Forest Property Taxation in Eastern Oregon

Alternatives for the Small Woodlands Owner

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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, the timber will be taxed under the Eastern Oregon Severance Tax. This applies to forest property in counties east of the summit of the Cascades. The Forest Fee and Yield Tax Law was repealed by the 1977 Oregon State Legislature. Taxation of land and timber formerly under this law will be gradually phased into the Eastern Oregon Severance Tax.

EASTERN OREGON SEVERANCE TAX
(ORS 321.405)

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

The true cash value of your forest land on January 1 of each assessment year is used to calculate the property tax on the land. The Legislature established a base of $25 per acre for the true cash value for 1982. For each assessment year thereafter, the true cash value for the previous year will be adjusted by a forest land index calculated by the Department of Revenue.

Calculation of the Forest Land Index

To calculate the forest land index, the average annual immediate harvest values (stumpage prices) for the most recent 5 fiscal years is compared to the average for the 5 fiscal years "beginning one year prior to the most recent five-year harvest dates." Half of the decimal increase or decrease in these two averages is added to the number 1.0. This is the forest land index.

This index times the true cash value for forest land for the previous assessment year gives the true cash value for the present assessment year. This value adjusted by a statewide ratio for "other" property times the local tax rate gives the property tax due for your forest land for the tax year.

To learn how the Forest Land Index for Eastern Oregon is calculated and how it is used, consider the hypothetical example in Table 1.
Table 1. Method used to calculate the forest land index.

Average immediate harvest value of timber harvested during the July 1 to June 30 fiscal year

<table>
<thead>
<tr>
<th>Year</th>
<th>Most recent 5-year period</th>
<th>Lagged 5-year period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>200</td>
<td>190</td>
</tr>
<tr>
<td>1978</td>
<td>275</td>
<td>200</td>
</tr>
<tr>
<td>1979</td>
<td>300</td>
<td>275</td>
</tr>
<tr>
<td>1980</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>1981</td>
<td>250</td>
<td>200</td>
</tr>
<tr>
<td>1982</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1225</td>
<td>1165</td>
</tr>
</tbody>
</table>

Average for 5 years \( \frac{1225}{5} = 245 \), \( \frac{1165}{5} = 233 \)

Percentage change \( \frac{245 - 233}{233} \times 100 = \frac{12}{233} \times 100 = 5.15\% \)

One-half of the percentage change \( 5.15\% \times 50\% = 2.575\% \)

Decimal equivalent \( 2.575\% \times 100 = .026 \)

Forest land index \( 1 + .026 = 1.026 \)

To calculate the true cash land value for 1983:

Land value in 1982 x forest land index = land value in 1983

\$25/acre \times 1.026 = \$25.65 per acre true cash value for 1983
Classification as Forest Land

If your land is in an area zoned for forest use, it will usually have a true cash value reflecting that use. However, the assessor may have assigned a higher use for the land and, therefore, will have entered a higher assessed value on the assessment rolls. Compare the land values used for assessing your forest land with those published by the assessor for forest lands. Ask the assessor to explain any discrepancies.

If the true cash value for your forest land exceeds the true cash value for forest land in the tax district, you may apply to have it "designated" as forest land and taxed on its potential for forest production. To have it "designated" as forest land, obtain a 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.

Each separate parcel of forest land must be 2 acres or more and meet minimum stocking standards to be eligible for consideration as designated forest land.

Lands classed as reforestation lands (forest fee and yield tax) as of July 1, 1977 are considered to have been designated as forest land from the date of original classification as reforestation land.

Removal of Designation

Once land has been designated as forest land, it will be valued accordingly until removed from designation by the assessor. The assessor will remove it from classification as designated forest land for one of the following reasons:

1. The taxpayer requests removal from designation as forest land.
2. The property is sold or transferred to an ownership exempt from ad valorem property taxation.
3. The assessor discovers the property is no longer used for forest production.

Additional Tax Due on Land Upon Removal from Designation

Land in eastern Oregon designated as forest land may be changed to special farm use assessment or vice versa without additional taxes or penalty.

If designated forest land is disqualified or declassified, the assessor will notify the owner and levy an additional tax. To calculate the additional tax due, the assessor first finds the number of years the
land was designated as forest land or under special farm use assessment, for a maximum of 5 years. This figure times the total amount the taxes on the land for the last year of designation would have been increased if the land had not been designated as forest land or under special farm use assessment, equals the additional tax due.

If your designated land is removed from this classification and it has previously (continuously) been specially assessed as farm land in an exclusive farm use zone (EFU) outside of an urban growth boundary (UGB), then to calculate the additional tax due, the multiplier is increased to a maximum of 10 years rather than 5.

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 for the 1982 assessment year will help explain the procedure:

**Example 1**

A taxpayer has 50 acres of forest land in Klamath County in eastern Oregon, currently valued at $25 per acre for forest use. The tax rate for the year is $10 per thousand dollars of assessed value. Here is how your total land tax will be calculated.

New assessed value = $25/acre x .845 statewide ratio (assumed)  
= $21.13 assessed value 

50 acres x $21.13 per acre = $1060 total assessed forest land value 

1.060 thousands of dollars x $10 tax/thousand of assessed value =  

tax due or 1.060 x $10 = $10.60 tax due.

Therefore, by November 15 you must pay the tax collector $10.60 or at least a third of this amount, if you choose to postpone tax payment without penalty. Note that in 1983 the true cash value for land ($25/acre in the examples above) will be adjusted by the Forest Land Index before applying the statewide ratio.

Land Tax on Former Reforestation Land

Rather than change abruptly from the rather low annual land tax of 5 cents per acre for reforestation land to full ad valorem taxation of forest land, only 5 percent of the full assessed value was taxed in 1978. Each year thereafter, the percentage to be taxed increased by 5 percent until in 20 years (1997), the full forest land value will be taxed. To calculate the new forest land tax due in 1982 for reforestation land, the assessor uses 25 percent of the appropriate 1982 land value and multiplies this figure times the local code area tax rate.
Example 2

You own 50 acres of forest land in Klamath County classified as reforestation land. The county assessor will value it at $25 per acre for forest use. This value ($25) is multiplied by 25 percent and a statewide ratio (in this example, .845) to get the assessed value for 1982 for former reforestation land--$5.28 per acre. For the 50 acres the assessed value is $264.00. If the local tax rate is $10 per thousand dollars, the tax for this land in 1982 is $.0528 per acre, or $2.64 for the 50 acre tract of forest land.

\[
\begin{align*}
\frac{25}{\text{acre}} \times 0.845 \times 0.25 &= 5.28/\text{acre} \quad \text{(assessed value for this reforestation land in 1982)} \\
5.28/\text{acre} \times 0.010 \times 50 \text{ acres} &= \$.0528 \text{ tax per acre} \times 50 \text{ acres} \\
&= \$2.64 \text{ total tax on the land}
\end{align*}
\]

Timber Taxation

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

The immediate harvest values for all timber classed under the Eastern Oregon Severance Tax are assigned by the Oregon Department of Revenue. These may 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 Description." This schedule is available at the local office of the Department of Revenue. When you calculate your severance tax for the preceding two quarters, 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 listed as timber owner on the State Forestry Notification of Operations permit. If your logger completes the permit, be sure he or she lists you as timber owner on the permit. Ask the logger to write your Federal employer identification number or your social security number on the permit, too. You may also obtain a copy of the Timber Severance Tax Return at the local office of the Department of Revenue.

In reporting timber harvest semiannually, any harvest occurring before December 31 or June 30 is reported for the preceding 6 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 June 25 and hauled to the mill where it is first measured on July 6, then you would report this harvest for the second half of the calendar 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 harvested in the semiannual period 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 6 month reporting period. Divide this total by 16 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 in board feet 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 period.

If your tax liability for any semiannual period is less than $5, (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. Owners expecting to owe a tax of $2,500 or more for a 6 month period must file an estimate of the tax on or before the last day of April or October and pay at least one-half of the estimated amount of tax. The form for this estimate is available at the Department of Revenue.

**Calculation of the Tax on Timber**

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

**Example 3**

On the 50 acres of land in the previous example, assume you cut 75,000 board feet of ponderosa pine. All cutting occurred in August, 1981 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 calculations.
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 6 month period. Divide the total lineal feet by 16 to get the equivalent number of 16-foot logs produced in the period. 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.

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

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

\[
\frac{75,000 \text{ board feet}}{652 \text{ logs}} = 115 \text{ board feet average log volume}
\]

According to the Schedule of Immediate Harvest Value, the stumpage value for an average log volume of 115 board feet for this half-year period for tax purposes is $157 per thousand board feet (MBF).

\[
\text{Total value for tax purposes} = \frac{157/\text{MBF} \times 75 \text{ MBF}}{115} = 11,775
\]

Therefore, the tax for the second half of the calendar year 1981 will be 5 percent of $11,775.

Severance tax = $11,775 x .05 = $588.75

Severance Tax on Former Reforestation Land

The yield (severance) tax paid for timber harvested from lands formerly classed as reforestation land starts at 12-1/2 percent for 1978 and decreases by .25 percent per year (11-1/2 percent in 1982). By 2008 the rate will be equal to the severance tax under the Eastern Oregon Severance Tax—5 percent if the severance tax remains at its present level.

Payment of the Severance Tax

To avoid penalties, tax payments must be made on or before the last day of the month following the close of the tax period. A check for your tax, in this case $588.75, should be made payable to the Department of Revenue. The check and a completed Eastern Oregon Timber Severance Tax Return should be mailed to the Timber Section, Department of Revenue, P.O. Box 14003, Salem, Oregon 97310.

If you have questions or need help, you can call the Department of Revenue in Salem toll-free in Oregon (1-800-452-7813) and ask for extension 8-3375.
Though not a real property tax, another tax of importance to forest owners is the Forest Products Harvest Tax. It is paid semiannually by the owner when merchantable timber is cut. For fiscal year 1981, this tax amounted to 45 cents per thousand board feet on timber harvested from lands protected by the Oregon State Department of Forestry and 30 cents per thousand board feet on timber harvested from all other forest lands in Oregon.

The first 25,000 board feet of forest products harvested during a fiscal year is exempt from the Forest Products Harvest Tax.

Proper return forms and information will automatically be furnished by the Department of Revenue to anyone obtaining the required "Notification of Operation" from the Department of Forestry to harvest timber.
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