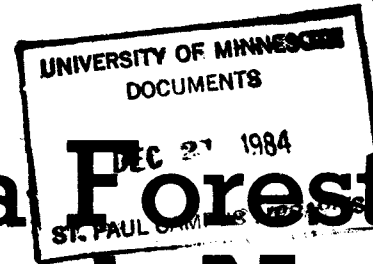


Minnesota Forestry Research Notes



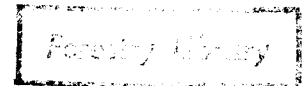
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No. 287
September 1984

Minnesota's 1982-83 Forest Property

Tax Structure: A Review and Evaluation*

Michael A. Kilgore, Paul V. Ellefson, and Richard A. Skok**



ABSTRACT

Property tax relief for Minnesota's privately owned forest land is granted via three major policies. Less than 27 percent of private forest land is subject to forest property tax provisions. The Timberland Classification has been the forest tax law most widely used in recent years. As currently structured, the influence of property tax incentives on timber production may be limited.

MAJOR FOREST PROPERTY TAX LAWS

Property tax relief for privately owned forest land in Minnesota is granted via three major taxing mechanisms, namely, the Timberland Classification (modified ad valorem tax), Auxiliary Forest Tax Law (yield tax), and Tree Growth Tax Law (productivity tax). Class 3e timberland is one of some 40 real property tax classifications found within Minnesota's general property tax structure (ad valorem). It is the only class, however, that encompasses land devoted to timber production, namely property "...rural in character and used exclusively for the purpose of growing trees for timber, lumber, or wood products." Property classified as 3e timberland is assessed at 19 percent of market value. Additionally, a state school agricultural credit of eight mills is granted to all land so classified. Other general property tax classes which may include forest land are: agriculture, recreation, and vacant land. Assessed rates for such classes varies from 14 to 40 percent, while state school agricultural credit varies from eight to 18 mills. Timber production is viewed as an incidental use of land classified in these categories.

The Auxiliary Forest Tax Law separates tax treatment of land and timber. An annual tax of 10 cents per acre per year is levied on land growing timber while a yield tax of 10 to 40 percent is levied on the value of harvested timber. Structural and administrative problems have plagued the Auxiliary forest Tax Law as is evident by a history of limited use (Kilgore and Ellefson, 1983). A legislatively imposed moratorium on acceptance of new auxiliary forest contracts began on July 1, 1974.

The Tree Growth Tax Law represents Minnesota's most recent (1957) attempt to adjust property taxes focused on private forest land. Taxes payable are based on the value of the average annual growth of various forest types located within a county. Tree growth forests require adherence to an application procedure, a contractual agreement between the landowner and the county, and agreement to allow public access to the forest in question. Individual counties have the option of accepting or rejecting applications from landowners for admission under the law. For tax levy purposes, tree growth forests are assigned to one of three categories, namely, commercial, temporary, nonproductive, and permanently nonproductive. Those designated commercial are annually taxed at 30 percent of the value of the annual growth occurring for each forest type. Both temporary and permanently nonproductive forests are annually taxed at the rate of five cents per acre. However, temporarily nonproductive forests are taxed at the rate of 15 cents per acre per year if reforestation does not occur. An annual per acre tax credit of 50 cents is available to landowners having planted a minimum of 500 commercial trees per acre. Such credit is valid for

Research supported by Minnesota General Agricultural Research funds.

*Research assistant, professor, and professor and dean, respectively, College of Forestry, University of Minnesota, St. Paul, MN.

Published by the College of Forestry, 1530 North Cleveland Avenue,
St. Paul, Minnesota 55108. E. Sucoff, editor.

10 years and can be applied to all land within a 40 acre subdivision where planting occurs. Acreage under the Tree Growth Law does not qualify for agricultural school credit.

FOREST PROPERTY TAX STATUS

Thirty-nine of Minnesota's 87 counties used one or more of the state's forest tax laws during assessment year 1982. The most commonly used provision was the 3e timberland classification (35 counties)(Table 1). Tree Growth and Auxiliary Forest Tax Laws were used by 11 and seven counties, respectively.

The area of forest land enrolled under Minnesota's forest property tax laws in 1982 approached 1.7 million acres (Tables 1 and 2); only 27 percent of Minnesota's 6.4 million acres of 1982 privately owned commercial forest land. Of this sum, approximately 1.1 million acres were classified as 3e timberland (63 percent of all property taxed as forest land in 1982). The Tree Growth Tax Law enrolled over 400,000 acres (24 percent of total); the least acreage occurred under the Auxiliary Forest Tax Law, namely, 220,000 thousand acres or 13 percent of the total. Ten counties accounted for over 90 percent of the total property taxed as forest land in 1982: St. Louis (516,195 acres), Koochiching (207,852 acres), Lake (206,942 acres), Itasca (184,936 acres), Crow Wing (156,724 acres), Carlton (87,204 acres), Cook (49,960 acres), Lake of the Woods (47,424 acres), Cass (38,674 acres), Kanabec (34,467 acres).

Nearly \$3.3 million in revenue was generated from the application of forest property tax laws in 1982 (Table 1). The 3e Timberland Classification accounted for the greatest proportion, i.e., more than \$2.8 million or 87 percent. The Tree Growth Tax Law produced nearly \$367,000 (11 percent) in revenue, while only \$61,000 resulted from the land and yield tax assessed to auxiliary forests.

Counties are extremely variable in their use of forest property tax laws (Table 2). Timberland classified 3e ranged from less than one to 88 percent of total privately owned commercial forest land found within a county. The only county in which auxiliary forests accounted for a significant portion of private timberland was Koochiching (45 percent). Use of the Tree Growth Tax Law ranged from 30 percent of private forest land in Itasca County to less than one percent in Polk County.

Revenue generated per acre from use of forest property tax laws in 1982 was also highly variable. Forest land classified 3e timberland produced the highest average revenue per acre (i.e., \$2.66 per acre) yet showed the most variation (\$34.29 per acre in Hennepin County to \$0.86 per acre in Lake County). Different methods of valuing 3e timberland forests account for most of this variation. Tree growth forests produced a statewide average revenue per acre of \$0.89, with Morrison County at one extreme (\$1.46 per acre) and Polk County at the other (\$0.23 per acre). Statewide average revenue per

acre was lowest for land entered as auxiliary forests, averaging only \$0.28 per acre. Counties collecting no yield tax on timber experienced only the \$0.10 return per acre. Koochiching County, which assessed a substantial yield tax in 1982, received the highest auxiliary forest revenue -- a modest \$0.29 per acre.

Forest land classified 3e timberland experienced the greatest increase in revenue and acreage of all Minnesota's forest tax laws from 1981 to 1982, namely:

Assessment Year	1981	1982
Area (acres)	347,438	1,067,259
Revenue (dollars)	452,444	2,837,826
Market Value (dollars)	29,729,041	151,378,346
State School Agricultural Credit (dollars)	45,082	247,734
Proportion of Private Commercial Forest Land (percent)	5.47	16.80
Counties Involved	33	35

Although only two additional counties began using the 3e timberland classification between 1981 and 1982, the total statewide acreage enrolled as 3e timberland increased 720,000 acres (207 percent). Percentage increases in revenue were even larger, namely, 527 percent between 1981 and 1982, i.e., an additional \$2.4 million.

ADMINISTRATIVE APPLICATION OF TAX LAWS

Requirements for Enrollment and Compliance

Requirements imposed by counties on landowners desiring use of Auxiliary Forest or Tree Growth Tax Laws are generally consistent with state law (Kilgore and Ellefson, 1984). For the Tree Growth Tax Law, requirements include: minimum of 5 acres; exclusive use for growing continuous crops of forest products; preparation of a map delineating legal boundaries and major forest types; public access for hunting and fishing; and reforestation of all temporary, nonproductive sites within ten years. Other tree growth restrictions not mandated by the law but imposed by some counties include: minimum of 40 acres; contain no structures; bordering no lake or river; and establishment and maintenance of an effective forest management plan.

Minnesota law establishes liberal requirements for entrance of land into the 3e Timberland Classification, i.e., "...used exclusively for the purpose of growing trees for timber, lumber, and wood products." Individual counties impose restrictions which may include: maintain a timber management plan; demonstrate effective growing practices; contain no structures or development; not be adjacent to a lake or river; not be used for agriculture, residential, or recreational purposes; maintain firebreaks; control insects and rodents; growing planted trees; and be nonillable and less than ten

percent pasture. Because of variation in entrance requirements, property acceptable for 3e timberland classification in one county may not be acceptable in neighboring counties.

Assessment Procedures

Procedures for determining the market value of forest land to be classified 3e timberland varies widely among counties. In general, three methods are used: constant rate per acre, graduated rate determined by forest type, and market data rate based on sale of land comparable in size and quality. In 1982, constant rates applied per acre by counties varied from \$140 to \$800 per acre. Graduated rates included: wooded highland (\$250 per acre), lowland timber (\$150 per acre), lowland (\$100 per acre), general forest land (\$230 to \$275 per acre), plantations or land with marketable trees (\$300 to \$400 per acre), highland with trees (\$150 to \$500 per acre), lowland timber (\$80 to \$120 per acre), swamp (\$50 per acre), and all woods (\$175 to \$275 per acre). For 1982-83, average 3e timberland assessed market value ranged from \$46 to \$2,343 per acre, with a statewide average of \$141 per acre. Three of five counties assessed 3e timberland annually, four percent every two years, and 20 percent every fourth year. Additionally, 16 percent varied 3e assessment frequency from year to year, depending on real estate market changes.

Tax Influence on Timber Management

Application of forest property tax laws may be having limited influence on private landowners' decisions to carry out timber management practices. Of 36 county auditors inquired, none viewed forest property taxes as the most important factor encouraging application of timber management practices. One-fourth stated that property taxes were an influential, although often very minor factor. The majority (68 percent) identified the current forest property tax structure as being neutral in its impact on private timber management. Modest use, liberal entry requirements, and inability to effectively enforce the provisions of forest property tax laws are probably factors limiting their usefulness for encouraging more intensive private forest management (Kilgore and Ellefson, 1984).

LITERATURE CITED

Kilgore, Michael A. and Paul V. Ellefson. 1984. Minnesota's 1982-83 Forest Property Tax Structure: A Review and Evaluation. Staff Paper Series No. 39. Department of Forest Resources, University of Minnesota. St. Paul, MN.

Table 1. Use of Minnesota's Forest Property Tax Laws, Major Law, Acreage Enrolled and Revenue Generated. 1982.

Forest Property Tax Law	Counties Using Law	Acreage Enrolled	Proportion of Private Land Enrolled (percent)	Revenue Generated
3e Timberland Classification	35	1,067,258.75	16.8	\$2,837,826.28
Auxiliary Forest Tax Law	7	219,795.94	3.5	60,970.70
Tree Growth Tax Law	11	412,197.30	6.5	366,869.26
Statewide Total	39	1,699,251.99	26.8	\$3,265,666.24

Table 2. Minnesota forest property tax status, by county and law. Assessment year 1982-83.

County	Property Tax Law						Commercial Timberland			Proportion of County Private Commercial Timberland Enrolled in Tax Law			
	3e Timberland Classification		Auxiliary Forest Tax		Tree Growth Tax		Total	Privately-Owned		3e Timberland Classification	Auxiliary Forest Tax	Tree Growth Tax	All Forest Property Tax Laws
	Acres	Revenue (dollars)	Acres	Revenue (dollars)	Acres	Revenue (dollars)		Area (thousand acres)	Proportion (percent)				
Anoka	625.86	7,465.00					36.6	31.5	86	2			2
Becker	19,785.42	39,732.60			2,943.00	4,162.72	313.9	183.2	58	11		2	13
Beltrami	23,690.00	64,485.95					794.6	183.4	23	13			13
Carlton	66,952.00	79,247.00			20,252.00	15,586.00	312.8	203.7	65	33		10	43
Cass	11,390.00	33,578.00			27,284.09	39,681.18	858.6	272.4	32	4		10	14
Chisago	277.92	3,751.16					50.2	42.4	84	1			1
Clearwater	27,470.41	57,072.36					301.7	155.5	52	15			15
Cook	49,959.59	70,036.14					538.8	90.7	17	55			55
Crow Wing	134,130.00	237,325.92			22,594.00	21,994.00	371.9	280.7	75	48		8	56
Dakota	247.00	2,694.03					16.5	14.1	85	2			2
Goodhue	3,364.88	14,378.00					56.4	49.4	88	7			7
Hennepin	105.38	3,612.99					7.8	6.4	82	2			2
Houston	173.45	407.20					111.5	100.3	90	1			1
Hubbard	6,866.98	23,593.32*	2,812.16	443.59	21,851.85	31,235.56	398.0	203.8	51	3	1	11	15
Isanti	4,151.00	37,340.00					46.9	40.2	86	10			10
Itasca	337.00	1,614.36	23,352.10	5,353.44	161,247.15	126,670.51	1,281.0	545.1	43	1	4	30	34
Kanabec	34,268.73	682,958.00	198.48	19.84			129.0	104.5	81	33	1		33
Koochiching			161,620.00	46,486.00	46,222.00	35,438.00	1,278.9	362.7	28		45	13	58
Lake	206,942.00	178,075.00					855.3	234.6	27	88			88
Lake of the Woods	47,424.00	148,008.30					360.6	88.3	24	54			54
Le Sueur	8.00	25.66					10.0	8.2	82	1			1
Mahnomen	19,126.00	36,780.24					106.4	52.2	49	37			37
McLeod	28.00	103.12					5.8	5.7	98	1			1
Meeker	20.00	113.40					10.8	10.6	98	1			1
Mille Lacs			80.00	8.00			122.8	100.0	81		1		1
Morrison	251.39	1,104.12			2,324.93	3,405.79	148.7	127.7	86	1		2	2
Norman	975.00	1,784.80					22.2	20.5	92	5			5
Otter Tail	120.00	335.56*					186.3	151.7	81	1			1
Pine	9,290.00*	28,200.32*					425.6	322.2	76	3			3
Polk					400.00	91.02	68.0	61.3	90			1	1
Ramsey	25.13	366.98					Less than 100 acres						
St. Louis	400,000.00	1,073,932.90*	31,340.91	8,621.60	84,853.51	61,009.88	2,465.6	957.6	39	42	3	9	54
Sherburne	115.00	464.00					56.9	49.9	87	1			1
Stearns			382.29	38.23			56.0	50.3	90		1		1
Todd	767.31	2,549.83					104.5	87.5	84	1			1
Wabasha	102.75	200.68					57.4	49.9	87	1			1
Wadena	2,089.15	5,107.88			22,224.77	27,594.60	107.3	90.1	84	2		25	27
Washington	49.40	1,116.60					10.2	8.2	80	1			1
Winona	130.00	264.86					103.6	94.9	92	1			1
State Total	1,067,258.75	2,837,826.28	219,795.94	60,970.70	412,197.30	366,869.26							

*Estimated.

Source: Kilgore and Ellefson, 1984.