Business Notes

Small woodland owners will have complicated choices to make

After what has seemed an interminable wait, a program will be in place for small forestland owners beginning January 1, 2004. Owners that want to participate in the program have until April 1, 2004, to apply to the county assessor's office. However, making that decision will require forestland owners to calculate which program is the most advantageous for their property. Information for this article was obtained at the Columbia County Small Woodlands Association meeting November 4, from Chal Landgren, OSU Extension, and Paul Nys of CCWSA.

Woodlands taxing history

Historically, forestland has been assessed and taxed differently than other land in Oregon. The state's objectives are to retain productive forestland in private ownership while allowing equitable taxation between forest and other classes and uses of land. The first of these taxes came as a result of the Depression, when many forest properties went into foreclosure. In 1961, distinctions were made between forestland on the east and west sides of the Cascade Mountains. In 1978, because the multiple forest property and harvest tax laws were complicated, and annual appraisals were expensive, timberland was removed from the tax rolls statewide and most timber was taxed at harvest.

Effect of property tax limitations

In order to provide forest landowners with some relief under property tax limitation measures passed in the mid 1990s, a formula was developed to assess forestland at 20 percent of its value. The other 80 percent was collected as a tax on the value of timber harvested, known as a "privilege tax." This program was an accounting nightmare and taxes still fluctuated from year to year based on harvest. Another restructuring occurred that allowed large landowners, with annual harvests, to pay property taxes based on the forestland special assessment. This special assessment is determined by the Oregon Department of Revenue (ODR) based on land class. Revenue from these timber taxes is divided between the State School Fund and Community College Support Fund (65 percent) and the counties (35 percent).

An additional tax, the Forest Products Harvest Tax (FPHT), is assessed on all timber harvested after the first 25-thousand board feet (MBF). FPHT funds a variety of services, including forest research, emergency fire protection, marketing and education, and administration of the Forest Practices Act.

Small woodland owners seek changes

Small woodland owners asked for an alternative to this plan that would recognize their special needs. Small forestland owners are often family-owned farms with multiple management goals. These non-industrial goals can include improving habitat, recreation, water quality and aesthetics, in addition to the need to generate revenue. Small tree farmers often have very long rotation periods between timber harvests. While the industry standard is 30 to 40 years, a small tree farmer may not harvest for 50 or more years. Compared to large companies, these smaller farms also experience greater relative impact from regulations, estate taxes and difficulty in accessing markets.

New program developed

Beginning in 2004, the state will have two tax programs in addition to the FPHT. All forestland owners, including those small forestland owners enrolled in the Western or Eastern Oregon Privilege Tax through December 31, 2003, will be transferred to the Forestland Tax Program (FTP) unless they apply for the Small Tract Forestland option (STF). Under FTP, owners will pay an annual tax based on land class as determined by the Department of Revenue. Forestland owners with 10 to 4,999 acres may apply for STF by April 1, 2004, or April 1 of subsequent years. However, once classified under STF, property owners must stay there, except for very limited circumstances. Properties in STF will remain in STF unless ownership changes or the property is no longer used as forestland. Forestland properties in either program can be disqualified if the standards of the Forest Practices Act are not followed and the property reverts to real market valuation.

Most of the forestland in Columbia County is classed and valued as follows; Type FB valued at $368/acre, FC at $308/acre, FD at $262/acre and FE at $174/acre. These valuations, determined by ODR, are updated annually, are NOT subject to the 3 percent property tax increase limitation but they are indexed annually to changes in forest industry indicators (principally market sales data). All forestland owners with less than 10 acres or more than 4,999 acres will be taxed under this program at a rate determined by the county assessor.

For example, a nine-acre parcel of forestland, all class FB, would be valued at $3,312. Based on an average rate in Columbia County of $11 per $1000 assessed value, the tax on this property would be $36.43 per year with no severance tax to be paid at harvest, except FPHT if harvest exceeded the 25MBF exemption.

Alternative method, too

The calculations become much more complex for forestland owners who may wish to apply for STF. Under STF, annual property taxes are based on 20 percent of the same forestland values used under FTP. However, a severance tax is assessed at harvest to recover the unpaid property tax. The severance tax is based on the volume (MBF) sold. The rate of the severance tax will vary from year to year, based on changes in the forestland value but is controlled by property tax limitation measures and therefore cannot increase by more than 3 percent per year.

Determining your best choice

Whether to elect the STF program is a decision that must be answered on an individual basis. Property owners can find out from their county assessor's office how their property is classified, the acreage in each productivity class and the current property tax rate ($/$1000 assessed value). The landowner must also determine what their plans are for harvesting timber and if they anticipate any change in ownership or use of the land. At this time, new forestland owners are automatically part of FTP unless they elect STF within 30 days of the transfer. Property may be subject to rollback taxes if it is moved from STF to FTP.

For purposes of comparison, assume a 200-acre parcel of forestland in classes FB, FC and FD valued at $65,760 with a tax rate of $11/$1000.

Under the FTP, $723.36 of tax would be paid each year. If the owner elected STF, the valuation of the property drops to $13,040 (based on 20 percent of the forestland valuation by land class) and annual taxes would be only $143.44. This sounds great, until you compare the total taxes paid over a five-year period when 40 acres of timber are harvested after five years. At the time of harvest an estimated severance tax of $5,256 would have to be paid in addition to the five years of property tax of $761.54 ($143.44 x 5). This yields a total tax assessment over the five years of $6,017.54 under STF. If the owner had stayed in FTP the total tax assessment would be $3,840 ($723.36 x 5) with no severance tax due at harvest. Therefore, the landowner would actually pay $2177.54 more in taxes under STF than under FTP.

A formula used to determine the average annual harvest needed to profit from staying in the FTP is to divide the amount of deferred tax by the severance tax rate. In the previous example, the deferred tax of $579.92 ($723.36 - $143.44) is divided by the severance tax (estimated at 4.38) yielding a harvest of 132.4 MBF. If the annual timber harvest is significantly below 132.4 MBF, the forestland owner should consider STF.

Complicated as that example is, it is a simple comparison. The tax law is incredibly complicated. Landowners may combine non-contiguous pieces to reach the 10-acre threshold for STF but contigu-

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