled from trees cut on the 50 acres in Area 18-1.

$$\frac{10,432 \text{ lineal feet}}{16 \text{ feet}} = 652 \text{ sixteen-foot logs}$$

The total mill scale of 75,000 board feet of ponderosa pine is then divided by 652 logs to get the average log volume.

$$\frac{75,000 \text{ bd. ft.}}{652 \text{ logs}} = 115 \text{ bd. ft. average log volume}$$

According to the Schedule of Immediate Harvest Value the stumpage value for an average log volume of 115 bd. ft. for this quarter for tax purposes is \$59 per thousand board feet (MBF).

$$\begin{aligned} \text{Total value for tax purposes} &= \$59/\text{MBF} \times 75 \text{ MBF} \\ &= \$4,425 \end{aligned}$$

Therefore, the tax for the first quarter in the fiscal year 1975-76 will be 5 percent of \$4,425.

$$\$4,425 \times .05 = \$221.25$$

To avoid penalties, tax payments must be made on or before the last day of the month following the close of the quarter. A check for your tax, in this case \$221.25, should be made payable to the Department of Revenue. Mail your completed Eastern Oregon Timber Severance Tax Return and your tax payment for the quarter to:

Severance Tax Section
Department of Revenue
Salem, Oregon 97310

Forest Fee and Yield Tax
(Reforestation lands tax - ORS 321.255)

The Forest Fee and Yield Tax is an optional tax law that is available for use if you meet the requirements for classification. The Forest Fee and Yield Tax allows the owner to pay a very low annual land tax and a substantial tax on the value of all harvested forest products. The annual land tax is 5 cents per acre east of the Cascades and 10 cents per acre west of the Cascades. The yield tax is 12½ percent of the gross value (stumpage value) of all forest crops "immediately prior to harvesting."

Qualification

To qualify for this tax your land must:

1. Have less than a minimum amount of merchantable timber on it. A volume of timber less than practical to log is interpreted as being below "minimum."
2. Have an adequate seed source, or support a minimum stocking of forest trees. A "minimum stocking" would include seedlings and saplings. It would not include merchantable trees. This provision and the next depend largely on the judgment of the appraiser from the Department of Revenue.
3. Be suitable for and likely to produce forest crops. Although there is no minimum acreage specified, there must be sufficient acreage to meet this requirement.
4. Be protected from fire, insects and disease. If your land is in a Fire Protection District, you are paying fire patrol taxes and your property is assumed to be "protected from fire." No standards have been set for protection from insects and disease.

Application for classification

You apply for this option to the Department of Revenue. The application form titled "Application for Classification of Land as Reforestation Land" can be obtained by writing to:

Forest Fee and Yield Tax Section
Department of Revenue
Salem, Oregon 97310

Or you may find an application form at your County Assessor's office or nearest local office of the Department of Revenue.

Mail the completed form to the address shown above. An appraiser from this section will examine your land and recommend approval or disapproval of your application. If your application is rejected, you may appeal to the Department of Revenue.

If you need help in completing the application, contact your local Extension Agent, State Service Forester, or if you prefer, hire a consulting forester. Consulting foresters are often listed in the yellow pages of your telephone directory under "Foresters-Consulting."

Removal from classification

You will pay an additional tax if you decide to remove your land from its classification under the Forest Fee and Yield Tax. The tax due is the higher of either (1) a 12½ percent tax of the "current market value of all the forest crops situated on the land" or (2) the taxes you would normally have paid during the time your property was under the Forest Fee and Yield Tax, less any fee or yield taxes actually paid during the years of classification.

Your land may become ineligible for continued classification under the Forest Fee and Yield Tax. If this happens, the Department of Revenue will declassify your land and bill you for the additional taxes due, calculated by the second method shown above.

Calculation of taxes

The Forest Fee and Yield Tax is really quite simple. You will pay an annual tax of 5 cents per acre (10 cents in western Oregon) for your forest land. That's it--no other property tax until you harvest your timber or forest crops. "Other" forest crops could include such products as tree cones. When you harvest forest crops you will pay 12½ percent of the value immediately before harvesting to the county tax collector.

Let's use the data from the previous example and compute the tax due if the property in the example were under the Forest Fee and Yield Tax:

Land tax

Assuming the forest land is in Eastern Oregon, a land tax of \$2.50 would be due each year on November 15.

50 acres x \$0.05 per acre = \$2.50 annual land tax for the property.

Harvest tax

In this case, if 75 thousand board feet were harvested, and it was valued at \$65 per thousand board feet by the Department of Revenue because of the kinds of products cut, you would owe a tax of \$609.38 on this timber. Timber not harvested is not taxed.

75 MBF harvested timber x \$65 per MBF =
\$4,875 total immediate harvest value.

\$4,875 x 12½ percent yield tax = \$609.38 tax due.

The stumpage values used in this law may not be the same as those listed in the Schedule of Immediate Harvest Values used for the Eastern Oregon Severance Tax. Each harvest under the Forest Fee and Yield Tax is separately appraised by the Department of Revenue.

Reports Required

In addition to the permits required to operate power-driven machinery and to comply with the Oregon Forest Practices Act, you must fill out an "Application to the Department of Revenue, State of Oregon for a Permit to Harvest Forest Crops from Classified Reforestation Lands" if you plan to harvest forest products on land classified under the Forest Fee and Yield Tax. This form must be sent to the address shown previously. Write to the same address for the application form or ask for one at the local office of the Department of Revenue.

A Department of Revenue appraiser for the Forest Fee and Yield Tax will determine the value of the forest products you intend to harvest and will send you a "Permit to Harvest Forest Crops from Classified Reforestation Lands" listing these values. You should allow three to four weeks for this permit to be issued.

You must have this permit before you harvest any forest products from land under the Forest Fee and Yield Tax.

Your harvest tax will be 12½ percent of the total value of the products harvested, based on the values shown on the permit. The permit is issued for a calendar year.

Within 30 days of June 30 or December 31, the owner must submit a "Report of Forest Crops Harvested From Classified Reforestation Lands" to the Department of Revenue and the county tax collector, listing the amount and kinds of forest products harvested in the preceding six months. The report to the tax collector will include the yield tax due.

Ten thousand board feet or equivalent measurement are exempt annually from the yield tax if the forest products are harvested for use on your own property. You must, however, obtain a Permit to Harvest Forest Crops from Classified Reforestation Lands.

Retaining classification

If you purchase land classified under the Forest Fee and Yield Tax, you are not required to reapply for classification. It is important to note, however, that the 12½ percent tax on the merchantable value of the forest growth is a lien against any present or future crops produced from this land.

Comparison of Tax Costs

For owners interested in the relative tax cost of the Eastern Oregon Severance Tax and the Forest Fee and Yield Tax, calculation is shown below for a fifty-year period, assuming that the stumpage values for these two laws are equal. As noted above, this may not be the case. To simplify the comparison, present tax rates and stumpage values are used. A 6 percent compound interest rate is applied to accumulate all tax costs to the end of the fifty-year period.

The harvest schedule used for this comparison is shown below:

<u>Ponderosa Pine</u>	
At end of first 10 years	4,000 bd. ft.
At end of each 10 years thereafter	1,500 bd. ft.
Average log size	115 bd. ft.
Stumpage value	\$59/MBF

Total tax costs and interest per acre at the end of a fifty-year period are:

<u>Item</u>	<u>Eastern Oregon Severance Tax</u>	<u>Forest Fee and Yield Tax</u>
Land	\$3,992.08	\$725.83
Timber	<u>\$8,666.78</u>	<u>\$21,666.94</u>
Total	\$12,658.86	\$22,392.77

In this case, tax payments under the Forest Fee and Yield Tax are much higher than those under the Eastern Oregon Severance Tax.

The Appeal Procedure for Forest Property Taxation in Eastern Oregon

If you believe that the appraisal values assigned to your real property (in this case forest land or standing timber) are too high, you have the right to appeal these values. Remember that the assessed values placed on your property must approximate market values. Your appeal will have a greater likelihood for acceptance if you substantiate your arguments for a reduced assessment. The evidence for an appeal might include:

1. Sales of comparable timber and forest land.
2. An appraisal by a competent appraiser and/or cruiser.

The procedure for making an appeal is described below:

Eastern Oregon Severance Tax

Assessor's Office

Land Assessment
ORS 308.280

ORS 308.210
ORS 308.242

1. The county assessor is required to mail by the 1st Monday in May an "Increase in Value Notice" to any owner whose real property assessment has been increased \$400 or 5 percent, whichever is greater.
2. Assessed values for forest land under the Eastern Oregon Severance Tax are determined as of January 1 each year by the county assessor. On May 1st the assessment roll is closed. If you believe your forest land assessment is too high, go to the assessor's office before that time and fill out a "Request for Review" form. The assessor will arrange a review of your assessed land value. If you are not satisfied with the results of your review, you may appeal to the County Board of Equalization.

ORS 321.805 to
321.825
ORS 306.520

3. If your land is not assessed as forest land, you may apply to the assessor to have it "designated" as forest land. If the assessor denies your application or removes your forest land from designation as forest land, you may appeal the assessor's decision to the Department of Revenue within 30 days after the assessor mails his decision to you.

County Board of
Equalization

1. The county board of equalization consists of a county commissioner, a member of the county budget committee, and a non-office holding county resident chosen by these two.

ORS 309.100

2. To appeal to the county board the assessed value placed by the assessor on your forest land, you must file a petition with the county clerk between the 2nd and 3rd Monday in May. Appeal forms are in the county clerk's or assessor's office. If you choose to appear before the board, the clerk will arrange a time. However, you do not have to appear before the board to have your case reviewed.
3. If the Board rules against you, you may appeal the Board's decision to the Department of Revenue in Salem.

Department of
Revenue

Land Assessment
ORS 306.515

1. If you appeal the Board's decision on forest land value or the assessor's decision on "designation" to the Department of Revenue, you must file a petition with the Department in Salem within 30 days after the Board mails its decision to you. Appeal forms can be obtained from the county assessor's office or from the Department of Revenue.
2. Department of Revenue hearings are usually held by a hearings officer in the courthouse of the county where the appeal originated. You may present your own case or hire an attorney. Corporations must be represented by an attorney.
3. For appeals of either land or timber values, you should be prepared to submit appraisal data prepared by competent appraisers, market data, or income and expense data to show that your property was not assessed fairly in relation to market data.
4. Appeals of land values from the Department of Revenue rulings are made to the Regular Division of the Oregon Tax Court.

Timber
ORS 321.470

5. Within 20 days from the date of mailing of a notice of deficiency or delinquency, an owner may appeal to the Department for the revision or refund of any tax. If the revision or refund does not exceed \$250, exclusive of interest and penalties, the owner may appeal directly to the Small Claims Division of the Oregon Tax Court.

ORS 321.470

6. Harvest values determined by the Department of Revenue for an "area" must be appealed on or before July 31 of the year of determination to the Regular Division of the Oregon Tax Court.

Oregon Tax Court
a. Small Claims
Division
ORS 305.515

1. If the true cash value of your forest land does not exceed \$35,000 or if the revision or refund of your harvest tax does not exceed \$250, exclusive of interest and penalties, the owner may appeal directly to the Small Claims Division of the Oregon Tax Court.

2. If you elect to appear before the Small Claims Division, the hearing is held in the county where the property lies. The hearing is informal and you may present your own case if you choose. The findings in the Small Claims Division are binding for that year. You may not appeal from the court's decision.

b. Regular
Division
ORS 306.545

1. Unless your harvest tax revision or refund is \$250 or less, you appeal Department of Revenue decisions directly to the Regular Division of the Oregon Tax Court.
2. The trial in the Tax Court's Regular Division is a formal hearing and most taxpayers are represented by an attorney. Decisions of the Regular Division of the Tax Court may be appealed to the State Supreme Court.

Forest Fee and Yield Tax

Department of
Revenue
ORS 321.355

1. All administrative decisions for classification or declassification of forest property or for appraising the quantity and value of forest products are made by the State Department of Revenue. Neither the county assessor nor the county Board of Equalization has a role in the appeal procedure under this law.

ORS 321.291(5)

2. With one exception you are allowed 30 days after an administrative order or other act of the Department of Revenue, to appeal the order to the department. However, you are allowed 60 days to appeal the Department of Revenue's recommendation for declassification of forest land under the Forest Fee and Yield Tax.

ORS 306.530

3. Upon appeal, a hearing will be held by the Department of Revenue or by an authorized hearing officer. Hearings may be held in Salem or locally at the discretion of the department.

If the department rules against you, then you may appeal to the Regular Division of the Oregon Tax Court.

Oregon Tax Court

a. Small Claims
Division

b. Regular
Division
ORS 306.545

1. There is no provision for appeal to the Small Claims Division of the Oregon Tax Court of a Department of Revenue's administrative decision related to the Forest Fee and Yield Tax.
1. Within 60 days after the Department of Revenue's decision on the appeal has been served, the owner may file an appeal to the Regular Division of the Oregon Tax Court. An original and a certified copy of the petition must be filed with the court clerk in Salem, Oregon.
2. A decision of the Oregon Tax Court's Regular Division may be appealed to the State Supreme Court.



Extension Forestry

