

105
E55
0.425
00.2



The Forest Property Tax Law in Western Oregon

Alternatives for the Small Woodlands Owner



Prepared by Dr. Charles F. Sutherland Jr. Oregon State University Extension Forest Management Specialist. The author acknowledges the contributions of members of the State of Oregon Department of Revenue; the Benton County Assessor's Office and members of the faculty at Oregon State University.

THE FOREST PROPERTY TAX LAW IN WESTERN OREGON

ALTERNATIVES FOR THE SMALL WOODLANDS OWNER

1974

As an owner of forest property in Western Oregon (West of the Cascades) your property may be classified under the Western Oregon Ad Valorem Tax or if your land and timber qualify for them, under either of two optional forestry property tax laws. The choice you make may result in thousands of dollars of savings in taxes and interest on taxes. Obviously, your choice of property tax is critical for your management plan.

The three tax laws are: (1) The Western Oregon Ad Valorem Tax, (2) The Forest Fee and Yield Tax and (3) The Western Oregon Small Tract Optional Tax. Here is an explanation of the tax laws and some suggestions for deciding which forest tax law is best for your management plan.

WESTERN OREGON AD VALOREM TAX

(ORS 321.605)

As an owner of forest land, your property will be subject to the Western Oregon Ad Valorem Tax unless you chose one of the two options. An Ad Valorem tax means that the assets, in this case land and timber, are taxed according to their market value. In Oregon your house or business, or other real estate, is also taxed in relation to its market value -- an Ad Valorem tax.

The tax you pay on your forest property under this law will be based on the market value of the trees plus the value of your forest land without trees. Your timber, twelve inches and larger in diameter at breast height, will be valued at market value based on sales of comparable timber in your area. Trees less than twelve inches in diameter are not valued (appraised) because they are exempt from taxation unless cut.

Your forest land is normally valued according to its bare land market value for forest production. However, its location may add to its value because of a potential higher use for recreation or homesites. Ask your local assessor if your forest land is being appraised for forest production or for some other use.

You can also call the local office of the State Department of Revenue and ask for the current bare forest land values they are using, then compare these values with your appraised values. If the appraised value is higher, the county assessor has probably decided that your land has a higher use than for forest production.

If your appraised forest land values are higher than the values given to you by the Department of Revenue and you intend to practice forestry on the land, you may wish to have your land "designated" as forest land. "Designation", if

approved by the County Assessor, will reduce the land values to those used by the Department for appraising forest land. You apply to have your forest land "designated" as such on a form titled "Designated Forest Land". Your local assessor has a supply of the forms. If your local assessor rejects your request to "designate" your land as forest land, you may appeal to the Department of Revenue.

Removal from Designation

If your land is designated as forest land, and you decide later to change its use to a higher use, such as for a subdivision for homes, you or your buyer will be required to pay taxes on the difference in value between "designated" land and its value for the higher use for the period it has been designated, to a maximum of five years. An annual six percent simple interest charge will also be collected on the additional taxes due.

The Tax on Your Land

Now, assuming that your land is classed as forest land, the market value (true cash value) will vary depending on the site class and location. Site classes reflect differences in potential growth rates. Zone classes depend primarily on the distance to forest products markets (Table 1).

TABLE 1

Forest Land Values (true cash values)
for Several Counties in Western Oregon - 1974

<u>Site Class</u>	<u>Benton County</u>		<u>Value Per Acre By Zone</u> <u>Lane County</u>				<u>Tillamook County</u>		
	<u>A*</u>	<u>B*</u>	<u>A*</u>	<u>BDE*</u>	<u>C*</u>	<u>FG*</u>	<u>A*</u>	<u>B*</u>	<u>C*</u>
I	100	94	100	94	95	88	88	84	100
II	78	70	78	68	70	62	68	60	78
III	57	50	57	50	51	48	46	40	57
IV	32	30	32	30	30	28	25	19	32

*Zone classes are determined by distance to forest product markets.

To compute your tax on your forest land, first multiply the number of forest acres of a particular site class by the value per acre for that site. Then multiply this total "true cash value" by the tax rate for your area. This gives the tax you will pay for your forest land. Here is an example:

An owner has fifty acres of forest land in Zone A, Benton County classed as Site II by the forest appraiser in the Department of Revenue. The tax for the area, called the "code area", is \$25 per thousand dollars of true cash value.

50 acres x \$78 (true cash value per acre for Site II) = \$3,900 (total true cash value)
\$3,900 x \$25 tax per thousand dollars of true cash value =
3.900 thousands of dollars x \$25 = \$97.50 tax for the forest land

Therefore, on November 15 the taxpayer would pay a tax of \$97.50 on his forest land.

The Tax on Your Timber

The appraised values (immediate harvest values) used to determine the taxes you will pay on your timber are determined by forest appraisers from the Department of Revenue. They use prices collected from federal, state, and private sales of standing timber and/or logs as a guide. These prices are adjusted for species, quality, age, cost of logging and transporting and "other relevant factors". The Department of Revenue revises these values periodically as market values fluctuate. In Benton County, for example, the following appraised values were used for young growth Douglas-fir as of January 1, 1974:

<u>Quality Class</u>	<u>Immediate Harvest Value Per Thousand Board Feet</u>
A	\$162
B	146
C	117
D	91

Under the Western Oregon Ad Valorem Tax, timber is assessed in one of three categories:

- 1) Old growth - timber over 90 years of age as of August, 1961.
- 2) Young growth - timber 12 inches in diameter or more outside bark at breast height (DBH) but not "old growth".
- 3) Reproduction - trees less than 12 inches DBH.

Reproduction (trees less than 12 inches DBH) is exempt from annual taxation unless cut. If reproduction is harvested, it is assessed at 100% of harvest value and taxed for the year it is cut.

You will pay a tax on standing timber for the young and old growth classes. A valuation factor of 30% of immediate harvest value is used for calculating the annual true cash value of standing timber.¹ If timber is cut, a total tax based

-
1. Until 1977, you may use a 25% valuation factor for standing old growth timber if, based on your average cutting rate, the total harvest period for your old growth exceeds 30 years. See the Department of Revenue for details.

on 100% of its immediate harvest value must be paid for the year it is harvested. Therefore, you will pay an additional tax for harvested timber based on the remaining 70% (100% minus the 30% valuation factor on standing timber) of the immediate harvest value.

Let's use an example to illustrate how this forest tax is applied to young growth timber.

The Department of Revenue forest appraiser has cruised (measured) your standing timber over 12 inches in diameter. He estimated that you have 400 thousand board feet of young growth timber on the 50 acres of forest land you own. He classified the timber as Douglas-fir, Quality Class B with an immediate harvest value of \$146 per thousand board feet in 1974 in Benton County. This appraisal reduced by the valuation factor will be given to the county assessor's office and your tax will be computed as follows:

For standing timber (annual tax due November 15)

$\$146 \times 30 \text{ percent (immediate harvest value} \times \text{valuation factor)} =$
 $\$43.80 \text{ per thousand board feet (MBF) true cash value}$

$\$43.80 \text{ per MBF} \times 400 \text{ MBF} = \$17,520 \text{ total true cash value.}$

$17.520 \text{ thousands of dollars} \times \$25 \text{ tax per thousand dollars of true}$
 $\text{cash value} = \$438 \text{ total annual tax on your standing timber.}$

For harvested timber (report of harvest is due before March 3 of the
year following harvest)

Assume that 100 MBF of the timber was cut.
Here is the tax due for harvested timber.

$\$146 \text{ per MBF (immediate harvest value)} \times 70 \text{ percent} =$
 $\$102.20 \text{ per MBF.}$

$\$102.20 \text{ per MBF} \times 100 \text{ MBF of harvested timber} =$
 $\$10,220 \text{ of additional taxable value.}$

$10.220 \text{ thousands of dollars} \times \$25 \text{ tax per thousand dollars of true}$
 $\text{cash value} = \$255.50 \text{ of additional tax due for timber harvested.}$

Reports Required

If you harvest merchantable trees from lands classed under the Western Oregon Ad Valorem Tax, you must submit a report of harvest to the assessor by March 3 of the following year. You can obtain the report forms in the county assessor's office.

The Optional Tax Laws

Let's look at the two optional tax laws available if you meet the requirements for classification. These are the Forest Fee and Yield Tax and the Western Oregon Small Tract Optional Tax. Both are optional in the sense that you must apply to have your forest property classed under either of them.

FOREST FEE AND YIELD TAX

(Reforestation lands tax - ORS 321.255)

The Forest Fee and Yield Tax allows the owner to pay a very low annual land tax and a substantial tax on the value of all harvested forest products. The annual land tax is 5 cents per acre east of the Cascades and 10 cents per acre west of the Cascades. The yield tax is 12½ percent of the gross value (stumpage value) "immediately prior to harvesting" of all forest crops.

Qualification

To qualify for this tax your land must:

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

Application for Classification

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

Forest Fee and Yield Tax Section
Department of Revenue
Salem, OR 93710

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

Mail the completed form to the address shown above. Someone from this section will examine your land and recommend approval or disapproval of your

application. If your application is rejected, you may appeal to the Department of Revenue.

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

Removal from Classification

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

Calculation of Taxes

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

The stumpage value when you sell your timber may be different from the Department of Revenue's appraised value "immediately before harvest" if the timber market changes between the date of sale and date of harvest.

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

Land Tax

Assuming the forest land is in Western Oregon, a land tax of \$5.00 would be due each year.

50 acres x .10 per acre = \$5.00 annual land tax for the property.

Harvest Tax

In this case if 100 thousand board feet were harvested and it was valued at \$146 per thousand board feet by the Department of Revenue, you would owe a tax of \$1,825 on this timber. Timber not harvested is not taxed.

100 MBF harvested timber x \$146 per MBF =
\$14,600 total immediate harvest value.

\$14,600 x 12½ percent yield tax = \$1,825 tax due

Reports Required

You must apply to the Department of Revenue for a permit to harvest products on land classified under the Forest Fee and Yield Tax. Within 30 days of June 30 or December 31 the owner must submit a report to the Department of Revenue and the county tax collector listing the amount and kinds of forest products harvested in the preceding six months. The report to the tax collector will include the yield tax due.

WESTERN OREGON SMALL TRACT OPTIONAL TAX (ORS 321.705)

This tax is related to the ability of forest land to produce an income from the sales of timber. Only the forest land is taxed; trees are exempt whether harvested or not.

Qualification

The following conditions must be met to classify your land under this law:

1. The land must be suitable for growing timber in accordance with principles of good forestry.
2. The average age of the timber on the land cannot be more than 60 years at the time of classification.
3. An owner cannot own more than 1,000 acres of forest land in Western Oregon. (Land classed under the Forest Fee and Yield Tax Law is exempt from this provision.)
4. All of an owner's eligible land in Western Oregon must be classified.
5. Unless the State Forester grants an exception, no owner may classify his land under this law if his spouse, brother, sister, ancestor, or lineal descendant has forest land classified under it.
6. The land must be held for the primary purpose of growing and harvesting forest products.

Land values are established by the legislature and may be changed periodically upon recommendation of the State Forester to the legislature.² Values vary depending upon the site class (productivity) of the land. Currently the following forest land values are used in Western Oregon areas growing Douglas-fir:

Site	I	\$110 per acre
Site	II	\$ 85 per acre
Site	III	\$ 55 per acre
Site	IV	\$ 20 per acre
Site	V	\$ 7 per acre

² Currently (September, 1974) the administration of this law is being considered for transfer to the Department of Revenue.

If we assume that the fifty acres of forest land in our previous example is classed as Site II by a representative of the State Forester then the assessed value of the property would be \$4,250.

50 acres x \$85 per acre = \$4,250 (the total assessed value of the forest property).

This assessed value is multiplied by the tax rate for the tax district in which the land lies to obtain the annual tax due. In our example the tax rate was \$25 per thousand dollars of assessed value.

\$4,250 x \$25 per thousand dollars of assessed value =
4.250 thousands of dollars x \$25 per thousand dollars =
\$106.25 total tax due for the fifty acres.

Application

To have your land and timber placed under the Small Tract Optional Tax you must apply to the State Forester at the following address:

State Forester
2600 State Street
Salem, OR 93710

You may pick up an application³ at any of the district offices of the State Department of Forestry. Your assessor may have a supply, too.

Fill out the form and give it to your local State Forestry office or mail it to the address shown above. A representative of the State Forester will then examine your land for a small fee (listed on the application) and make his recommendation. Remember, if your land is accepted for classification, all eligible land must be included.

If the State Forester decides that your land is eligible for classification under this law, he will send a notice of certification to the local assessor and to you.

Within 30 days of the date of certification, an adjustment tax must be paid to the county tax collector. To levy this adjustment tax, the assessor determines the difference between the tax imposed on forest land (not timber) under the Western Oregon Ad Valorem Tax and the tax on land under the Small Tract Optional Tax. This computation is made for the period August 9, 1961 to the date of certification by the State Forester. You will be billed for this additional tax.

When you place your land under the Small Tract Optional Tax you may pay another additional tax if your land was "designated" as forest land. Oregon tax laws presently require you to remove your forest land from its designated status before classifying it under the Small Tract Optional Tax. Upon removal from designated status the assessor will bill you for any additional taxes and interest due as indicated under "Removal From Designation" on page 2. This could result in considerable additional tax assessment.

3. Currently it is a pink form titled "Application" - form number 413-201.

Declassification

An owner may request declassification or the State Forester may decide that an owner's forest land is no longer entitled to classification under the Small Tract Optional Tax. Furthermore, if forest land under the Small Tract Optional Tax is sold, the buyer must request continued classification under the tax law within 60 days of the sale or the land is automatically declassified.

If your land is declassified, you will pay an additional tax based on the difference between your property value under the Small Tract Optional Tax and the property value of land and timber under the Western Oregon Ad Valorem Tax, for a maximum of five years. An annual interest charge of six percent is levied for each year an additional tax is due.

HOW TO MINIMIZE YOUR PROPERTY TAXES

The tax you pay under each of the three tax laws in Western Oregon will vary considerably depending upon a number of factors:

1. The number of years you or your heirs intend to own and manage your forest property.
2. The age, species and volume per acre of your timber.
3. The site quality (productivity) of your forest land.
4. The expected interest rate.

Owners will choose the tax law which minimizes taxes for their forest holdings, other things being equal. Since the factors listed above may vary for different portions of an owner's holdings, he may find it least expensive to have his forest land under two or even three of the forest tax laws used in Western Oregon.

Choosing the best combination of tax laws for your forest land can be difficult. The restrictions on cutting, the appraisal procedures used and the reports required are quite different for each law and, for a particular owner, may override tax costs. Each owner must investigate these factors for himself. However, assuming that cost is the most important factor, an analysis has been made using the following assumptions:

1. The tax rate for the area in which the forest land and timber lies is \$25 per thousand dollars of true cash value.
2. The rotation (period from planting to final harvest) is 60 years. If you buy forest land already stocked you will hold it until harvest at 60 years of age, no matter what its present age.
3. The alternate rate of interest is 7 percent.
4. The land (Site II) is well stocked with Douglas-fir.

5. To compute taxes and interest due during the 60 year rotation under the Western Oregon Ad Valorem Tax, we used values for timber and land adopted by the Department of Revenue in Benton County. For 1974, the appraised value for land (Site II) is \$78 per acre and for timber (Class B) is \$146 per thousand board feet. (pages 2 and 3) The Small Tract Optional Tax land value is \$85 per acre. (page 7)

On the basis of the foregoing assumptions, both the Forest Fee and Yield Tax and the Small Tract Optional Tax cost the owner less in taxes, including interest (at 7 percent) than the Western Oregon Ad Valorem Tax.

If you buy well stocked forest land before the timber reaches 20 years of age, the Forest Fee and Yield Tax costs you less in taxes and interest on taxes. After twenty years, the Small Tract Optional Tax is the best choice. However, you cannot classify your land under the Forest Fee and Yield Tax if it has merchantable timber on it. Therefore, in spite of any financial benefit, this option is probably limited to forest land stocked with trees less than 20 years of age.

Note that this assumes that there are no sales of forest products until final harvest. If you sell forest crops (thinnings or other commercial sales) from the forest land before the stand is 20 years old, then the Small Tract Optional Tax becomes the better choice. For example, a Christmas tree producer in Western Oregon is taxed considerably less under the Small Tract Optional Tax than under either of the other forest tax laws.

The Western Oregon Ad Valorem Tax is the least costly in taxes and interest if you do not intend to harvest forest products and plan to sell the property before the timber stand is 12 inches in diameter, breast high. This is because reproduction is exempt under this law unless harvested, until it is merchantable -- defined in the law as 12 inches in diameter. Because the land values are less than those used in the Small Tract Optional law, your tax is less under the Western Oregon Ad Valorem Tax.

If you have any questions after applying this information to your own property, call your Extension Agent or your local State Service Forester.

Remember, your choice of forest tax law can save you money.

SPECIAL REPORT 425

NOVEMBER 1974



OREGON STATE UNIVERSITY
**EXTENSION
SERVICE**

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