

 UI Extension Forestry Information Series

Property Tax Redesignation for Idaho's Private Forest Landowners

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Making sound financial decisions is critical to many private forest owner goals. Idaho landowners have options for their forest land and timber taxes and the selected alternative can have a large monetary consequence. Federal timber taxation is complex and landowners need to understand both Federal and State laws and options to make informed decisions. This article is primarily to alert Idaho forest owners about an important opportunity to reconsider which forest property tax option is best for them.

Idaho private forest owners with 5 - 5,000 acres of forest land, have two property tax options:

- 1) The *Productivity Tax* is based on a formula that includes average timber values, the ability of the land to grow trees, and the value of the land itself. This option is also the one that owners of 5,000 acres or more must use. Parcels less than 5 acres or larger acreages of non-timber production use (subdivision, recreation, etc.) are taxed at market value, based on factors similar to homes and other real estate property taxes.
- 2) The *Bare Land and Yield Tax*, which has a lower annual tax on the land value only, based on a capability formula and a 3% yield tax applied to any actual harvest, calculated using average log values and the volume removed as scaled at the mill.

These options became law in 1982 and were effective in 1983. Forest landowners that meet law requirements, including documentation that they are managing for timber production, can review and change their selected option every 10 years. Idaho's private forest landowners can make that

decision in 2002 (becoming effective in 2003). All properties will remain in their current designation unless the owner files a form at their County Assessors Office sometime during calendar year 2002. Idaho landowners should make sure they understand the financial impacts of their current and alternative forest property tax option.

Forest land and *stumpage* (the volume of marketable trees on the property) values in Idaho have been divided into 4 zones with 3 productivity categories (Good, Medium, and Poor) in each zone (see map). Both *Bare Land* and *Productivity* values decrease from Zone 1 in the north to Zone 4 in the southeast, as well as decreasing in value within each zone from Good to Poor. These values are shown for 2001 in Table 1, and will change each year according to timber and land values used in annual recalculations. Because the original law provided for changes in land and stumpage values, these values have changed slightly over the years. The values for 2001 were somewhat lower than 2000 in all categories for all zones. This trend will continue at about a 10% reduction each year through 2005, when the *Productivity* values will be approximately 50% of their peak in 1999.

There are several good sources for specific information on forest property tax options in Idaho. Most landowners and their advisors are generally well informed, since the current system has been in place for nearly 20 years, but some confusion exists regarding whether to change options for the next 10-year cycle. Forest landowners and advisors can get the most recent information from the offices,

CONTINUED ON PAGE 2

publications, and websites listed below. In addition, the following examples show the financial consequences of being in one or the other tax option for a given set of circumstances.

Example 1: 168 acres, Zone 2, Good site. In 1992, the average stumpage is 15 MBF (thousand board feet) mixed conifers per acre, for a total volume of about 2.5 million board feet. In 1995, 1.5 million board feet of timber were harvested, and the landowner received \$200/MBF net for a total of \$300,000. It is now 2001 and the land has been in the *Productivity* option for the last 10 years. The average value per acre under this option has been about \$520/acre, and the county taxation rate has averaged 1% of value; thus, the land was taxed at \$5.20/acre/year. Total property taxes would be \$874/year or \$8,740 for the 10 years 1992-2001. Because the landowner does not anticipate any additional timber harvest in the next 10-year cycle, the property will be changed over to the *Bare Land and Yield* option in 2002. There is no penalty for this change from *Productivity* to *Bare Land and Yield*. Some of the publications noted below do not emphasize this important fact.

Example 2: Everything is the same as Example 1, EXCEPT that the property is under the *Bare Land and Yield* option. The harvest values used to calculate the *Bare Land and Yield* tax change annually in Idaho, and in this example averaged \$120/MBF for the species harvested. This average is lower than in Example 1, because those were actual values received from the sale, whereas in Examples 2 and 3, the stumpage value is from the tables published by the state, which are lower than actual values in many situations. The *Bare Land* value averaged \$145/acre/year for the 10-year period. Ten-year property taxes under this option would be 1% of \$24,360 each year for land taxes, for a total of \$2,430 for land tax and a *Bare Land and Yield* tax of 3% of \$180,000 (\$120 X 1,500 MBF) or \$5,400. Together, these would equal \$7,830 or \$910 less than taxes under the *Productivity* option. Although the *Bare Land and Yield* option is primarily designed to enable landowners to pay the taxes on timber when they have the

money available from a timber sale rather than annually, the total amount of taxes paid can also be substantially less, as shown in this example. The difference would be even greater had the land also been in the *Productivity* option rather than the *Bare Land and Yield* option for the preceding 10 years. In that scenario, the taxes for the *Productivity* option would have been three times as much as *Bare Land and Yield* option if no timber harvest occurred.

Example 3: Everything the same as in Example 2, EXCEPT that no timber harvest has occurred, and it is now the year 1992, and the 1.5 million harvest is planned for next year. You want to consider changing to the *Productivity* option to avoid yield taxes. There is a deferred tax penalty for this change, calculated as follows: *Bare Land and Yield* value subtracted from *Productivity* value (\$520 - \$145) equals \$375, times 1% (current levy rate) equals \$3.75, times the years in the *Bare Land and Yield* option (up to 10 years) equals \$37.50, the deferred tax per acre. Multiply \$37.50 times 168 acres to get the total deferred tax of \$6,300. Keep in mind that for the last 10 years, you have saved \$6,310 already by being in the *Bare Land and Yield* option (\$8,740 - \$2,430). At current (2001) rates, the *Productivity* option would cost you \$6.28/acre/year or \$10,550. The *Bare Land and Yield* option using 2001 rates would cost \$1.73/acre/year or \$2,906 plus the 3% *Bare Land and Yield* tax on 1,500 MBF (assuming a value at \$120/MBF) of \$5,400 or a total of \$8,306. This is \$2,249 less than switching to the *Productivity* option, in this specific case.

Legislation passed in 2000 will gradually decrease the land values under the *Productivity* option for the next 5 years, beginning in 2002. Although those values will not be available until March each year, the changes are unlikely to be large enough to affect the choice of option in many cases. The conventional wisdom that the *Productivity* option is an advantage when you will have a large timber harvest may not be accurate. Private forest owners

in Idaho that meet the requirements for the *Bare Land and Yield* option should carefully examine the actual taxes they will pay under either option, and use the results to make a decision. The financial impacts could be well worth the effort.

For more information:

At your County Tax Assessors Office:

Idaho's Forest Land Taxation Law 2001, and 2002 Redesignation - (brochures prepared by Idaho State Tax Commission Forest Land Tax Section).

On the Web:

Idaho State Tax Commission, www2.state.id.us/tax (information on state income and property taxes, including forms).

Idaho Statutes - Taxation of Forest Lands and Forest Properties, www3.state.id.us.idstat/TOC/63017KTOC.html

National Timber Tax Website, www.fs.fed.us/spf/coop (information on Federal timber taxes and links to most states. Includes a downloadable, printable version of the *Federal Tax Guide for Timber Owners - Agricultural Handbook 718*).

UI Policy Analysis Group, www.uidaho.edu/cfwr/pag/index.html (new report on Idaho Forest Taxation available electronically or hard-copy sometime in October, 2001).

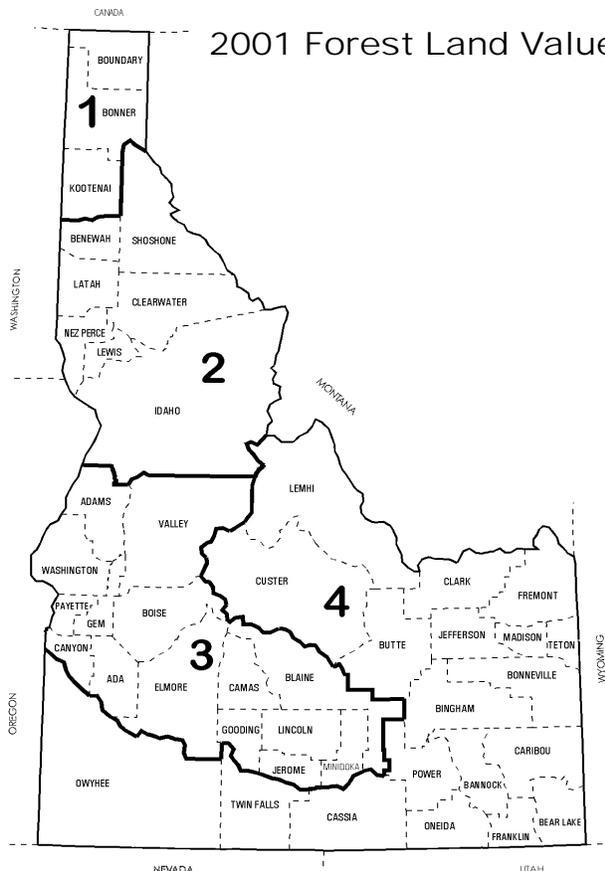
Publications available from Idaho and Washington Cooperative Extension Offices:

Forestland Taxes in Idaho (UI EXT Bulletin 766);

Forest Land and Timber Taxes In Washington (WSU Extension Bulletin 1822).

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2001 Forest Land Value and Stumpage Value Zones in Idaho

Zone 1

Land Grade		
Good	Med	Poor
\$179	\$124	\$73 Bare Land and Yield
\$675	\$433	\$190 Productivity

Zone 2

Land Grade		
Good	Med.	Poor
\$173	\$109	\$56 Bare Land and Yield
\$628	\$403	\$177 Productivity

Zone 3

Land Grade		
Good	Med.	Poor
\$147	\$94	\$49 Bare Land and Yield
\$511	\$339	\$159 Productivity

Zone 4

Land Grade		
Good	Med.	Poor
\$103	\$66	\$35 Bare Land and Yield
\$350	\$232	\$108 Productivity