



FISCAL FACT

March 2009
No. 164

States Use Gentle Hand in Taxing Timberland

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In the realm of real property taxation, the best-known tax is on residential property. Every U.S. homeowner knows that the local government will collect a small percentage of the property's fair market value each year, ranging from much less than one percent up to more than three percent.¹ Local governments levy a similar, often higher tax on stores, factories, warehouses and other common types of commercial property.² State-level governments normally leave these types of real estate untaxed, focusing their property taxes mostly on cars and boats. As a result, local governments collect 95 percent of total property tax revenue.

However, there are exceptions to state governments' custom of leaving real estate taxation to local governments. Here we briefly survey the ways that state governments are taxing forest and timberland.

The Forgiving Nature of Current Use Value

In taxing timberland, states use a variety of assessment techniques limiting the ability of local governments to collect taxes on timberland: ad valorem or "current use" tax, flat property tax, yield tax and/or severance tax. In most cases, the systems favor maintaining current timberland.

All but five states use an ad valorem tax. This is the so-called current use tax, whereby the tax due depends on the value of the land as it's currently being used. This current use valuation is much lower than fair market value because many landowners do not put their land to its most profitable use. If owners of forested land had to pay a percentage of the land's fair market value, their payments would be much higher because potential buyers considering other uses for the land would drive up the fair market value. This fair market value system would increase pressure on land owners to make profitable use of their land or sell it to someone who would.

¹ See "Property Tax on Owner-Occupied Housing, by County, Ranked by Property Taxes as a Percentage of Home Value, 2005-2007 Average," *Tax Foundation Tax Data* (Dec. 12, 2008), at <http://www.taxfoundation.org/taxdata/show/24051.html>.

² Real property refers to real estate. Some state governments also tax property, but usually that is limited to personal property, mostly cars and boats.

Another method for taxing the land is a flat tax. Unlike the ad valorem tax, this system does not consider the value of the land, but rather collects the same amount of money per acre on any acre of timberland. Currently, five states impose a flat rate, with rates ranging from \$0.50 in North Dakota to \$3.00 in Missouri. Similar to the ad valorem tax, these flat tax rates are much more favorable than the normal property tax rates.

In addition to the real property taxes, there are two methods states use for taxing the timber: the yield tax and the severance tax. The yield tax is a gross income tax, equal to some percentage of the stumpage value of the products cut; the tax is collected after the timber is harvested. Eight states have adopted the yield tax. Timber severance taxes are flat taxes on a specific unit of volume harvested (i.e., board feet, cubic feet, cords, tonnage etc.), and are levied at the time the timber is cut. The severance tax is currently used by ten states.

In addition to the forgiving nature of some of these timberland levies, some states have enacted special rates, or even total exclusions, to benefit timberland investment. For example, Oklahoma imposes a \$0.75-to-\$1 per acre tax on timberlands, while other crop lands are taxed at a rate two to three times higher. Thus, in areas that have a high concentration of timberlands (a.k.a. wastelands), property taxes are considerably lower than in other portions of the state. Four states exempt timberland from property tax entirely.

Due to these significant tax benefits, landowners have powerful incentives to have land classified as timberland. Paradoxically, after creating incentives for timberland, states have responded to the high demand for timberland classifications with burdensome administrative requirements to qualify for them. In Florida, it is up to the landowner to prove “agricultural use” based on several factors, and a taxpayer must renew his agricultural use classification annually. Georgia punishes the largest landowners by only permitting 2,000 acres to be classified as forest land, but it also makes life more difficult for the smallest landowners with a more rigorous test to prove agricultural use if the parcel is 10 acres or smaller.

The chart below provides a snapshot of the taxes imposed on timberland and forest areas in all 50 states. These provide only a rough guide, as timberland taxes are quite complex. Also, these are only the state tax laws. One must also look to local real property tax laws.

STATE	TAX ON TIMBERLAND*
Alabama	10% of current use value based on soil productivity; severance tax based on type of timber.
Alaska	Timber and land are exempt from general taxation.
Arizona	25% of full cash value or limited valuation; severance tax based on type of timber.
Arkansas	Current use value based on soil productivity (not to exceed 20% of current use); severance tax based on type of timber.
California	Valued at the present worth of the land (land must be worth more than \$2.00/acre) and a 2.9% yield tax.
Colorado	The “actual value” of agricultural lands, exclusive of building improvements thereon, is determined by the earning or productive capacity of such lands during a reasonable period of time, capitalized at a rate of 13%; once the “actual value” is determined, the assessment rate of 29% is applied to arrive at the taxpayer’s liability.

Connecticut	The rate of tax on forest land is limited to 10 mills (the local rate is applicable if lower). The rate is applied to the value of the land itself, excluding the value of the timber. Yield tax rate depends on number of years of timber growth on the land.
Delaware	Property tax is based on the value of land actively devoted to agricultural, horticultural or forest use and has been so devoted for at least the 2 successive years immediately preceding the tax year in issue (provides lower tax rates for qualifying land). In addition, any landowner who establishes a “commercial forest plantation” and meets other qualifications under Delaware law shall be entitled to a 30-year exemption from county property taxes on such plantation.
Florida	The current value of the land and its potential to produce income is calculated for the property based on the site’s “productive value” (i.e., site index). Since the assessment is based on productivity and potential income, the higher the site index, the assessed value will also be higher.
Georgia	Tax rate is based on current use valuation. For ad valorem tax purposes, standing timber is taxed only once following its harvest or sale. Standing timber is taxed at 100% of its fair market value. It is subject to taxation even if the land underneath is exempt unless taxation has been prohibited by federal law or treaty.
Hawaii	Current use value based on agricultural production; varies by county. Agricultural land is taxed at a fixed amount per \$1,000 assessed value.
Idaho	<i>Bare Land and Yield-</i> Current use and yield tax; approximately 1% of the bare land value of the property. State is divided into 4 districts and each district is rated good, fair or poor for growing trees. Yield tax is 3% of stumpage value determined by the State Tax Commission. <i>Productivity Valuation-</i> state is divided into 4 districts and each district is rated good, fair or poor for growing trees, and then taxed based on current use value (no yield tax imposed)
Illinois	Current use and yield tax; productivity index gives range of values for “other farmland” based on agriculture crops using soils; 4% yield tax.
Indiana	A flat \$1.00 per acre (assessed value) on classified forest land.
Iowa	Agricultural real estate is valued at its current use with permanent forest or fruit tree reservations exempt; property assessed at its actual value by giving exclusive consideration to its productivity and net earning capacity determined on the basis of its use for agricultural purposes capitalized at a rate of 7% and applied uniformly among counties and classes of property.
Kansas	Valuations for each parcel of land devoted to “agricultural use” will be based on the agricultural income or productivity attributable to the land in its current usage (use value) under a degree of management reflecting median production levels.
Kentucky	Agricultural and horticultural land is assessed on the basis of the land’s value for agricultural or horticultural uses; the use value of

	agricultural or horticultural land is based upon income producing capability and comparable sales of farmland purchased for farm purposes when the price is indicative of farm use value, excluding sales representing purchases for farm expansion, better accessibility, and other factors that inflate the purchase price beyond farm use value.
Louisiana	Assessed at 10% of current use value.
Maine	Forest land is eligible for current-use valuation in which the land is valued by reference to the market value of similar property rather than in comparison to land priced at a premium, for residential or commercial purposes. The 100% valuation per acre for each forest type for each area equals the value of the annual net wood production multiplied by a capitalization rate. The capitalization rate applied to the value of the annual net wood production is 8.5%.
Maryland	Land is assessed at \$125 per acre (unless fair cash value is less than \$100 per acre).
Massachusetts	5% of fair cash value (not less than \$10) plus enrollment fee. 8% yield tax (assessed on cutting 2 years prior to classification).
Michigan	\$1.00 per acre flat tax and 5% yield tax.
Minnesota	Net rate of 1% of the market value, however, there is a rebate for forest land; minimum rebate of \$1.50 per acre for each acre enrolled in the sustainable forest incentive program.
Mississippi	Taxed at 15% of current use.
Missouri	\$3.00 per acre flat tax (assessed value for 25 years) and \$1.00 per acre if enrolled prior to 1974 and a 6% yield tax.
Montana	Calculated each year by dividing the total estimated tax due on forest lands by the total forest value of those lands. Severance tax is \$0.15/MBF.
Nebraska	Assessed at 80% of current use value.
Nevada	35% of the current use value.
New Hampshire	Range in fixed assessment values by forest type, lower range of values with stewardship plan. An additional 20% reduction if recreation allowed. 10% yield tax.
New Jersey	Agricultural land is valued and assessed based on its current use, not the highest and best use; this value is adjusted for the productivity ratings of the soil. The higher the soil productivity rating the higher the value on a per acre basis.
New Mexico	Use of the land to produce forest products or in a manner that qualifies for compensation under a federal soil conservation program is considered an agricultural use that may entitle the land to be valued on the basis of its capacity to produce agricultural products. The production capacity of agricultural land shall be determined by the income method of valuation based on the income derived or capable of being derived from the use of the land for agricultural purposes.
New York	Bare land value with exemption of timber, 6% of timber stumpage value as determined by the assessor. Also has law permitting forest land to be taxed at 80% of FMV or \$40 fixed value, whichever is

	the lesser.
North Carolina	Certain forestland and open-space land is designated as a special class of property under the authority of the North Carolina Constitution and, as such, is excluded from taxation or is otherwise specially treated. Severance tax depends on type of timber.
North Dakota	\$.50 per acre flat tax.
Ohio	<i>Current Agricultural Use Value</i> - Based on soil productivity, generally assessed at \$100/acre. <i>Ohio Forest Tax Law</i> - 50% of local tax rate on the FMV plus \$50 application fee.
Oklahoma	For purposes of the assessment of Oklahoma real property tax, managed timberland used for the cultivation of timber should be classified at its fair cash value for that use.
Oregon	<i>Forestland program</i> - Property taxes under this program range from 40 cents per acre to \$6.75 per acre, depending on location of the property and the ability of your property to grow timber. <i>Small tract forestland option</i> - A landowner pays an annual property tax on 20 percent of the forestland special assessment value. The STF Severance Tax is paid when the landowner harvests the timber from this property.
Pennsylvania	Current use value based on forest productivity; value based on FIA growth in 4 regions of the state - usually weighted within counties.
Rhode Island	The assessment rate, which is determined based on current use value, is set by the state Forestry Commission each year for all site classes and species. Property tax exemption for certain types of forestry.
South Carolina	For property tax purposes land used to grow timber is classified as “agricultural use land” and is taxed on the basis of its fair market value for agricultural purposes. Current assessment rate for agricultural use land (privately owned) is 4.0%.
South Dakota	Current use based on agricultural productivity. Forest land is not classified, though it can occupy a portion of agricultural land whether it is dry cropland, pasture, waste or non-productive.
Tennessee	Forest land is assessed at 25% of its current use value.
Texas	Landowners may apply for special appraisal based on their land’s productivity value (which is lower than fair market value) rather than what the land would sell for on the open market (appraisal value may not exceed the market value of the land as determined by other appraisal methods).
Utah	Tax is based on current use value. Various components are considered in determining the use value of the land. Agricultural land is first grouped into land classifications, according to its capability to produce crops or forage. Productive values are established by the Utah State Tax Commission with assistance of a five member Farmland Assessment Advisory Committee and Utah State University. These factors are expressed in terms of value per acre for specific land classifications.
Vermont	Land will be valued based on its current use rather than highest and

	best use. Forest land is classified as either “productive forest land” or “non-productive forest land.” Agricultural land is classified as either “agricultural land” or “non-productive agricultural land.” Land values are reviewed annually by the “Current Use Advisory Board.”
Virginia	A county, city or town may adopt an ordinance to provide for the use value assessment and taxation of property devoted to agricultural, horticultural, forest, or open-space use; a severance tax is also imposed with the rate depending on the type of wood.
Washington	Current use values on forest land are determined by the state Department of Revenue and vary depending on the productivity of the soil and other factors. Harvesting timber on either private or publicly owned land is subject to a 5% excise (yield) tax on the stumpage value of timber harvested for sale or for commercial or industrial use.
West Virginia	Productivity based on soil survey and a 3.22% yield tax.
Wisconsin	\$0.83 per acre and a 10% yield tax.
Wyoming	The taxable value is based on a portion of the full value, the fractional amount is 9.5% for agricultural property.
* Every state has certain requirements which the timberland must meet in order to receive the valuation/exemption described. Please refer to specific state statutes to determine whether a particular parcel of timberland qualifies. In addition, much of this information was collected from timbertax.org ; please refer to this website for more detailed information regarding timberland and property taxes.	

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