

Business Management

Forest Property Taxation in Western Oregon

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If you own forest property in western Oregon and if you meet certain qualifications, your property will be taxed under either the *Western Oregon Forest Land and Severance Tax* or the *Western Oregon Small Tract Optional Tax*.

The Western Oregon Forest Land and Severance Tax (which will be explained in detail in the following sections) is the primary tax law for forest property in western Oregon.

Forest property that has been taxed under the Forest Fee and Yield Tax since December 31, 1977, is now taxed under the Western Oregon Forest Land and Severance Tax.

Under this law, you pay an annual property tax on your forest land. When you cut, you pay a yield tax on the appraised stumpage value of your harvested timber.

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OREGON STATE UNIVERSITY EXTENSION SERVICE

If you meet certain qualifications, you can classify your property under the Western Oregon Small Tract Optional Tax. Forest property under this law is taxed annually, based on the productivity of the forest land. (You'll find this law discussed on pages 5-6.)

Changes in the forest property tax laws for western Oregon that the Legislature passed in 1987 have been included in this publication. Therefore, the provisions of the tax laws discussed in this publication will apply until July 1, 1989.

Western Oregon Forest Land and Severance Tax

Oregon Revised Statute 321.257 contains the law covering this tax. East side and west side forest lands in Oregon are separated by a boundary traced by the summit of the Cascade Mountains. Hood River County is in western Oregon. The total tax you pay on your forest property under this tax has two parts:

- An annual property tax on the bare land value of your forest land
- A 6½ percent tax on the appraised standing timber value (stumpage value) of trees you harvest for use or sale

The Tax on Your Land

The tax on your forest land depends on two factors: the tax rate for the tax district where your land is located, and the assessed value assigned to your forest land. Your county assessor calculates the tax rate each year by dividing the budget for your tax district by the total assessed value of property in that district. Your local assessor, with the assistance of the Oregon Department of Revenue (ODR), determines the assessed value of your forest land. The local tax rate, multiplied by the assessed value of your forest land, gives the annual property tax due each year.

Assessing land for forest use

For forest property taxation, your forest land may be assessed at its value in use for forest production.

ODR determines these forest-use values for the county assessor. Each year, ODR adjusts the forest-use value from the previous year by the forest land index.

ODR calculates the forest land index from a moving 3-year average for young growth Douglas-fir stumpage values for its B, C, and D tree classes.

For example, ODR calculated the forest land index for 1988 by comparing average stumpage values for 1985, 1986, and 1987 with the average for 1986, 1987, and 1988. The percentage increase or decrease in the index, if any, is applied to forest land values for 1987 to obtain land values for 1988.

The county assessor usually will apply forest-use values in areas zoned for forest use. However, in some areas zoned for forest production—and in areas zoned for other, higher uses—the assessor may place a market value on the land you plan to use for forest production that is *higher* than the ODR forest-use value.

If this happens, you may want to apply to the assessor to have the land *designated* as forest land, to lower your assessment and thus your taxes.

You apply to have your forest land *designated* as such on an ODR form called Application for Designation of Lands as Forest Land. You must apply for designation as forest land to your county assessor on or before April 1, for assessment for the tax year beginning the following July 1. Instructions are on the form. Your assessor has a supply.

Forest land formerly under the Forest Fee and Yield Tax

Forest property under the Forest Fee and Yield Tax, often called the "Reforestation Land Tax," is being merged into the Western Oregon Forest Land and Severance Tax. Beginning in 1978, 5 percent of the full assessed value for this forest land was taxed, increasing by 5 percent a year for 20 years. In 1997, 100 percent of the assessed value of forest land will be taxed.

For 1988, 55 percent of the designated land value for forest land will be used to calculate the tax due on land formerly under the Forest Fee and Yield Tax.

Rules for retaining the special farm use assessment

There is an exception to the procedure for valuing designated forest land described in the last section. Should you decide to change land formerly under special farm use assessment to *designated* forest land, your land may continue under special farm use assessment if you can answer *Yes* to these three questions:

1. Was your land assessed for farm use *for 10 consecutive years* before the year in which the change to special assessment for forest land is effective?
2. Did you plant enough trees *after October 15, 1983*, to qualify the land for special assessment as forest land?
3. Is your *total* ownership of forest land in western Oregon *2,000 acres or less*? "Total ownership" includes forest land owned individually and by any corporate or group owner in which the applicant (you) owns a share of 10 percent or more—and you can't get around the purpose of this 2,000-acre limitation by having your spouse, brother, sister, grandfather, child, grandchild, etc. apply for an assessment of forest land by the method used for special farm assessment!

After the assessor classifies your forest land for special farm use assessment, he or she will continue farm use assessment until the trees on your land reach an average age of 40 years. At that time, your land will be assessed as forest land, providing it qualifies for *designation* as forest land.

Setting land values for special farm use assessment

Your county assessor determines the land value on which to base the special assessment for farm use for qualified forest land. The assessor uses one of these two methods to determine this value:

1. *Comparable sales of agricultural land purchased for farm use.* The assessor may use sales figures for comparable land (without regard to the timber growing on it), if these figures are available. *OR*

2. *Capitalization of farm income for typical farm uses in your county, regardless of the timber growing on the land.* The assessor:

- *Determines* average annual net farm income for typical farm management on comparable farm land, then
- *Divides (capitalizes)* this net income by an interest rate that has two parts: a 5-year average of the effective Federal Land Bank rates for farm loans in Oregon *and* the current local tax rate for farm property.

It works this way: the assessor tries to determine the value a "prudent investor" would pay for farm land when he or she intends to use typical farming practices for your county (method 1, above). However, if "prudent investor" sales figures aren't available for comparison, the assessor uses capitalization to determine the farm use value (method 2, above).

Calculating the tax on your land

To calculate your tax, first multiply the number of forest land acres by the assessed value per acre for that site. Then multiply this total by the tax rate for your tax code area, to get the total tax you pay for your forest land. Here is how it might go:

Example 1. Assume that you own 50 acres of forest land in Zone A, Linn County, classed as Site II, according to property tax records. The county assessor has told you that Site II land at your location, for the current year, has an assessed value of \$151 per acre. The tax rate is \$15 per thousand dollars of assessed value.

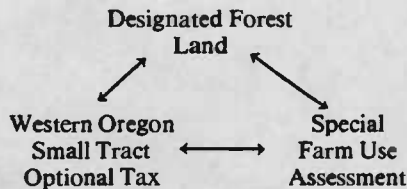
Step 1. Multiply the total number of acres in a value class by the assessed value per acre: 50 acres x \$151 per acre = \$7,550 total assessed value.

Step 2. Multiply the total assessed value by the local property tax rate to get your total property tax due for this forest land: \$7,550 x \$15 per thousand dollars of assessed value = \$113.25 tax for 1988.

Therefore, on November 15, you would owe a tax of \$113.25 for your 50 acres of forest land.

Taxes due on change of land classification

If you meet the qualifications, you may change from any one of the land classifications below to either of the other two. There is no additional tax collected for the transfers.



If your land is *designated* as forest land and you later change its use to a "higher" use (such as a subdivision for homes), you will be required to pay a tax on the difference in value between *designated* land and its value for that higher use.

The assessor will subtract the land value for the last year your land was designated as forest land from the land value for the higher use for the same year.

Then the assessor multiplies this difference in land value by the local tax rate for the last levy in the tax code district where your land is located.

Finally, this additional tax is multiplied by the number of years your land was designated as forest land, for a maximum payback (rollback) period of 5 years.

The maximum payback increases to 10 years if your land was under special farm use assessment in an exclusive farm use zone (not within an urban growth boundary) before you had it designated as forest land.

Reasons for removing the designation

Once land has been designated as forest land, it must be valued that way until:

1. The taxpayer asks the assessor to remove the designation as forest land. *OR*
2. The taxpayer sells or transfers the land to an ownership that exempts it from *ad valorem* property taxation. *OR*
3. The assessor removes the land from designation after learning that the land is no longer forest land. *OR*
4. The state forester finds that the designated forest land (if logged

before 1973) is not adequately stocked, or does not have an acceptable plan to achieve minimum stocking, or is not managed in accordance with the minimum management standards the state forester has defined.

The Tax on Your Timber

The Western Oregon Forest Land and Severance Tax requires the owner to pay a 6½ percent tax based on the value of standing timber immediately before it is harvested from privately owned land. The timber owner (taxpayer) is the "person or business that owns the timber when it is first measured after harvest in the ordinary course of business." For example, if you sell standing timber (stumpage) to a logger, who then cuts the timber, has it scaled, and sells the logs to a mill, the *logger* is the "timber owner" and must pay the tax.

If you harvest timber, you must fill out a Notification of Operations form, which you can obtain at the local office of the Oregon Department of Forestry.

Be sure to enter on this form the correct name and address of the "timber owner" as defined above. The timber owner will automatically receive a packet from ODR that contains all the materials necessary to calculate and report the severance tax.

There are two methods for calculating the taxable standing timber value for your harvested timber: the standard method and the small owner election.

Under the *standard method*, you must use the stumpage values published by ODR.

However, if you qualify for the *small owner election*, you may use the delivered price of your forest products (minus the costs of administration, logging, and transportation) to find the taxable stumpage value.

Exempt timber

You do *not* pay a severance tax on:

1. Christmas trees
2. Timber from land assessed by the Valuation Section, Assessment and Appraisal Division, Oregon Department of Revenue
3. Timber cut from land under the Western Oregon Small Tract Optional Tax

4. Timber harvested from exempt land (for example, Federal lands are exempt, so you do not pay a severance tax on Federal timber purchases)
5. Products originating from material normally left in the forest or burned as slash, and logs converted to firewood

Calculating taxable stumpage value: Standard method

Three factors affect the amount of severance tax a timber owner will pay:

1. The amount of the product harvested, whether measured in board feet or tons
2. The log grades of the products harvested
3. The value assigned to the harvested units of timber

Under the standard method, the stumpage values used for reporting harvest value are determined by ODR forest appraisers. These stumpage values are published by numbered value area and can be adjusted for topography, volume per acre, yarding distance, and other factors by using tables provided by ODR.

Because the stumpage value that ODR assigns depends on the log grade of the products produced, it is essential to keep a record or have access to a record of the volume (or other measurement) harvested in each log grade. If you are the timber owner as defined above, obtain a copy of the Western Oregon Severance Tax instructions and tables published by ODR. Read them carefully before you harvest your timber.

Calculating taxable stumpage value: Small owner election

If you qualify, the small owner election permits you to use the gross price you agreed upon for your harvested products (logs, poles, etc.) delivered at the mill minus the cost of administration, logging, and transportation to find the taxable stumpage value for your sale.

You would have to meet these qualifications for the small owner election:

1. You must harvest less than 500 thousand board feet in the calendar year or own less than 1,000 acres of forest land in Western Oregon.
2. You must own no more than a 10 percent interest in a forest products processing business during the 12 months before the due date of the severance tax return.

Check with your local ODR office to learn whether you qualify.

To calculate taxable stumpage value, you may use either of two methods for subtracting administration, logging, and transportation costs from the price you receive for logs delivered to the mill:

1. You may deduct 50 percent of the delivered price agreed upon for your products. *OR*
2. You may deduct your *written* contract costs for logging and transportation (a contract specifying that the logger receives a percentage share of the delivered price of your timber products is acceptable for subtracting logging and hauling costs).

Calculating the severance tax

Assume that you harvested 200 thousand board feet of second-growth timber from nonclassified lands (those not formerly under the Forest Fee and Yield Tax law). The immediate harvest value of this timber for tax purposes is \$160 per thousand board feet. This is how the tax is calculated:

Example 2. Board-foot volume (thousands) times the immediate harvest value per thousand board feet equals the total standing timber value to be taxed: 200 thousand board feet x \$160 per thousand board feet = \$32,000.

Total standing timber value times $6\frac{1}{2}$ percent severance tax equals the total severance tax due on harvested timber: \$32,000 x $6\frac{1}{2}$ percent (.065) = \$2,080 severance tax.

If you harvest timber from classified lands (that is, lands formerly

under the Forest Fee and Yield Tax), you pay a severance tax based on the *original* Forest Fee and Yield tax severance tax rate of $12\frac{1}{2}$ percent.

Beginning in 1979, this rate is reduced by 0.25 percent each year until the year 2002, when it will be $6\frac{1}{2}$ percent, equal to the severance tax rate under the Western Oregon Forest Land and Severance Tax.

For 1988, the severance tax rate for timber harvested from these lands is 10 percent. The severance tax is calculated by the method shown above.

Paying the severance tax

You must file the severance tax return—including the harvest detail reports, the semiannual return summary, and your check for the tax due for the previous 6-month period (July 1 to December 31; January 1 to June 30)—on or before the last day of January or July.

If you choose to use your *contract* costs to find stumpage value under the Small Owner Election, you *must* include a copy of your written contract. (If you owe less than \$10 severance tax for the 6-month reporting period, you do not have to pay the tax, but you must file a return.)

Owners who use the standard method of reporting and who anticipate a tax liability of \$5,000 or more for timber harvested during a 6-month period (July 1 to December 31; January 1 to June 30) must file an Estimated Tax Report with Department of Revenue by October 31 and April 30, and pay at least 50 percent of the estimated severance tax due for the 6-month period.

Penalties are due for late returns, but you can obtain an extension up to 30 days, if necessary.

Do you need help?

If you have difficulty filling out any of these forms to calculate the severance tax due, foresters in the local ODR office or your local service forester in the Oregon Department of Forestry can help you.

Western Oregon Small Tract Optional Tax

Oregon Revised Statute 321.705 contains the law that applies to the Western Oregon Small Tract Optional Tax.

This tax—commonly referred to by its initials, WOSTOT—applies only to forest properties in *western* Oregon. It is levied on the ability of your forest land to produce income from the sale of timber.

Only the *productivity* of your forest land is taxed. Timber and land are considered a producing unit; therefore, timber is *not* taxed separately with a severance tax at harvest time.

Qualification

To classify your forest land under this law, you must meet the following conditions:

1. Your land must be suitable for growing timber in accordance with principles of good forestry.
2. Either the predominant diameter breast height (d.b.h.) of the stand on your forest land does not exceed 8 inches, or the average age of your stand is not more than 40 years (the state forester may designate substantial *portions* of a property that meets these qualifications and classify these under WOSTOT).
3. You must own more than 10 acres but not more than 2,000 acres of forest land in western Oregon.
4. Unless the state forester grants an exception, you may not classify your land under this law if your spouse, brother, sister, grandparent, child, grandchild, etc. has forest land under WOSTOT.
5. You must hold your land for the primary purpose of growing and harvesting forest products (*including* Christmas trees), and you must manage the land in accordance with minimum standards that the state forester defines.

Land Values

Under WOSTOT, the true cash value of the land is the basis for determining the taxable value of the forest property.

The Oregon Department of Forestry determines the true cash value under WOSTOT, using an income approach that, by law, “capitalizes average annual net income over a rotation age including periodic and final harvest.”

The estimated net income for each site class is capitalized, using 17 percent interest (for assessment years 1988 and 1989), to determine the true cash value for the site.

Calculating Taxes

The assessed value of your forest land by site class, multiplied by the local tax rate, gives the tax due per acre for that year. Try this example:

Example 3. Suppose you own 50 acres of timber land that the state forester has classed as Site II. Your assessor has told you that Site II land at your location, for the current year, has an assessed value of \$159 per acre. The tax rate for your tax district is \$15 per \$1,000 of assessed value. 50 acres x \$159 per acre = \$7,950 total assessed value. \$7,950 x \$15 per \$1,000 = \$119.25 total tax for 50 acres.

How to Apply

To apply for this tax option, assuming you meet the qualifications (left), pick up the form called Application for Certification at the local Office of the Oregon Department of Forestry or at an ODR field office. (Your assessor may have a supply, too.)

Fill out the form and give it to your local office of the Oregon Department of Forestry or mail it to the address listed on the application (you'll need to include a small fee with your application):

State Forester
2600 State Street
Salem, Oregon 97310

A representative of the state forester (usually a service forester) then will examine your land. The service forester determines the site quality of your forest land by measuring tree height and age of selected trees.

He or she then maps areas of similar site quality for your property, reviews your management plans, and submits findings and recommendation to the state forester.

You may apply to classify all or only a portion of your eligible land.

A *new owner* must file an application for continued classification for forest land that is already classified under WOSTOT. The new owner must meet all of the eligibility requirements for this law (see “Qualification,” left column), except #2—*neither* the under-8-inch d.b.h. rule *nor* the under-40-years-average rule applies in this case.

Classification

If the state forester determines that your land is eligible for classification, the Oregon Department of Forestry will send a notice of certification to the local assessor and to you. If your land is not eligible, the state forester must notify you within 90 days after receiving your application.

If you meet the eligibility requirements, and if you mail your application to have lands classified under WOSTOT on or before April 1 of any calendar year, your classification will be effective for taxes due the following November 15.

To continue WOSTOT classification, you must manage your land according to minimum standards for timber or Christmas tree production that the state forester defines.

The state forester inspects classified lands every 5 years to verify continued eligibility.

Taxes on Timber Harvested within 5 Years after Classification

If the predominant *size* of your timber is over 8 inches in diameter but the average *age* of the timber is not over 40 years, and if you classify your forest property under WOSTOT, a yield tax of 6½ percent will be levied on all timber harvested “within 5 years after January 1 of the first assessment year” of the transfer of the property to WOSTOT.

The yield tax will be higher if your property was formerly under the Forest Fee and Yield Tax (reforestation lands).

Notify State Forester When You Sell Land

Owners with forest land under the Western Oregon Small Tract Optional Tax must notify the state forester by mail not later than the 30th day after any change in land use or ownership.

Declassification

Forest property will be declassified from WOSTOT for the following reasons:

1. The owner requests declassification.
2. The state forester, after an investigation, determines that an owner's forest land is no longer entitled to classification because it fails to meet eligibility requirements.
3. The average age of the timber stand has reached 90 years (declassification is automatic unless the timber is harvested).

Additional Taxes Due on Declassification

1. If the owner requests declassification from WOSTOT—to change to designated forest land under the Western Oregon Forest Land and Severance Tax or to special farm use assessment—no additional tax is due.

2. If the owner shifts forest land to WOSTOT and then to a classification *other than* special farm use assessment or designated forest land, the owner owes additional taxes.
3. If the state forester declassifies forest land from WOSTOT because of its condition, the owner owes additional taxes.

The state forester must notify the owner within 15 days of the effective date of disqualification or declassification. (For further information on WOSTOT, phone the Oregon Department of Forestry, 503-378-2542.)

For Further Reading

If you need information on forest property taxation on land and timber east of the Cascades, consult *Forest Property Taxation in Eastern Oregon*, EC 1150, \$1.00 a copy.

When you're planning timber harvests, consult *Oregon's Forest Products Harvest Tax*, EC 1151, 75¢ a copy.

To order copies of these publications, send the publication's complete title and series number, along with a check or money order for the amount listed, to:

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

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