

A Discussion of  
FOREST TAXATION  
With Special Reference to  
Forest Taxation in Oregon

Wendall L. Jones

Submitted to Paul M. Dunn

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## PREFACE

I chose to write on the subject of forest taxation in order to learn something about it. For this reason, much of the information in the report came directly from the cited references. I strived to reword most statements for clarity and to avoid direct quotations. I feel that the information in the report can be an aid to a forestry student desiring some basic facts on forest taxation, because I have obtained considerable information from writing the report.

W. L. J.

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Introduction

Taxes are a substantial item of cost in a forestry enterprise. The importance of their effect on forestry is not realized by many people, because there is not much literature published on the subject of forest taxation. Even students of forestry get very little exposure to forest taxation principles and problems. The following discussion is proposed to give the forestry student a brief background in forest taxation with special emphasis on forest taxation in Oregon.

History of Forest Taxation

The history of forest taxation in the United States is divided into two phases. The first phase began about 1860 with legislation offering tax relief as an incentive to timber culture. The land owner was offered exemptions, rebates, or bounties for planting and managing forest trees. The second phase, beginning about 1910, introduced the yield tax principle of forest taxation.

The first phase was started with legislation by Nebraska in 1861, offering partial tax exemption for timber culture. Similar legislation was enacted in the next twenty years by nearly every state and territory.

Most of these laws were repealed, declared unconstitutional, or superseded by other laws around the turn of the century. In general, the tax relief laws failed to stimulate forestry as was desired.

Michigan initiated yield tax legislation in 1911, and sixteen other states passed similar laws in the following twenty years. Some of these laws were later repealed, and several states added exemption laws during this period. Fourteen states now have yield tax laws.

#### Types of Specific Forest Taxes

There are eight different types of special forest taxation in the United States. Each type is applied in a slightly different manner in each state, but the basic principles are the same. Following is a general description of each type, with special reference to the more important cases.

#### The Bounty

The bounty method of tax relief to the timberland owner is used in Minnesota and South Dakota. In order to be eligible for a bounty, the owner must plant and maintain forest trees under certain specifications set up by the state. He then must present to the county a written and sworn statement of his eligibility. The acreage limitations in both states make the laws applicable only to the farm woodlot situation.

#### Deferred Timber Tax

Washington is the only state that has a deferred timber tax. The law applies to lands being used for timber production and not eligible under the state yield tax law. It is not applicable to farm woodlots. The owner must apply to the state if he desires to be classified under this law. The land and timber are taxed separately. The land is assessed as real

property at fifty percent of value. The timber is assessed as personal property at fifty percent of value. The tax levy is reduced by 7 1/2 percent the first year and an additional 7 1/2 percent each year thereafter for ten years. The resultant amount is payable each year, and the amount reduced is accumulated until harvest. The accumulated deferred taxes are payable at harvest and constitute a prior lien on the land and timber. Interest on the deferred taxes is paid annually.

#### Differential Tax

Ohio employs a differential tax applicable to forest lands under protection and management regulations as established by the state. Properties classified under this law are taxed at one-half the normal rate on their value under the general tax laws.

#### Exemption Tax

Thirteen states and the territories of Hawaii and Puerto Rico make provisions for exempting immature timber from taxation. In some states, the land is also exempt from taxation until the timber is mature. In Kansas, lands occupied by shelterbelts and windbreaks are eligible for a tax reduction, and the trees are tax exempt. California exempts stands under forty years old and stands from which seventy percent or more of the mature timber has been removed. Most eastern states with exemption laws exempt stands for thirty years after planting or regeneration.

#### Fixed Assessment

Under the fixed assessment laws, lands meeting qualifications set up by the state are classed as "forest reservations" or "forest plantations." Forest lands so classified are taxed on a fixed assessment of one to five dollars per acre.

### Tax Rebate

The tax rebate was used in New Hampshire prior to the yield tax legislation in 1949. Rebates were made to owners maintaining softwood plantations. Taxes were rebated at the following rates: 90% of levy for the first ten years; 80% of levy for the second ten years; and 50% of levy for the third ten years.

### Severance Tax

A severance tax is imposed on forest products in six states. In most states the rates are from a few cents to one dollar per thousand feet log scale. The revenue obtained from the severance tax is allocated to various state and county funds, and in some states, all of the revenue goes into specific forestry funds.

### Yield Tax

Yield tax laws are in effect in fourteen states, including Oregon, Washington, and Idaho. These laws provide for deferment of taxes until the timber is harvested, thus easing the tax burden on immature timber. Some states also defer the tax on the land. The land is taxed on a fixed or sliding rate, and the timber is taxed at five percent to twelve and one-half percent of stumpage value. Five states including Washington, increase the yield-tax rate one percent each year following classification until a specified maximum percent is reached. New Hampshire allows a thirty percent reduction in yield tax if cutting practices meet standards set by the state.

### Forest Taxation in Oregon

The taxation laws of Oregon pertaining to forestry have been a point of heated debate since the time they were enacted. The laws are deemed inequitable and unconstitutional by some people, but so far the laws have been upheld in the courts. The high value of Oregon timber results in high taxes for the timber owner. These property taxes constitute a substantial annual cost, so the timberland owner has reason to argue for more equitable tax laws.

There are three main tax laws affecting forest land and timber in Oregon: the Ad Valorem General Property Tax, the Forest Fee and Yield Tax, and the Severance Tax. The yield tax replaces the ad valorem tax on lands classified as "reforestation land," but the severance tax is an additional tax which applies to all forest products. A discussion of these tax laws will bring out some of the points of argument as to their validity. This discussion is followed by a list of recommendations of several professional foresters for improvement of the tax laws.

#### The Ad Valorem General Property Tax

Under the Oregon tax law, timber is classified as real property, separate from the land on which it grows. Timber is the only growing crop so classified in Oregon. As soon as the timber is harvested it becomes taxable again as tangible personal property. In the case of agricultural crops, there are "loopholes" in the tax law which will exempt the harvested crop from taxation as tangible personal property. This apparent discrimination is one basis for argument against the ad valorem tax as it concerns timber. The primary argument is not against

the tax law but against the assessment methods and values used by the counties. Some counties have undertaken a revaluation of forest lands, employing the aid of professional foresters to establish equitable assessment values.

#### The Forest Fee and Yield Tax

The yield tax law was passed in 1929 to encourage forest-land owners to retain cut-over land and to practice sustained yield forest management. At that time, many forest-land owners were letting their cut-over land go tax delinquent. As a result, the tax income of some counties decreased to a seriously low point. The yield tax law removed the cut-over land from the ad valorem tax rolls and levied a small annual fee on the land which the land owner would be able to pay. This fee was set at five cents per acre west of the Cascades and two and one-half cents per acre east of the Cascades. The timber tax was also removed and replaced with a twelve and one-half percent yield tax payable at the time of harvest.

The yield tax law is not optional with the land owner. The State Board of Forestry determines which lands may be classified as reforestation lands and thereby come under the yield tax law. Lands eligible for classification are burned or cut-over forest lands adequately restocked or with provisions for adequate restocking. Immature stands are also eligible. If the State Board of Forestry decides an area should be classified, the owner is notified, and a public hearing is held. At this hearing, the owner may voice his approval or disapproval of classification. After the hearing, the Board reconsiders classification and submits its recommendations to the State Tax Commission. The Tax Commission reviews the case and issues an order for classification to the county assessor. More than one-million acres are now classified in Oregon.

Lands classified under the yield tax law may be declassified and returned to the ad valorem tax rolls for the following reasons: (1) the land is not being used primarily for growing tree crops; (2) the land is not being used to accomplish the objective of the law; (3) the forest cover is being destroyed by burning; (4) the land is being changed to agricultural use; (5) the land was erroneously classified in the beginning. When land is declassified because of improper use, the owner must pay the county the amount by which the ad valorem taxes exceeded the forest fee while under classification. The land remains under classification regardless of a change in ownership.

Owners of classified lands must obtain a written permit from the State Board of Forestry before harvesting any forest products. If the owner fails to obtain this permit he is subject to a ten percent penalty in addition to the twelve and one-half percent yield tax.

The arguments against classification under the yield tax law are based on the following premises: (1) the twelve and one-half percent yield tax constitutes a hidden lien upon the land; (2) classification gives the state more authority over forest practices on the land; (3) requirements for classification and declassification are too rigid.

#### The Severance Tax

The severance tax in Oregon is an additional tax applied to all products removed from the forest. The tax on timber is eight cents per thousand feet log scale west of the Cascades and four cents per thousand feet log scale east of the Cascades. The first twenty-five thousand board feet of timber harvested annually is exempt. This stipulation allows the farm woodlot owner to remove timber for his own use without

taxation. The severer is responsible for payment of the tax, but if he fails to pay, the purchaser may be billed for the tax. The revenue from the severance tax is distributed in the following manner: east side of Cascades - all revenue goes into state forest research; west side of Cascades - one-half of the revenue goes into state forest research and the other half goes into a permanent fire fund. Justification of a severance tax is highly questionable. This type of tax is supposed to promote conservation, but it has been proven to have an opposite affect. } ?

#### Recommendations

The following recommendations for improvement of the Oregon forest tax laws have been made by various professional foresters.

Proposals by Walter F. McCulloch:

- Tax on basis of soil productivity
- Tax at time of harvest
- Tax on basis of accessibility
- Tax on basis of annual increment for each site

Suggestions by Robert F. Keniston:

1. Tax on basis of earning power
  - a. Tax mature timber only (maturity defined by diameter)
  - b. Tax deferment at option of owner
  - c. Provide means of preventing speculation on the value of the dollar in deferring taxes
  - d. Provide a state revolving fund to help finance counties while waiting for deferred taxes
2. Improve operation of Forest Fee and Yield Tax Law
  - a. incorporate improvements as suggested by New Hampshire law
  - b. reduce amount of yield tax
  - c. graduate percent of yield tax according to length of time each property has been classified under the law
  - d. make classification under the law easier and quicker for the land owner
  - e. allow land with up to 20% or 30% of the original volume of merchantable timber remaining, to be eligible for classification
3. Consider possibility of reducing cost of local government by more efficient rural zoning
4. Require scientific assessment
  - a. set standards and procedures
  - b. use trained personnel

Suggestions by Verne D. Bronson:

1. Give land owner a choice between the present yield tax, with some revisions, and payment of an annual tax based on value of the land
2. Exempt immature timber
3. Tax old-growth timber so as not to force rapid cutting

Suggestions by T. J. Starker:

1. Incorporate Washington method of yearly increase of yield tax up to 12 1/2 percent
2. Allow owner to have land released from classification by paying up past ad valorem taxes

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