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Taxation
of
Cut-over Lands
in
Oregon
by
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OLD RELIABLE BOND

SCHOOL OF FORESTRY
OREGON STATE COLLEGE
CORVALLIS, OREGON

TAXATION OF CUT-OVER LANDS IN OREGON

FOREWORD

The Nature of Taxation

The burden of taxation upon any one person or upon any group of persons is the result of two factors: 1. the total amount that must be raised and 2. the methods by which this amount is to be allotted among the various taxpayers.

The total amount that must be raised is fixed by the governing bodies of the various states, counties, or towns who determine the functions to be performed by their governments and the cost thereof.

The methods by which this amount is allotted among the various taxpayers is a matter of methods of taxation and the administration of the tax laws. The two measuring devices used mostly are: (1) the possession of wealth and (2) the receipt of income.

INTRODUCTION

The matter of taxation of cut-over lands in Oregon is one of grave importance to all peoples of the state and the people of the entire country. When the actual problem of taxation on these lands is taken in hand it can be seen that it is a problem of wide scope. We in this state can readily see from the examples of the states in the mid-west and the east what the consequences of cutting over our forest lands and allowing them to become tax delinquent are.

If we compare our vast timber resources with the expansive areas of denuded land in these cut-over states we can see that we have here a natural resource of untold wealth which we cannot afford to allow to go to waste through mere negligence. The problem of taxation of these cut-over lands in these ravaged states is really a problem of vast importance to them because the great majority of this land is unfit for anything but timber growing and, under the present system, it is impossible from a financial standpoint to try to grow timber on them and carry the heavy burden of taxation as it is at the present time. Although Oregon does not have such a problem in relation to their cut-over lands as these other states it is still a problem that must be solved before our virgin forests are completely cut-over. Our problem then is one of preventing the occurrence of such a condition rather than trying to remedy the condition after it occurs. It is admitted by all authorities that proper management is the solution to the problem of a sustained forest. There are several other causes aside from taxation that go to make this management difficult but if the taxation problem could be solved then the problem would be made much simpler. In any case it seems that the first step in the solution is a very sudden revisal of tax systems for forest lands. Oregon has already taken a step in the right direction with her yield-tax type of taxation which will be discussed later.

In any case it will be seen that the taxation of timber lands as a whole goes hand in hand with the taxation of cut-

over lands. The pressing problem at the present time is that of perfecting a system of taxation for timber lands that will fit its own peculiar needs--that of a deferred income. This paper will deal mostly with possible improvements in present tax systems or new methods of taxation which might serve to help perpetuate the standing forests of Oregon and put her non-productive cut-over lands back on a producing and paying basis for private concerns.

TAXATION AND CUT-OVER LAND

The Problem

A very acute economic and political problem is developing throughout the timber producing sections of the state of Oregon with reference to the taxation of privately owned timber lands. It has been the practice in the past to assess timber lands on the basis of the standing timber. When this timber is removed the valuation is largely gone and the only thing left to tax is the land itself on the basis of its value for timber production. In view of the cost of protecting the property against fire, the uncertain value of and need for stumpage far in the future, the value of logged off land for timber growing purposes is problematical. In any case it is obvious that the value of the logged off land is materially less than the value of the same land carrying a mature crop of timber. The cutting of the timber, therefore, leaves the counties and school and road districts on a very much reduced tax base and often leads to financial embarrassment. The dense bodies of timber are, of course, relatively unpopulated but it has been the custom to so gerrymander the school districts as to divide up the timber land of high assessed value among the various districts. For example, in Tillamook county the population and hence the schools are practically all on the coast highway yet these coast school districts all run back into the coast mountains in weird and wonderful shapes in order that each may get some portion of the timber land on its tax rolls. The cutting of the timber, therefore, de-

prives many of these districts of a major portion of their assessed valuation. The counties in the meantime have accumulated debts and established a scale of government that is difficult to reduce, consequently there is a jam. The counties in most cases have reduced the taxation on logged-off land as much as they think they can but the timber interests still refuse to pay it and are, therefore, permitting the land to revert to the counties. With a view of meeting this situation the Oregon legislature has provided that under certain conditions the owners of logged-off lands may have the same set aside for reforestation under the supervision of the State Board of Forestry, and, if so set aside, the rate of taxation is fixed at five cents an acre until the timber is matured and removed, at which time the timber cut will be taxed at $12\frac{1}{2}$ percent of its value. Of course, in addition to the tax the owner must pay the cost of fire patrol, which generally ranges from three to five cents. Even with this low rate of taxation, however, owners are discouraged and a large degree of delinquency exists. The Oregon legislature has further provided that logged-off lands owned by the county or private individuals may be deeded to the state, in which case the state will guarantee to pay to the county five cents per acre per annum in lieu of taxes plus the $12\frac{1}{2}$ percent yield tax when the timber is matured and cut. The federal government is also acquiring limited areas of these lands under various arrangements. In no case, however, is the logged-off land paying the counties a sum of money in

lieu of taxation which seems adequate to properly support the counties.

This problem, at first glance, would seem to concern only the timber interests and the county governments. Actually, however, it has an important bearing upon the other two major land uses of Oregon--agriculture and grazing. Very few Oregon counties have any other natural resources than timber, agriculture, and grazing, and when the timber industry becomes unable to carry its share of the tax burden that much more burden is placed upon agriculture. In these counties, therefore, where the tax placed upon grazing and agriculture has been correspondingly increased until in some cases the tax has threatened to absorb the capital value of grazing and agriculture lands. In some of the counties along the coast where the amount of logged-off land is large, the taxes on agricultural and grazing property has been doubled. Fundamentally however the problem is one of income rather than taxation itself. (13) p.8

Logged-off lands can produce no income for the present generation but, instead, are a source of expense. Therefore these lands must be so regulated and taxed that it will be possible for private owners to realize an income from them with reasonable assurance. In order to do this some plan of taxation must be formulated which will make it possible for these owners to keep these lands and to produce timber on them. No such plan has been tried as yet that has been successful enough to assure private owners of forest lands that

they can profitably retain their land and produce a timber crop on it. There is, of course, the alternative of some other land use but on many lands the only possible profitable use is forestry and to make these lands a source of income they must be made to produce forests. There are many barriers to overcome before private concerns can be convinced that forestry on cut-over lands, or a sustained yield basis on timbered lands, is a profitable venture. The biggest problem, however, is that of taxation and once that problem is solved the difficulties of many counties will be alleviated or circumvented.

Status of Oregon's Forests

The necessity and advisability of taking steps to conserve Oregon's timber supply can probably be better understood if a brief consideration is given to the amount of timber which remains. Due to the fact that the timber of the Lake states region and the northeastern states have all been logged off, or at least so nearly so that the scattered remnants left are of no great import in relation to the amount of lumber that is needed, the task of supplying timber products has fallen upon the South and the West. For several years the South has been producing about 40 per cent of the lumber consumed in the United States. However, they are past their peak of production and many second-growth stands have been cut in advance of maturity to supply the demand. The end for the South as a great lumber producing region for the entire United States seems to be in sight. Before many years she will probably be consuming all her timber products herself. This then leaves it up to the West to produce the bulk of the country's timber products.

The Rocky Mountain forests are widely scattered and mostly inaccessible and will probably be unable to supply more than just enough for their own consumption. The Pacific Coast forests contain 1,141,031,000,000 board feet of saw timber, or more than one-half of the remaining timber in the United States. This in itself shows that the Pacific Coast is destined to become the great timber producing region of the United States.

Of the 1,141,031,000,000 board feet of saw timber on the

Pacific Coast Oregon has 395,800,000,000, or practically one-fifth of all the standing timber in the country. It is estimated that at the present time less than one per cent of this amount is being cut and marketed annually. This would mean then that Oregon could keep cutting her timber for well over one hundred years if there was no increment or if new forests did not replace the cut-over ones. The problem then would not be so pressing if we could be assured that this rate of cutting would not increase. As can be seen, however, Oregon seems fated to play an increasingly important part in supplying the timber needs of the entire nation.

It appears obvious, then, that it behooves Oregon to set up some sort of system whereby her great timber supply can be perpetuated. To do this it is necessary that it be made possible to manage a tract of timber on a paying basis without the great expense that it is today. Timber owners will no longer "cut-out-and-get-out" as they have in the past if they can see that they can make money by keeping their lands in a productive state. The problem of cut-over lands would then be almost negligible.

If the problem is attacked at the present time and the amount of cut-over and non-productive forest lands that are accumulating is halted then the amount now in this state will not constitute too great a loss, especially as it could probably be turned into timber producing lands with the right management. However, if the problem is not attacked at once and the accumulation of tax-reverted lands halted then the problem will become acute in a few years and our forests will be in the

same predicament as those of the other regions.

Table I shows the acreage and value of the tax reverted timber lands in Oregon by counties. In some cases the records from the counties were not very complete or accurate, with the result that some timber land was recorded in the same classification as other rural lands and with timbered acreages that has also been reverted. For some few of the counties the assessed values of this tax reverted lands is given as well as the charges due on the land when it was taken over. The value of these lands can be seen from those few figures.

Taking the entire acreage given, however, the relation of tax reverted forest land to the forested area of the entire state we find that approximately 1.3 per cent of the area is in tax reverted lands. If only the land listed under reforested is considered this percentage drops to approximately 0.5 per cent. Much of this land can again be made productive under proper management, but much of it is in such a state that only nature and the years can ever restore its production. An example of this is the cut-over areas in the Sitka Spruce region along the coast.

The fact that a small percentage of the forest area is actually tax reverted does not want to let us overlook it. Much of the most valuable timber land of the state is in this condition--that is, land that was once producing valuable timber but which is now cut-over and tax delinquent. Also there are large areas which have not as yet become actually tax delinquent but are on their way. It is a good start to-

TABLE I

County	Acres	Assessed value	Charges against
Baker	9,230	\$ 14,311	\$ 4,917.03
Benton	5,558.73		
Clatsop	19,215		
Clackamas	4,968	(classified as "others" besides city)	
Columbia	977	(Timber)	
	14,582	(Reforestation)	
Coos	49,736	549,107.52	170,594.48
Crook	57,375	(classified as "others" besides city)	
Curry	12,896		
Deschutes	2,563	(Timber)	
	1,440	(Reforestation)	
Douglas	116,168	1,142,890	98,315.77
Gilliam	160	(classified as "others" besides city)	
Grant	1,120		
Harney	244,615		
Hood River	23,497.42	140,135.65	63,140.62
Jackson	26,597.45	226,990	58,319.04
Jefferson	23,790	(classified as "others" besides city)	
Josephine	3,854		
Klamath	120		
Lake	151,276	(classified as "others" besides city)	
Lane	58,705	(classified as "others" besides city)	
Lincoln	2,250	(Timber)	
	15,299	(Reforestation)	
Linn	3,936	28,530	2,613.91
Malheur	139,388	(classified as non-tillable)	
Marion	12,558	88,070	41,170.34
Morrow	70,500	(classified as non-tillable)	
Multnomah	84,665		
Polk	3,196	(classified as non-tillable)	
Tillamook	60,294	(Timber)	
	68,935	(Reforestation)	
Umatilla	14,685	(classified as "others" besides city)	
Union	1,673	3,910	3,486.10
Wallowa	7,273	48,995	8,275.08
Wasco	3,667	18,495	995.47
Washington	1,039	(Timber)	
	3,077	(Reforestation)	
Wheeler	5,225	58,300	9,777.44
Yamhill	2,560		

Summary--In Oregon there are 1,795,675 acres of tax reverted lands. This is 2.95% of Oregon's rural area. 326,054 acres has timber of merchantable quality. 116,178 acres are listed under reforestation, which constitutes mostly cut-over land. (19)

ward a re-occurrence of the conditions in the East and Mid-West and we must take steps to halt it.

Forest Taxation and its Peculiarities

As can be seen from the figures given on the amount of cut-over land in Oregon, although there are large areas of this unproductive land there is still vast resources of uncut or growing timber. Most of this cut-over land is already tax-delinquent or in such a state that its future is foregone. The problem then of making this land again productive is not one of taxation alone but of reforestation on either the part of the counties, state, or federal government. The problem then resolves itself back to the problem of taxation so that cut-over lands will no longer be on the increase, but rather that private individuals will see the possibilities of a future income from these forest lands and will keep them in a productive state and not use the old cut-out-and-get-out methods which have been so prevalent in the not-so-distant past.

(13) p.9

In some of the states further east the problem of taxation of the cut-over lands itself is the main problem for the simple reason that the bulk of their forest land is land in this condition. Their problem then will differ from ours in the west where we can see the error of their ways and, rather than be faced with the necessity of rectifying past damages, prevent further depletion of our producing forest lands to a state where they are a burden.

Basic Principles of Forest Taxation

As yet none of the plans of taxation of forest land have proven great enough advantages to prevent cutting over the land and then allowing it to revert back to the counties for non-payment of taxes. Many people believe that forest taxation should be a separate problem to be set aside and studied and solved apart from other kinds of property taxation. As a matter of fact, due to the part in government that timber taxation carries, it is an integral part of the entire system of taxation and should be treated as such. The three different parties who are interested in forest taxation--the forest land owners and those who are connected with it in a business way, the local governments, and the public as a whole--must all be satisfied and their interests met in the best possible way. O. F. Barnes in his Vol. 15 National Tax Association Proceedings says there are five basic principles of forest taxation. These five principles are as follows:

1. The tax should be based on the earning capacity of the land taxed. In accordance with this principle, land upon which is located immature timber which cannot and should not be marketed should not be required to pay an annual tax on its full value, including such timber during the time of the immaturity of the timber.
2. Forest property must not, through ignorance of its character and the effect of ad valorem taxation upon it, be overtaxed.
3. That taxation be so framed as to enable the investor in forest land to calculate with reasonable certainty his future tax burden until such time as he can realize income from his investment.
4. That the payment of taxes be arranged, as far as possible, for a time when income may be expected from which to pay the tax.

(22) p.144

5. That the interest of the owners of other classes of property and the interests of the political units where the forests are located be given proper consideration.

The General Property Tax As Applied To Forests

The method of forest taxation in the past, the general property tax, is generally believed to be an unfair means of taxation on forest lands and the problem before tax reformers today is to find a suitable substitute for the general property tax that will, at the same time, not entirely disrupt the local governments who are dependent upon the income from the forests for their existence. Before these new ideas or reforms can be properly reviewed it would be wise to look at the general property tax as it is applied to forests and get an idea of its failings.

As the past tax system on forest land was operated there were three main obstacles to the practice of forestry. These three causes were: (1) the high cost of local government, (2) the faulty administration of the property tax, and (3) the inherent disadvantage of the property tax in respect to deferred yield forests.

(8) p.1

The first obstacle is one that has been caused mainly through obsolete organization of the local governments. The tax paying districts were designed to fit the first conditions of the communities and, as a rule, are not fitted to the modern conditions. The districts with little in the way of natural resources still has a high cost of government even though they do not have such great numbers in the way of population. As a matter of fact, the cost of servicing these small comm-

unities is greater per capita than the cost in the wealthier communities where natural resources are more abundant and population greater. The rapid removal of the virgin timber from many of these districts therefore has resulted in the impoverishment of these districts. When the timber was being cut there were great sums coming in to the local governments in the way of taxes and their systems of government were run accordingly. When these virgin forests were all cut out and the mills moved and the land became tax delinquent then the governments were left with no income and a high cost administration.

Faulty land settlement has been a cause of high tax also. Many settlers have come into areas and settled in small islands of agricultural soil or in "shoestrings" along the valleys where the greatest proportion of the area was definitely non-agricultural. This means that these localities must be furnished with government services which must necessarily be paid by the surrounding forest areas. (20) p.845

In addition to this high cost of local government forestry is burdened by an unequal burden of costs through faulty administration of the property tax. Under this form of taxation the obligation to pay taxes is measured by the possession of property. As a result the fair distribution of the tax payers depends upon the assessment. In the past the prevailing trend in most districts has been to give the forest lands, particularly cut-over land and forest property of low value, the worst end of the bargain. Many time cut-

over lands have been assessed twice as high as the relative value of other land in the same district. Even if forest property were not discriminated against as a whole, the danger of erratic assessment as between individual properties is a serious hazard to the forest-growing enterprise.

Tax collection is another cause of unfairness in regards to the property tax. In recent years the unstable economic conditions have tended toward the lenient side in regards to delinquent taxpayers. This inefficient practice of tax collection has encouraged tax delinquency and has, as a result, brought about the levy of additional taxes on taxpaying property. (20) p.846

The first two difficulties probably outweigh the inherent disadvantages of the property tax in regards to deferred-yield forests, but this inherent disadvantage is still an important problem. The property tax as has been operated is not fitted for the initial stages of forestry as it prevails in this country today, because the payment of these taxes comes every year while the income from the forests is not realized each year, but only after an extended period of waiting. It is true that if the forests were adequately stocked with trees of varying age so it could be run on a sustained yield basis where income would be realized every year this problem would not be so great. If all our forests could be run in this manner then the tax problem would not be of such importance, providing that assessment and the other faults could be somewhat corrected. In most regions, however, the forests have

been so heavily cut that it is necessary to wait several years while the land is growing a crop of trees so they can be harvested. In Oregon there are many areas of virgin timber which, when its location, quality, or species is taken into consideration could best be held for future markets. The cost of taxation, which must be met under the general property tax, would probably fail to permit the owners of these forests to wait until they could put these forests on a sustained yield basis. In short, the usual situation is that a forest is a deferred-yield property from which the income will not be realized for a number of years with the expectation that the value will be correspondingly increased. The property tax as it is administered takes a higher proportion of this prospective income than from property yielding a regular annual income. (13) p.14

The unfairness of the property tax has long been realized and there have been several proposals tried that have been designed to correct this evil. The first proposals were in the form of such things as property-tax exemptions, rebates, and direct bounties. Most of these have been abandoned. Early in the present century the idea of the yield tax began to attract widespread attention as a substitute for these methods which had proved to be rather expensive or ineffective. As it is usually applied the yield tax is merely an exemption of timber from the annual property tax and the substitution of a tax on the stumpage when cut. At the present time Oregon's tax on timber is of this type.

Oregon's Reforestation Tax Law

"The State of Oregon has not waited until most of its virgin timber has been cut to pass remedial legislation. With most of its original stand still intact, and with a progressive reforestation law, it is in an enviable position to make its forest industries permanently prosperous on a large scale." This statement by H. J. Eberly, District Inspector for the United States Forest Service, gives a good description of the forward progress Oregon has made by passing the Reforestation Tax Law.

The law was drafted in 1929 after more than eight years of study and effort on the part of many people interested in the future of the state's greatest industry. The common custom in most states had been to wait until their timber resources had been practically exhausted and then at one stroke endeavor to effect a cure which should have received attention years before. Oregon has shown great progress by recognizing the fact that although the state contains more timber than any other it is never too soon to provide some means to perpetuate this great resource. It is easy to see the value when we know that 65 per cent of the state's industrial payroll comes from lumber and associated industries. That this resource is of vital importance is seen from the fact that 16 per cent of the taxes are derived from these lumber industries. (21) p.18

Reforestation problems are many--taxation, fire protection, land classification, and the establishment of a new forest crop are all vital to the success of a reforestation program.

There are also many others of less importance. As a result of the study to find what specific steps should be taken it was found that the problem of taxation was of primary importance. Each year the cut-over land was increasing at about 130,000 acres. Most of this land was rough, inaccessible, poor land unfit for anything but the production of forest products, but it is admirably suited for this purpose.

The tendency of dropping forest lands after the mature had all been cut off had become acute, especially in the Western Oregon counties. Hand in hand with tax delinquency went the problem of fire protection. The system of statewide protection from fire requires that these low valued lands bear their portion of the protection costs. As the owners let these lands go they ceased paying this portion for protection. It is this sort of problem that the law has been designed to correct, although it is not a cure for all the troubles.

Colonel W. B. Greeley, one of the nations leading authorities on reforestation says: "The principle of a low fixed annual land tax supplemented by a yield tax on forest products ultimately harvested appears to be the best basis yet developed in a nation-wide survey of forest taxation as at least the starting point in encouraging private ownership. The forestry law recently passed by the State of Oregon is an admirable expression of these principles, and, in my judgement, is the most promising legislation of this character yet adopted by any American commonwealth."

The purposes of the law are principally:

1. To promote reforestation on forest type lands not suited to more profitable use.
2. To encourage owners to retain ownership of forest growing land for future forest crops.
3. To encourage natural reforestation on forest growing lands and hence through the creation of forest values to encourage the protection of these lands from forest fires as provided by state laws.
4. To provide a fair and stable annual forest fee as the land itself during the long period a forest crop is being grown and then a yield tax from the forest crop at the time it is harvested when the property is best able to pay. (21) p.7

This law does not require an owner to reforest his lands, but does encourage him indirectly. It helps make it good business for him to do so. The law endeavors to give the owner a fair and stable tax status, thus encouraging him to retain title to his land. When he does this he must pay protection and reforestation is simple when fire is kept out. When adequate fire protection is given most cut-over lands will reforest themselves naturally.

There are 2 outstanding differences between the Oregon law and the forest tax laws of many other states. First, the fixing of a definite amount to be paid annually by the owner on his lands, and, second, the method of reforestation-land classification. Several states in endeavoring to stabilize the annual taxes on lands devoted to new timber production have provided for a fixed valuation placed on the land itself. This

method is helpful to the owner but still leaves the uncertainty of his annual reforestation tax bill because of the variation each year in the amount of the local tax levies. Oregon's law stabilizes this by providing for a forest fee of five cents an acre. This annual payment by the owner provides current revenue for local and state governments and assures a definite annual carrying charge. Immediately after classification the public obtains a $12\frac{1}{2}$ per cent equity in all forest crops then on the land or may be grown thereafter. When the owner harvest his crop he pays a $12\frac{1}{2}$ per cent tax on the gross value of the crop harvested. The only possible variation of the total amount the public will receive will be due to a variation in the value of the crop which the land produces. (21) p.7

In addition to the annual forest fee of five cent per acre and the yield tax of $12\frac{1}{2}$ per cent, the lands are subject to the annual cost of fire protection the same as they were before classification. Lands under this system are not subject to the ad valorem property tax or special road or school levies. However, values other than forest crop values, such as improvements, mineral deposits, water and power rights, and values of similar nature may still be taxed under the ad valorem tax laws of the state.

No forest crop may be harvested without a permit from the Board which states the unit value of the crop to be removed. This unit value is fixed by the Board. During harvesting the owner is required to keep records of the amount of the forest crop harvested and to report semi-annually to the county treas-

urer on the quantity removed and the amount of the yield tax then due. The state is well protected, as safeguards have been provided to insure the receipt of the yield tax. Not only are bonds required in certain instances but a 10 per cent penalty attaches through failure to make reports and remittances within the time specified by law. In addition, failure to secure a permit to harvest forest crops or the making of false returns constitutes a misdemeanor and is punishable by either fine or imprisonment or both.

When classification of the land is made it is not made upon application of the land owner but is based entirely upon the character and use of the land itself and is based and made by a state agency. This permits speedy and uniform reforestation classification essential to a statewide program. Where this classification is made optional, the acreage classified depends entirely upon the interest and action of the owners in listing their lands. Experience has proven that classification under this plan is only fairly satisfactory.

Upon selection of the lands to be classified, a hearing is held in the county where the lands are situated, at which time the owners are given an opportunity to present arguments for or against the proposed classification. After the hearing, the list is revised and sent to the State Tax Commission with a complete report of the public hearing. The commission then issues the final order governing the classification and notifies each owner and the county assessor. The following March the classified lands are extended on a separate county tax roll

and are given their new status.

As stated before this law has not been designed as a cure-all for the entire reforestation problem. A complete and practical legislative program can only be built up by degrees. Actual application is the true index to the soundness of its provisions. A perfect gauge to measure its success can be had from the amount of cut-over land retained in private ownership and continued responsibility afforded for fire protection. It seems that Oregon has made an excellent start on the most vital part of its reforestation problem, and from progress made to date the law appears fundamentally sound and thoroughly practical.

Other Plans for Forest Taxation

The Forest Taxation Inquiry has studied the problem of forest taxation to great length and have come to the conclusion that although the yield tax may not be the answer to their problem something must be done about the present system of taxation. They recommend three tax plans which will, they believe, alleviate the problem to a great extent. These plans have mostly to do with modification of the property tax and not with a new form of taxation in its entirety. They realize the problems of the present methods of property taxes and recommend that much could be done if the three main causes of its faults could be corrected. These three faults are; (1) the high cost of local government; (2) the faulty administration of the property tax; (3) the inherent disadvantages of the property tax itself in regards to deferred-yield forests. As regards this modification of the property tax their report made the follow-

(8) p.1

ing conclusions:

1. Assessments fixed by statute and specific taxes of so much per acre are not recommended.
2. Special methods of taxation imposed in accordance with a classification of properties based upon the intentions of their owners are not advised.
3. Special forest-tax laws should be of general application, without requiring any unusual initiative on the part of the forest owners.
4. Tax measures in favor of forestry should not be given the character of a contract between the state and the taxpayer for the sake of protecting a present law from amendment by a future legislature.
5. Special tax subsidies to forests are not recommended, either as a compensation for regulatory requirements, which could better be provided by direct means, or as inducement to adopt particular measures of forest practice.

(2) p.58

The Inquiry has decided that the yield-tax plan appears to be decidedly inferior to other possible solutions of the problems and is, therefore, not recommended. The fact that after 20 years of experiment no state has yet succeeded in setting up a satisfactory yield tax of broad application is evidence of the difficulties involved.

It has also been proposed that forest property be relieved from the property tax by the simple device of exempting all immature timber from taxation. As a greater tax concession than can be justified, this proposal was not recommended.

The Adjusted Property Tax

The first of the three plans recommended by the board was that of the adjusted property tax. This plan would give every forest property the income from which is deferred for more than one year a tax that would be less than the usual property tax. The amount of the reduction would be proportional to the defer-

be reduced by 250 / 1100. It is assumed that the tax rate for

ment of income.

This result could be accomplished by means of a deduction from assessed value that would be cumulative as long as income were deferred but which would be diminished and in the ordinary case eventually eliminated through the receipts of the income. The amount of the deduction from assessed value to be accumulated in any one year during the periods of income deferment would be regulated by the assessed value of the property, a rate of interest fixed by law, and the taxes actually levied.

An illustration of this tax might be made as follows:

Assessed value, 1934.....	\$1,100.00
Deduction:	
1. Adjusted value increment adjusted to the beginning of 1933.....	\$45.00
2. Adjusted value increment of 1933:	
a. Interest on assessed value of 1933 (\$1,100).....	\$30.00
b. Taxes in 1933.....	19.10
	<u>49.10</u>
c. Less yield in 1933.....	0.00
	<u>49.10</u>
Total, being the adjusted value increment accumulated to the beginning of 1934.....	94.10
Adjusted tax base of 1934.....	1,005.90
Tax in 1934 at 1.5 percent.....	15.09

(8) p.12

If for some unanticipated cause, such as fire, decline in stumpage or the like the total accumulated adjusted value increment should be reduced by the same ratio as the ratio of the fall in value to the assessed value at the beginning of the year in which the fall occurred. Take the illustration above and assume that a fire occurred between the assessments of 1934 and 1935, and as a result the 1935 assessment was \$850. The loss is \$250.00. The adjusted value increment must therefore be reduced by 250 / 1100. It is assumed that the tax rate for

1935 is 2 percent.

Assessed value, 1935.....\$850.00

Deduction:

1. Adjusted value increment adjusted to the beginning of 1934.....	\$94.10
2. Adjusted value increment of 1934:	
a. Interest on assessed value of 1934 (\$1,100).....	\$30.00
b. Taxes in 1934.....	15.09
	<u>48.09</u>
c. Less yield in 1934.....	0.00
	<u>48.09</u>
3. Total.....	<u>142.19</u>
4. Less 250 / 1100 of (3).....	<u>32.32</u>
Difference, being the adjusted value increment accumulated to the beginning of 1935.....	109.87
Adjusted tax base of 1935.....	740.13
Tax in 1935 at 2 percent.....	14.80

(8) p.13

The effect of the adjusted property tax would be to approximate the burden of an income (or net-yield) tax. While recognizing that this plan like any practical device necessarily falls short of perfection, it is believed that it would come closer than any other practicable device to complete correction, under all conditions, of the inherent defects of the property tax as applied to forests. The administrative obstacles are readily surmountable and would diminish with general improvement in the administration of the property tax.

The Deferred Timber Tax

The second of the three recommended plans would offer deferred yield forest a reduction in tax burden very similar in amount to that provided under the adjusted property tax plan.

This result would be accomplished by deferring all of the required property tax payments on timber value until income was realized through the cutting or sale of timber and other forest products. The loss in tax revenues would be made good through

(10) p.4

payments from a timber-tax fund provided by the state. Upon realization of income from timber, this fund would be reimbursed by collecting the deferred timber taxes without interest, at a rate not to exceed a fixed percentage of the stumpage value of the forest products cut or sold. This plan has the advantage of giving all the immediate tax relief granted by the yield-tax plan, without incurring any serious revenue difficulties.

The net cost to the public would not be very great at the outset, and it would eventually be reduced through decreasing deferment of income from timber by application of sound forest management.

The Differential Timber Tax

The third of the three recommended plans would offer second growth forests an adjustment of the property tax to the normal degree of income deferment by means of differential timber taxation. A reduction factor, usually uniform over the state, would be applied to timber assessments. (10) p.5

This factor would depend on a standard income cycle, representing normal deferment of income, which would be determined at a figure readily attainable by a large number of forest properties throughout the state. The reduction factor would be so calculated as to give forest properties which were subject to the standard degree of income deferment a tax burden approximately equal to that of an income or net-yield tax. The reduction factor would be prescribed by law.

Forest subject to a deferment of income greater than normal would be obliged to bear a heavier tax burden than that of the

income tax, but less than that of the property tax. On the other hand, forests which were so regulated as to receive substantial income at shorter intervals than indicated by the standard income cycle would enjoy a lighter tax burden than that of the income tax.

This plan would also grant differential timber taxation to old-growth forest properties by allowing them a graduated reduction factor applicable to timber of 5 per cent for each year from the effective date, with a maximum equal to the second-growth reduction factor. This reduction would at the outset apply only to forests which were completely withheld from commercial operation. After a transition period of at least 20 years, all old-growth forests would be given benefit of the same reduction factor as second-growth forests. In states where old-growth forests are of little importance as an element in the tax base, they would be treated in the same way as second-growth forests from the beginning.

It seems evident that the differential timber tax would offer a less perfect plan for adjustment than the other recommended plans to all the degrees of income deferment that characterize forest properties within the state. This disadvantage is recognized but it is recommended because of its simplicity and the ease with which it may be added to the existing tax system.

Public Control Without Purchase

Several systems of forest management of those lands owned by private individuals have been proposed that would take care of the problem of tax delinquent cut-over lands being taken over by the counties. The best plan proposed to date in the opinion of many forest economists, but one which has not as yet been tried out, is that of public control of those privately owned timber lands so that their yield would be perpetual and taxes paid to local governments could be assured for all time to come. It is conceded that publicly owned land can be better managed than most private lands. Prior to 1933 the attitude toward the need for vigorous restorates was greatly influenced by the unwillingness of governments to compete with private forestry. The program of purchase was one of buying up relatively petty acreages here and there and coupling this with an unconvincing effort to educate private persons to inaugurate good management policies. This has been shown in the already depleted forest lands of the eastern states to be entirely inadequate to keep up with the increasing numbers of acres of tax delinquent cut-over lands and the problem is rapidly spreading to the vast forest lands of the Northwest. Here in Oregon the timber situation and time would be just ripe for the inauguration of some such plan so that the forest lands now existent could be put under a management plan so that their yield would be perpetual before they all become wasted cut-over lands in the possession of the already land-poor counties.

The proposed plan for combining public control with private ownership has been proposed in the hopes of avoiding some of the difficulties involved in outright purchase by public agencies. In general the method calls for continued private ownership under easement with control contracts granted to either federal or state governments or a combination of both. The elements of the plan are:

1. The private owners would continue to own the land and they took over management in the form of taxes. Therefore, would receive at the time of cutting a return upon investment in the form of a percentage of the timber harvested.

2. The government would undertake the management, development, and control of the lands and would pay to local governments a calculated return in lieu of taxes.

These payments would begin immediately or at the nearest date of tax collection after the control contract is executed and to continue indefinitely.

3. Private individuals would be relieved of all the responsibilities with respect to their land though they would remain the nominal owners. The proposal in short is that the government restrict its program to one of acquiring only those right needed to establish an adequate system of control over the lands needing reforestation, and that it give up, at least for the most part, its present program of obtaining all rights by purchase and ownership.

(10) p.4

All the parties interested would partake of the income.

That is to say, the private owner might receive 25 per cent of the income, the local government might receive 25 per cent and the federal government 50 per cent to defray the costs involved in the management, development, and control of the forests. Actually the local governments would get their portion of the income on an annual basis since the federal government, or state government, would pay this from the time they took over management in the form of taxes. Therefore, the government would get 75 per cent at the time of harvest, 25 per cent to make up for the amount they have paid to the local governments. These figures are not actual figures that would be given but merely illustrative. Different percentage figures would probably be used for almost every situation with respect to the land. This would have to be worked out before the management plan was put into effect.

There are problems relating to the proportion of the yield that will go to each party. These problems are:

1. The proportion to go to the private owner will relate directly to the value and the productiveness of the land, the amount and quality of the timber already upon it, and the prospective costs of management and development. Yields and costs must be forecast for each tract and separate bargains made for each tract and owner. The government would have a great advantage over the private owner in that its dealings would be over a large acreage so that unfavorable mistakes in calculating costs upon one tract would be compensated for by favorable errors on others.

The owners may have a feeling that they have been cheated by getting too small a share of the harvest in the case that timber products should take a sudden rise in prices. On the other hand the government could compensate for this by expending more on management and development. The increase in quantity from the property would thus mitigate the owners apparent loss. Contrarily if the outcome turned out poorer than the prediction allowed for then the government would be privileged to decrease its degree of development to make up for the loss.

According to the plan the federal government and the private individual would share the losses from fire, insect, or storm damage. The local governments would, however, get their payment just the same. This may look like a burden on the federal or state government but the great extent of their holding would alleviate for the small percentage of land that may be a loss. (9) p.6

2. The percentage to be given to the local governments will not, as a rule, present such a great problem. This may be assessed in two ways. In the first place it may be approximately equivalent to the 25 per cent of gross receipts that the Forest Service agrees to pay for the schools and roads in its national forests at the present time. It might also be arranged upon the basis of an average forecast tax rate common to the local government in question. This would be applied to an average assessed

valuation of the timberland involved. The first one may be the most equitable although the latter would probably be the best from a legal or constitutional point of view.

It would be necessary to fix the amount to be paid to the local governments in advance for a period of years. One of the weaknesses of the present taxing system is that the private owners are at the mercy of local tax assessors and have no assurance that the tax rate will not be changed without notice. This change, if it comes at the right time, may make the operator lose all his profits or cut his timber while it is still immature. If the tax payments were agreed upon in advance then this problem could not occur.

However there is a legal barrier if this is brought about because it would tend to put forest property on a privileged list, especially since taxes seem to be on an upward trend. This would undoubtedly be considered by the courts as being contrary to law so the contracts with the local governments must be made flexible enough so that this contingency can be taken care of. This might be taken care of by making provisions for periodic revisions. Any change made should take into consideration the upward trend of taxation as well as changes in local needs. Probably some board should be set up to determine any changes in taxation.

3. The part of the returns from the forest property that would go to the state or federal government will, of

course, be in proportion to the costs of management and control. To do this future costs and returns must be forecast. It has been uncertainty along these lines of costs and prices that have scared many private operations out of timber production. Because of the long wait involved this places the burden where it appears to belong, in government hands. There are several advantages the government has as a managing agency that the private individual could never have. In the first place costs could be forecast with a minimum degree of error because of the large acreages involved. Things like insect and storm damage that could not be forecast for a small area could be accurately forecast for the large areas the government would be handling. In the second place the size of operation would insure the minimum of overhead costs. In the third place the government would gain enormously from such things as flood control, game habitats, regulation of stream flow, recreational areas, and so forth that could not be considered as of any benefit from the standpoint of the private owner. (10) p.3

Several problems that might be taken into consideration when making out the contracts are as follows:

1. The individual owners must have the right to sell the property. The need for changes in ownership may become necessary and the need can only be met if the right to sell is still held by the individual.

2. Rules governing the rights of both parties in regards to cutting must be made in advance. These rules cannot be too

flexible but must be made in regards to such things as cutting at certain market conditions, slash disposal, diameter limits, etc.

3. Rights of ingress and egress must be considered. The individual should be given the right to use his own lands for camping, hunting, fishing, etc. The government will not own the land directly so must give these right to the individuals although they will hold general rights. In relation to the fact that they do not own the land they must also put in the contract the permission to build roads, telephone lines, and so forth that must be built.

4. Special use problems will undoubtedly come up and these must be met. In some cases this will be easy but in many cases it may require that an arbitrary board be set up to decide any issues that may arise.

(10) p.7

Organization

Before such a program could be started it is probable, or necessary, that the states should organize into districts before effective work could be started. In order for this plan to work there would probably have to be at least 20,000 or more acres in one of these districts. The owners of land within the district would have to agree to enter the district, at least a certain percentage of them must do so. This percentage may vary but would probably be around 80 per cent. The owners who did not enter into the agreement must be made to understand, of course, the responsibilities they bear in case fire on their land should run into other lands or other such contingencies.

In a few cases some counties may not wish to co-operate private land owners would co-operate would be to give the pro-

but it does not seem very probable that much opposition will be met from this quarter. There are so many advantages to the counties involved that it does not seem likely they would hold out once they understand the plan.

The question of withdrawal from the plan once it is formed will probably arise and it is suggested that this be possible providing the reasons are sound, as decided upon by an arbitrary board. Those withdrawing would, of course, have to pay for the expense the government had already expended. It might be wise, in case the timber was near maturity, for the government to be permitted to cut or sell the stumpage prior to withdrawal.

The greatest problem of course is the willingness of the private landowners to co-operate. In a great many instances these owners will gladly co-operate on such a plan but many others may not be so willing. Owners of timberland who are in a quandary as to what to do with their investment before it becomes tax delinquent will welcome such a proposal.

Of course few land owners would hold out if the percentage of the harvest they received would be great enough, and it is through this medium that the government could control to a great extent the numbers to be entered into the proposal.

It is probable that enough pressure could be brought to bear on those few who would be reticent to force them to enter if it were necessary. Many others could be brought to see the advantages although they were opposed to it in the beginning. The advantages are many and the disadvantages greatly over-balanced. Of course the only way to really find out how these private land owners would co-operate would be to give the pro-

posal a trial and see what the results were.

The public as a whole would probably think that these land owners in many cases were getting the best of the deal for land that seemed entirely worthless. Many, however, would feel that the individual was not getting too much and the government was at least breaking even. Enough propaganda could be brought into play that this would not be much of a source of trouble however.

Expense to the Government

Those who believe the government would be expending too much could probably be shown that there would be a material amount of saving if the government would merely purchase the necessary rights rather than direct ownership. (See Table II) From this table it can be seen that actually there is a great saving to the government from purchase of control rather than acquisition of ownership. The table is prepared on a basis of a tax rate of \$1.36, an average rate, per \$100 of assessed valuation. On \$4.00 land these taxes would amount to 5.5¢ per acre which, when added to a 12.2¢ estimated cost for protection and administration, makes a total cost of 17.7¢. Leaving out interest altogether this means that the government could protect, administer, and pay taxes on these lands for 22 years before the cost would equal \$4.00. Taking an interest rate of 3.5 per cent this period would run up to 45.5 years. These costs still do not take into account an initial investment cost of \$2.00 per acre that would be needed before any system of control or management could become effective. In Table II it has been assumed that this \$2.00 investment was made immediately.

TABLE II

THE GOVERNMENT'S INVESTMENT IN LAND AND TIMBER UNDER METHODS
OF OUTRIGHT ACQUISITION AND PURCHASE OF CONTROL ONLY

Year	\$4.00 Land		\$10.00 Land	
	Acquisition of ownership	Purchase of control	Acquisition of ownership	Purchase of control
1	\$ 6.17	\$ 2.17	\$12.25	\$ 2.25
5	8.08	3.33	15.63	3.76
10	10.54	4.90	19.95	5.84
15	13.47	6.77	25.08	8.33
20	16.95	8.99	31.18	11.28
25	21.07	11.62	38.41	14.78
30	25.98	14.75	47.00	18.93
35	31.80	18.47	57.20	23.87
40	38.72	22.88	69.32	29.73
45	46.93	28.13	83.71	36.69
50	56.70	34.36	100.81	44.97

(9) p.11

This table was prepared on the basis of a tax rate of \$1.36 per \$100.00 of assessed valuation. The table also assumes that an initial investment cost of \$2.00 per acre before control or management can be effective has been made.

Summary of Advantages

A summary of the advantages of such a plan as outlined would be as follows:

1. Less expensive because it requires only purchase of rights of control rather than outright purchase.
2. Reduces the cost to the government of forest conservation and therefore extends a given appropriation for forest conservation to a much larger acreage.
3. It provides aid for local governments in dire stress in forest areas.
4. The government would pay all the taxes so would open an attack on land tax delinquency which is such a problem.
5. Makes possible a widespread program of reforestation on some badly needed areas.
6. May permit the connection of the government with high valued lands that could never be reached by direct acquisition due to high purchase cost. (9) p.11

Conclusion

The people of Oregon owe it to themselves to preserve the great natural resource which is their heritage. Oregon's present standing and advancement has been due without doubt to her forests and allied industries more than to any other one cause. Her future as a state of importance in our country depends a great deal upon the preservation of the great timber resources which it is her privilege and honor to have at the present time. She is especially fortunate in that she can see the fate that has befallen other states who, at one time in the not too distant past, also owned great timber resources, but who, through greediness or gross negligence as to future worth, have allowed them to go to waste. These unfortunate states have upon themselves the problem of curing their troubles after the damage has befallen them while Oregon, still relatively young as far as timber depletion is concerned, aonly has to act to prevent this occurrence. By proper action the people can legislate action which will preserve and perpetuate this great store of wealth for all future generations, and, at the same time, keep her ideal of individual rights of ownership. The government could, of course, take over all timber lands and manage them, but this would be in direct conflict with their purpose of encouraging private ownership in perpetuity.

As has been shown, there are several causes for depletion of timber lands in Oregon but the outstanding one at present is that of taxation. Taxation, as if generally applied to private holdings, is entirely out of line as far as forests and forestry is concerned. Under present conditions of management it is al-

most impossible to retain ownership of timberland after one crop of timber has been harvested and wait for another crop to grow. The main cause of this impossibility is the expense of paying the taxes thereon. The owners of this land, therefore, merely drain it of all the wealth possible and then let it return to the counties as tax delinquent cut-over land. It is highly probably and entirely possible that if some form of taxation could be formulated that would permit the owners of this land to hold it until a crop was grown on it without such an overwhelming expense then this amount of cut-over land would greatly decrease. Owners would probably start a program of sustained yield which would, in the long run, return a far greater profit to both themselves and to the counties.

There has been much work done along this line by both the federal government and the various states. Committees have investigated untold numbers of possibilities and have tried to find some form of taxation which would correct this trouble and, at the same time, remain as an integral part of our tax system as administered at the present time. There are many problems to be met that can be seen and many more that will come up anew as the tax plans are put into effect. At the present time most states are adopting some sort of tax plan for their forests which they hope will help them out. After enough time has passed it will be possible to see the advantages and disadvantages of each plan and the formation of the best possible plan will then be entirely feasible.

Oregon, as befits her position as one of the foremost

states in the Union, has not waited until her forests have been depleted to start action. In the early 1920's she started work on a tax plan that would lighten the burden of taxation on individual and private owners and permit them to run their forests on an equitable basis with other private industries. The results of this work were finally rewarded in 1929 by the passage of the Oregon Reforestation Law. While this law will, and has, proven to have some weak points it will, never-the-less, prove to be a beginning for a taxation system on her forests that will permit her to remain as the outstanding timber producing state in the Union. Owners of forest land will be able to see the possibilities of good financial returns from their land in the form of forest products which will be great enough to encourage them to keep it, and the problem of tax delinquent cut-over lands will be a very minor item.

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