COMPARISON OF FOREST PROPERTY,
YIELD AND SEVERANCE TAX TRENDS IN THE
MIDWESTERN AND SOUTHERN REGIONS

Clifford A. Hickman

Abstract.--Criticisms associated with the application of
the traditional ad valorem property tax to timbered properties
have led all Midwestern and Southern States to enact one or more
"special" forest property taxes. These alternative tax mecha-
nisms have included exemptions, rebates, yield taxes, modified
rate laws, modified assessment laws, and, in a somewhat differ-
ent vein, severance taxes. Exemptions, rebates, and yield taxes
predominated in the past, but today the most pervasive form of
tax relief is the modified assessment law. These special forest
taxes differ greatly as to their specific provisions.

Keywords: Forest taxation, timberland assessments.

INTRODUCTION

The traditional ad valorem property tax, which subjects all taxable
property to an annual tax based on its fair market value in highest and best
use, has long been criticized as it applies to forested tracts. Several
specific deficiencies have been alleged, but three have been of particular
concern (Hickman 1982):

- The tax was not equitable -- it did not treat equals, in terms of
  ability to pay, equally. In part this was seen as being due to poor
  assessment practices. Lower-value properties such as forest lands were
  often over-assessed relative to those of higher value. More important,
  the tax was perceived to be inherently biased against any land use that
  did not produce annual incomes.

- The tax was not neutral regarding the allocation of resources; it was
  seen as encouraging forest exploitation. Major complaints were that it
  worked to reduce stocking levels, shorten rotations, and shift marginal
  forest lands into other uses.

- The tax was not convenient in the time and manner of its levy. Annual
  collections were mandated even though most forest properties were not
  regulated so as to provide annual incomes.

While some of these criticisms have now been called into question or
rendered invalid (Trestrail 1969, Pasour and Holley 1976), they did serve as
the impetus for many States to develop and enact special forest property tax
systems. These special tax mechanisms include: exemptions, rebates, yield
taxes, modified rate laws, modified assessment laws, and severance taxes.

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Exemption laws provide for the removal of forest land and/or timber from the property tax rolls, either permanently or for some specified number of years. A timber exemption may apply to all standing timber or to only certain types of stands.

Rebate laws provide that landowners who engage in some approved activity, such as tree planting, may subsequently apply for an abatement—i.e., a rebate—of a portion of the taxes levied on the value of their land, timber, or both. The rebates often continue for only a limited period of time and may be given as a direct cash payment or a reduction from other taxes owed.

Yield tax laws provide for a conceptual separation of land and timber values. Land values normally remain subject to the annual property tax, although sometimes in modified form. Timber values go untaxed until time of harvest, when a gross income tax, equal to some percentage of the stumpage value of the products cut, is imposed.

Modified rate laws provide that forest land and timber are to be assessed like other forms of property, but a different tax rate, lower than otherwise applicable, is to be used in computing the tax. Alternatively, such laws may provide for a fixed tax on land and timber.

Modified assessment laws provide that forest properties are to be valued differently from other properties. If fair market value in highest and best use is retained as the basic valuation standard, forest assessments may be frozen or calculated using a reduced assessment ratio. As an alternative, fair market value may be abandoned in favor of another valuation standard such as current use value.

Severance tax laws provide for the imposition of a fee on those who exercise the privilege of cutting timber. Unlike the preceding special tax options, they are levied in addition to, not in place of, the traditional ad valorem tax. While similar to yield taxes in that both are imposed at the time of harvest, they differ in that: (1) they are always mandatory; (2) they are usually calculated as a fixed amount per unit of product, not as a percentage of stumpage value; and (3) they usually rest upon the timber operator, not the timber (FICTVT 1984).

The special property tax policies that have been and are now being used to tax forest land and timber in the Midwest and the South are identified and compared in this paper. Some observations concerning probable future legislative trends will be made by way of conclusion. For purposes of this discussion, the Midwest will be defined to include eight States: Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, and Wisconsin. The South will be defined to contain 13 States: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia.
Historical trends in usage of the various special forest taxes are shown in figure 1. As indicated, exemption and rebate laws were the earliest form of preferential tax treatment to be offered timberland owners. The Midwest pioneered in the implementation of such legislation, with two States—Wisconsin (1868) and Iowa (1868)—enacting statutes before 1870. These early midwestern laws were adopted to help insure that settlers would have adequate supplies of wood to meet their requirements for fuel, fencing, and building materials. In the South, no rebate laws have ever been enacted—and the first exemption statute did not appear until 1907 when Alabama elected to grant this form of tax relief. Over the years, the employment of exemptions and rebates has experienced ups and downs, but the number of laws in this combined category has never exceeded five in either region.

Yield tax laws came on the scene in the period following 1910. Michigan (1911) was the first State in the country to act. Following Michigan's lead, there was a proliferation of such legislation in the Northeast, but no additional laws were enacted in the Midwest or South until the mid-1920's. At that time, statutes were adopted by three more Midwestern States—Ohio (1925), Minnesota (1927), and Wisconsin (1927)—and four Southern States—Alabama (1923), Mississippi (1924), Kentucky (1926), and Louisiana (1926). While the number of laws subsequently declined from these early peaks, the Midwest now has more yield taxes than at any point in time, and usage in the South has been constant since 1954.

Modified rate laws have been the exclusive domain of the Midwest. The first statute was enacted by Ohio in 1925. Since that time, only two additional States—Wisconsin in 1953 and Minnesota in 1957—have chosen to implement this type of legislation.

The modified assessment law is the most common type of special forest tax in effect today. While the bulk of these laws have been adopted since the 1960's, this is not a new form of tax relief measure. As early as 1899, Indiana passed legislation providing that qualifying forest lands could be

2/ The information used to prepare Figure 1 and to write this section of the paper was compiled from a variety of published sources. These references included:


Figure 1. -- Historical usage of special forest property tax laws in the Midwest and Southern regions, by type of law.
taxed on the basis of a fixed valuation of $1.00 per acre. Similar statutes were enacted by Iowa in 1906 and Louisiana in 1910. These early modified assessment programs were initiated to encourage afforestation, reforestation, and more conservative timber management. In contrast, the more recent laws have been passed to stem the tax-induced conversion of farm, forest, and other open space lands to more intensive uses. Another difference is that most of the newer laws, instead of offering a fixed assessment, provide tax relief by substituting current use for market valuation.

Severance taxes were employed only in the South until quite recently. Louisiana enacted the first law in 1922 and Arkansas quickly followed in 1923. Additional statutes were implemented during the 1940's, but there was little subsequent activity in this area until the late 1970's and early 1980's. In the South, the number of programs now in effect is greater than at any point in time. In the Midwest, the first and only severance tax was placed in operation by Illinois in 1983.

CURRENT TAX POLICIES

Table 1 shows, by State and type of law, the number of special tax initiatives that presently apply to forest lands in the Midwest and South. To provide a better appreciation for the provisions of these laws and to establish a basis for drawing interstate and interregional comparisons between them, each class of legislation will be reviewed in greater depth. In this review process consideration is given, as appropriate, to the following variables: (1) the type of preferential tax treatment offered, (2) restrictions on eligibility, (3) application requirements, (4) withdrawal penalties, and (5) other miscellaneous features.

Exemption Laws

Table 1 indicates there are presently four exemption laws in the Midwest and three in the South.

3/ The information used to prepare table 1 and to write this section of the paper was compiled using various published sources as well as telephone interviews with selected state forestry personnel. The published references that were used included:


4) Selected state statute books.
Table 1. -- Types of special property tax laws applicable to forest lands in designated Midwestern and Southern States (April 1, 1987).

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<th>Region and State</th>
<th>Exemption Laws</th>
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<th>Modified Rate Laws</th>
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1/ Law remains in effect only for properties already enrolled.

2/ Forest lands occurring in association with farmlands may receive tax relief under the State's circuit-breaker rebate law -- i.e., if property taxes exceed a specified percentage of income, the excess is refunded.
Preferential Tax Treatment Offered.—In terms of the type of preferential tax treatment offered, all of the Southern laws provide a complete exemption for all standing timber while the underlying land remains subject to some form of annual tax. The only midwestern law that follows this pattern is Ohio’s. All three of Iowa’s programs target their relief to specific types of stands. One statute exempts all trees planted for forest, fruit, shade, ornamental, or windbreak purposes. Another statute, known as the Forest Reserve Law, exempts both the land and timber on properties classified as forest reservations. The third and final statute, known as the Slough Bill, exempts both the land and timber on properties that have been designated, by the appropriate County Board of Supervisors, as important to providing soil erosion control, wildlife habitat, or both.

Restrictions On Eligibility.—The only statutes that restrict eligibility are Iowa’s Forest Reserve Law and Slough Bill. The former limits participation to forested tracts that meet four conditions—(1) they are 2 or more acres in size, (2) they contain at least 200 trees of designated species per acre, (3) they do not include any improvements other than fences, and (4) they are not located within an incorporated city or town. The latter, besides restricting enrollment to properties with significant erosion control or wildlife habitat benefits, mandates that parcels must be 2 or more acres in size.

Application Requirements.—The Forest Reserve Law and Slough Bill are the only two programs that require landowners to apply for admission. Both pieces of legislation call for annual applications.

Withdrawal Penalties.—The only program that includes a withdrawal penalty is Iowa’s Forest Reserve Law. In this instance, if the current owner of the property being withdrawn from forest usage has owned the tract for less than 10 years, 5 years of foregone taxes are recouped through a rollback tax.

Miscellaneous Features.—Regarding other miscellaneous features, two points warrant mentioning. The first point is that the Forest Reserve Law precludes grazing and requires public access. The second point is that the Slough Bill strictly limits participation. In any given county and year, total enrollment cannot exceed the greater of: (1) 3,000 acres, or (2) 1 percent of the acreage assessed as agricultural land. If this ceiling is constraining, it can be raised by up to 10 percent, not to exceed 300 acres, in each subsequent year.

Yield Tax Laws

As shown in table 1, there are currently six yield tax programs in the Midwest and three in the South. Two of the Midwestern statutes—Minnesota’s Auxiliary Forest Tax and Wisconsin’s Forest Crop Law—remain in effect only for properties already enrolled. The same is true of one Southern statute, Louisiana’s Reforestation Contract Severance Tax.

Preferential Tax Treatment Offered.—Consistent with the concept of a yield tax, the principal type of preferential tax treatment offered is deferment of all timber taxes until harvest. The only statute that departs

\[\text{\footnotesize 4/ Although denoted as a severance tax, this law is actually a yield tax.}\]
from this procedure is Minnesota's Auxiliary Forest Tax. Under this law landowners may, at their option, pay an annual timber tax based on the volume of growth.

The tax rates that are applied when timber is cut are quite variable, particularly in the Midwest, where the tax can vary from 5 to 40 percent of the estimated stumpage value. The higher rate applies, under Minnesota's Auxiliary Forest Tax, to timber cut within 1 year of enrollment. In the South, the tax may range from 2.25 to 8 percent. The lower rate applies to pulpwood sized material cut under Louisiana's mandatory Forest Tax Law. The higher rate applies to all timber removed under Alabama's Auxiliary Forest Law.

While timber tax deferment is the primary advantage that yield taxes offer, many programs also grant concessions affecting taxation of the land. In the Midwest, enrolled lands may be taxed on the basis of a fixed assessment, or they may be subject to a fixed tax. The first approach is used in connection with Michigan's Private Forest Reserve Act and Missouri's State Forestry Law. The second approach is used in conjunction with all the remaining Midwest statutes. In the South, each law prescribes a unique procedure. Lands under Alabama's Auxiliary Forest Law are exempt if in parcels of less than 160 acres; otherwise they are taxed on a fixed assessment. Fixed assessments are also mandated by Louisiana's Reforestation Contract Severance Tax, but they apply to every property. Lands subject to Louisiana's mandatory Forest Tax Law receive no special tax treatment.

Restrictions On Eligibility.—Restrictions on eligibility tend to be much more stringent in the Midwest. All programs in this region limit admissions in some way. The most common constraint is based on tract size. Typically only minimum acreages are specified, but sometimes, as in the case of Michigan's Private Forest Reserve Act, maximum acreages are indicated as well. Other constraints employed in the Midwest entail the use of minimum stocking standards, minimum site productivity standards, and maximum permissible property valuations.

In the South, the only statute that restricts eligibility is Louisiana's Reforestation Contract Severance Tax. Although this program no longer accepts new entrants, participation was originally limited to properties with a bare land value of between $3 and $8 per acre.

Application Requirements.—Application requirements are highly variable. In the Midwest, the most common practice is to mandate contractual agreements. This approach is employed in connection with Minnesota's Auxiliary Forest Tax and Wisconsin's Forest Crop and Managed Forest laws. Contracts can run from 25 to 50 years in length and typically specify retention in forest use and adherence to minimal management standards. Among those statutes not necessitating contracts, Michigan's Private Forest Reserve Act calls for annual applications, and its Commercial Forest Act requires initial applications. In Missouri, the State Forestry Law requires new applications every 25 years, but participants must also sign 5-year management agreements which describe the types of practices to be applied in general terms.

In the South, formal contractual arrangements are also the norm. This approach is employed by Alabama's Auxiliary Forest Tax and Louisiana's Reforestation Contract Severance Tax. The first statute calls for 5-year con-
tracts, the second for contracts of up to 40 years. In both instances, the agreements specify that enrollees must protect their properties from fire. The remaining Southern statute—i.e., Louisiana's mandatory Forest Tax Law—requires no applications.

Withdrawal Penalties.—With the exception of Louisiana's mandatory law, all the programs embody a withdrawal penalty. In both the Midwest and South, one of two approaches is employed. Under one approach, the penalty equals the estimated taxes saved during the period of enrollment. When this technique is used, interest charges are sometimes added to the back taxes. Under the other approach, the penalty is determined by applying the normal yield tax rate to the value of the timber on a tract at the time of withdrawal. A few statutes—specifically Michigan's Commercial Forest Act and the Forest Crop and Managed Forest laws of Wisconsin—combine both approaches.

Miscellaneous Features.—With regard to other miscellaneous features, two comments should be made. The first is that every Midwestern law requires forest owners to do something in return for the preferential tax treatment they receive. This may include providing public access, having a formal management plan, or restricting grazing. In general, Southern forest owners face no such demands. The second comment is that four of the Midwestern statutes—Michigan's Commercial Forest Act, Missouri's State Forestry Law, and the Forest Crop and Managed Forest laws of Wisconsin—authorize State payments to compensate counties and/or towns for some of their lost revenues. The payments are currently $0.70/ac/yr in Michigan, $0.50/ac/yr in Missouri, and $0.20/ac/yr in Wisconsin. No similar provisions exist in the South.

Modified Rate Laws

Table 1 indicates there are only three modified rate laws in operation, and all are found in the Midwest5. One of the programs—Wisconsin's Woodland Tax Law—continues in effect only for properties already enrolled.

Preferential Tax Treatment Offered.—Ohio's Woodland Tax Law is a classic modified rate program. Enrolled properties are assessed at fair market value, but the applicable tax rate is only 50 percent of the normal rate. In contrast, Wisconsin's Woodland Tax Law embodies the fixed tax approach. Properties enrolled before 1977 pay an annual tax of $0.20/ac, whereas those enrolled after 1977 pay $1.49. The procedure used under Minnesota's Tree Growth Tax Law is unique. Productive forest lands are taxed at 30 percent of the estimated value of their average annual growth, temporarily and permanently nonproductive lands are taxed at $0.05/ac,6, and plantations, upon application of the owner, may receive a credit of $0.50/ac against other property taxes due. This credit cannot exceed the total of these other taxes and is only available for the 10 years immediately following the application.

5/ Several southern states—including Alabama, Arkansas, Louisiana, and Mississippi—have authorized the imposition of a fixed levy on forest lands to establish a fund for fire protection purposes. These levies range from $.02 to $.05 per acre and, except in Arkansas' case, are imposed at the discretion of the individual counties or parishes. While these initiatives might be considered modified rate programs, they will not be treated as such for purposes of this paper.
Restrictions On Eligibility.—Regarding restrictions on eligibility, tract size constraints are most frequently employed. Ohio’s law limits participation to properties of 5 or more acres in size. The programs of Minnesota and Wisconsin specify both minimum and maximum acreages. The minimums are 5 and 10 acres, respectively; the maximum is 40 acres in both cases. Other restrictions utilized are of three types. Ohio’s statute stipulates that enrolled lands must have at least 75-percent crown cover consisting of trees that are 4 inches or more in d.b.h. Wisconsin’s law excludes properties that are within an incorporated city or town, or which include improvements with an assessed value of their own.

Application Requirements.—Two of the three programs—Minnesota’s and Wisconsin’s—require participants to enter contractual agreements. In Minnesota, the agreements are open-ended as to length and stipulate two things: (1) that the land will be kept in forest use, and (2) that all steps needed to achieve and maintain a productive forest condition must be undertaken. In Wisconsin, the agreements were for 15 years and required that participants follow an approved management plan. Ohio’s Woodland Tax Law simply requires interested owners to file an initial application.

Withdrawal Penalties. — The procedures employed when enrolled properties are withdrawn from forestry usage vary from State to State. Ohio’s statute imposes no penalty. In Minnesota, the taxes saved over the most recent 10 years are recouped. Finally, in Wisconsin, the penalty is computed by multiplying 1 percent of a property’s current average market value per acre by its total acreage and years of enrollment (i.e., value/acre x acres x years).

Miscellaneous Features.—Concerning other miscellaneous features, it should be noted that Minnesota’s Tree Growth Tax Law is only operative in counties where local assessors have elected to apply it. Also, owners who utilize this program are required to allow public access for hunting and fishing.

Modified Assessment Laws

As noted earlier, modified assessment laws are presently the most pervasive form of tax relief available to forest owners. In the Midwest, all States except Michigan and Wisconsin have statutes of this type. In the South, every State has a modified assessment law.

Preferential Tax Treatment Offered. — In both the Midwest and the South, the most common type of preferential tax treatment offered is the substitution of current use for fair market value as the relevant valuation standard. In the Midwest, this form of relief is used in connection with all of the existing laws except Indiana’s Classified Forest Act. This statute taxes enrolled properties on the basis of a fixed assessment of $1.00/ac. In the South, current use valuation is employed in conjunction with all of the existing programs except Georgia’s. Georgia’s statute retains fair market value as the relevant appraisal standard, but offers participants a reduced assessment ratio—30 as opposed to 40 percent.

6 In the case of temporarily nonproductive lands, the tax can jump to $.15/ac. if the owner fails to adhere to the terms of a mandated reforestation agreement.
While the acceptance of use valuation has been widespread, the procedures used to estimate forest use values differ between regions and among the States. In the Midwest, several programs do not require that these values be directly determined. Because timberlands are unimportant in relation to other agricultural properties, forest land values are derived by making an adjustment to apparent cropland values. This approach is utilized in Illinois, Indiana, Iowa, Missouri, and Ohio. Most frequently the adjustments are made by taking a fraction of the cropland value, but in Ohio, woodland values are calculated by deducting clearing and drainage costs. In the South, the situation is markedly different. Here, because timber growing is such a major land use, all laws require that forest use values be obtained by capitalizing expected timber income. In three States, however—Kentucky, Oklahoma, and Tennessee—the capitalized values are used in combination with transaction data from properties kept in forest use following sale.

Restrictions On Eligibility.—The restrictions used to limit program eligibility are extremely diverse, thus making them difficult to summarize. In the Midwest, only two statutes allow essentially open admissions—these are the basic agricultural current use laws of Indiana and Iowa. Among the remaining programs, the most common constraints specify either a minimum tract size or a required history of prior forest use. The minimum size restrictions range from 10 to 30 acres, and the prior use constraints from 3 to 5 years. Other limitations preclude enrollment of properties when: (1) they are without an approved management plan, (2) they are inadequately stocked, (3) they contain dwellings or other physical improvements, or (4) they are not exclusively devoted to timber production.

In the South, four States—Alabama, Arkansas, Mississippi, and South Carolina—have laws that allow essentially all forest lands to qualify for use assessment. Where constraints are employed, the most common, as in the Midwest, is based on minimum tract size. Here specified minimums vary from 3 to 20 acres. Other constraints restrict participation on the basis of variables such as: (1) the proportion of annual income derived from forestry activities, (2) the location of a property with respect to the boundaries of an incorporated city or town, and (3) the class of owner—i.e., individual v. corporate or natural citizen v. foreign alien. Access to Virginia’s basic use value law is also restricted to counties and cities that have: (1) adopted a land use plan, and (2) passed a local ordinance authorizing use assessment.

Application Requirements.—Application requirements, like eligibility restrictions, are highly variable. In the Midwest, three statutes do not require applications—these are the basic agricultural use value laws of Indiana and Iowa and Minnesota’s classified property tax. In Minnesota, however, the 2(b) timberland classification is only available in counties where the local assessors elect to offer it. Where applications are called for, three laws require initial filings only—these are the basic use value statutes of Illinois and Missouri, and Indiana’s classified forest act, and two laws require annual applications—these are Illinois’ supplemental use value program for counties with less than 200,000 people and Ohio’s statute.

In the South, all the statutes except those of Arkansas, Mississippi, and Oklahoma require applications. The predominant procedure, employed in connection with six programs, is to require initial applications. Of the laws not adhering to this practice, one mandates annual applications, two mandate
periodic applications, and two require that participants enter contractual agreements. The latter are Georgia's statute and Virginia's Agricultural and Forestal Districting Act. Georgia's law requires participants to keep their land in forest use for 10 years. Virginia's law stipulates that districts are to be established for 4- to 8-year periods—and that during this time, land use cannot be changed without permission from the local governing board.

Withdrawal Penalties.—The procedures followed when enrolled properties are converted to ineligible uses are relatively uniform. Where some type of penalty is called for, as is the case with three Midwestern and nine Southern laws, the most common practice is to impose a rollback tax. This is a charge equaling, for some specified number of years, the difference between the taxes actually paid and those that would have been paid except for modified assessment. The rollback periods range from 3 to 4 years in the Midwest and from 2 to 5 years in the South. Sometimes interest charges are added to the deferred taxes. Only two statutes that call for penalties employ another approach—these are Indiana's Classified Forest Act and Georgia's law. In Indiana, the penalty is the lesser of: (1) the increase in appraised value that occurs during the period of enrollment, and (2) the taxes saved plus 5-percent interest. In Georgia, the penalty is some multiple of the taxes saved, and the multiplier depends on how long a property was enrolled before the land use convenant was broken.

Miscellaneous Features.—Two additional points deserve to be mentioned. The first is that most of these modified assessment laws were intended to benefit not just forest lands, but agricultural, horticultural, and other open space lands as well. The second point is that Virginia's Agricultural and Forestal Districting Act, besides extending current use assessment to participants, restricts the power of government to: (1) take enrolled lands by eminent domain, (2) regulate agricultural activities beyond the requirements of public health and safety, and (3) levy a tax on enrolled lands or use public funds to support construction of nonagricultural improvements.

Severance Tax Laws

Table 1 shows that severance taxes are overwhelmingly a characteristic of the Southern forest scene. Six States in this region have such laws compared to only one Midwestern State.

In examining severance taxes, the important aspects are not the type of preferential tax treatment offered or the eligibility restrictions, application requirements, and withdrawal penalties. Instead, the relevant issues are (1) how is the amount of tax determined and who is responsible for paying it, (2) may any timber be cut without having to pay a tax, and (3) how are revenues derived from the tax utilized?

Regarding the first of these concerns, the amount of tax is generally specified as a fixed levy per unit of volume or per unit of product. The only statutes that do not employ this approach are Illinois' Harvest Fee law and Arkansas' Severance Tax law. Under the former, the tax equals 4 percent of the estimated value of the timber to be cut. Under the latter, the tax is determined on the basis of the weight of the timber to be processed. In all cases, the payments are to be made by either the entity who purchases and cuts the timber or the primary processor of the cut material.
To answer the question of whether any timber can be cut without incurring a tax obligation, all of the statutes provide an exemption for trees cut by individual forest owners for their own domestic use. In addition, North Carolina’s Forest Development Assessment and South Carolina’s Forest Renewal Assessment, exempt Christmas trees and fuelwood cut for use in individual homes. Virginia’s Forest Products Tax provides that State educational institutions may cut timber from State lands without paying a tax if the cutting is done for teaching or research purposes.

All of the statutes stipulate that the bulk of the revenues from severance taxes are to be allocated to various State forestry programs. The most common practice is to use the funds to support cost-sharing or technical assistance programs. This approach is employed in Illinois, Mississippi, North Carolina, South Carolina, and Virginia. In Virginia, a portion of the revenues are also used for fire protection purposes and to operate State tree nurseries. Fire protection is the primary beneficiary under Alabama’s Forest Products Severance Tax. In Arkansas, 97 percent of the revenues go into the State Forestry Fund for use by the Forestry Commission.

FUTURE OUTLOOK

It appears the years ahead are likely to be a period marked more by refinement of existing programs than enactment of new statutes in both the Midwest and the South. The reasons are: (1) there has been relatively little recent legislative activity except in the modified assessment area, and (2) the proliferation of modified assessment laws has gone about as far as possible.

Since modified assessment laws as a group are relatively new, they will probably be the object of most fine tuning efforts. Changes will probably include a tightening of eligibility restrictions and a strengthening of withdrawal penalties. These actions would address two areas of controversy that have arisen regarding this type of legislation. The first area of concern is that land speculators are abusing these programs by using them as tax shelters while they temporarily withhold properties from the market. The second area of concern is that since these statutes were passed to encourage retention of rural lands, society should have some means of recouping its tax concessions when this objective is not met. In a somewhat different vein, as usage of the existing laws increases, more States may be forced to provide annual subvention payments similar to those made in Michigan, Missouri, and Wisconsin in conjunction with optional yield tax programs. Such payments could prove essential in order for county and city governments to maintain traditional services without precipitating unacceptably high levels of local tax-shifting. The payments would be defensible on the grounds that since retention of rural lands provides broad public benefits7, the costs of encouraging this retention should be borne by the entire State.

7/ The major benefits of preserving rural lands are generally perceived to be: (1) protection and maintenance of the economic activity generated by viable agricultural and forest industries, (2) protection and maintenance of various aesthetic and environmental values, and (3) reduction of the public service and other cost increases that can result from scattered and unplanned urban expansion.
The area that seems to hold the greatest promise in terms of enactment of new laws is the severance tax. In the last 10 years, three States have adopted such statutes. These were new programs, not replacements for old programs. In each case the taxes were initiated mainly to provide a basis for stimulating increased forestry activity. Since the availability of Federal monies for this purpose has been, and will likely continue to be, under considerable pressure because of efforts to meet Gramm—Rudman deficit reduction targets, there appears to be a good chance that several States may choose to take a closer look at this type of legislation.

LITERATURE CITED


