MINNESOTA'S 1982-83 FOREST PROPERTY TAX STRUCTURE: A REVIEW AND EVALUATION[1]

by

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INTRODUCTION AND STUDY DESIGN

Minnesota property tax relief for privately owned forest land are three in number, namely: 1) 3e timberland classification (a modified ad valorem tax), 2) Auxiliary Forest Tax Law (a yield tax on timber), and 3) Tree Growth Tax Law (a productivity tax). Originally their intent was to create an equitable basis for taxation and to reduce excessive tax forfeiture that had resulted from past tax policies (Dana et al. 1960). As is evident from the large number of amendments made to each law, the legislature has an interest in revising and updating their provisions so as to ensure their effective use in promoting proper forest management. Many problems, however, continue to exist, as is evident from the relatively limited use of each law. Factors contributing to this situation include: 1) requirements imposed on the landowner in order to obtain favorable tax treatment; 2) limited or preferential use of certain laws by each county; and 3) tax relief offered is often very limited.

Additional changes in Minnesota property tax structure as applied to privately owned forest resources are probably in order. Before such changes can be made, however, the status of existing laws and their administration must be fully understood. Needed is careful documentation of the provisions of property tax laws focused on forestry, the extent to which each law is used, how current use influences forest management, and how changes in existing law would affect local government operations and the forest management activities of landowners. Only when information of this nature is available can effective changes in forest property taxation be well proposed.

There are many factors that would enhance understanding of the structure of tax policies for forest property in Minnesota. They include:

. Tax policies available in Minnesota

. Tax policies implemented by counties

. Use of individual tax policies by counties

. Revenues generated by tax policies

. Revenue gain or loss through changes in tax policies

. Effect of tax policies on forest management practices

. Effect of changes in tax policies on forest management practices

. Role of county government in administering tax policies

This study will address these issues in an attempt to better define the forest tax structure in Minnesota.

Study Objectives

Major objectives to be accomplished by the study were as follows:

. Define major tax policies that focus on Minnesota forest property, including: 1) types of forest tax policies, 2) extent to which forest tax policies are used by counties and the entire state, 3) revenue generated from forest tax policies, and 4) timber management incentives realized from forest tax policies.

. Define and assess the county governments' role in administering forest tax policies, including criteria for acceptance.

. Assess in a limited fashion the impacts of modifying forest property tax laws on revenue and timber management incentives.

. Define major issues and problem areas regarding current Minnesota forest property tax laws and their administration.

Scope of Study

Many types of taxes influence forest property and the extent of proper timber management practiced on these lands. The study was limited to property taxation applied to forest lands. Analysis of other taxes affecting forest property was not carried out.

The study dealt with forest taxation issues particular to Minnesota. As of 1980, 36 states had some form of modified property tax relief on forest land as a substitute for the general ad valorem tax (Hargreaves 1980). The focus of this research was limited to the three modified forest property tax policies implemented in Minnesota.

There are 87 counties in Minnesota, only a portion of which are actively involved in administering modified forest property tax policies. The study focused primarily on 36 counties where forests are a major land use. This included the majority of the northern and northeastern counties, along with select counties in the southeastern part of the state where there is substantial acreage of private forest land.

The implications of tax policy change (both political and economic) are difficult to predict given the complexity of the present forest tax policy situation in Minnesota. Therefore, the assessment of impacts due to tax policy change was limited. Only variables with very predictable results (i.e., such as revenue impacts and basic management incentives realized) were addressed by the study.

Procedures

A thorough literature review on taxation, specifically pertaining to forest property is essential in order to understand the nature of Minnesota's forest taxation structure. Once such a review was completed, the general procedure required to obtain the aforementioned objectives of the study included:

- Define major forest tax policies implemented in Minnesota.
  Intensive study of the legal statutes is required to achieve clear definitions of the property tax laws involving forestry. Investigation into the administrative procedure, amount of revenue generated, and timber management incentives realized for each county were addressed to assess the results of policy implementation. The research involved to achieve these results included: 1) review of literature on Minnesota forest tax policies, 2) review of Minnesota statutes, 3) review of data acquired from the Department of Revenue and the Department of Natural Resources.
- Define county government role in administering these policies.
  Focus was on the legal mandates for county administration of tax policies affecting forest property and the manner in which individual county governments actually administer such mandates. Specific research involved 1) review of literature on the county's role in administration of forest tax policies, 2) review of county records dealing with forest tax administration, and 3) contacting county government officials (by mail questionnaire) to determine

the use, magnitude and administrative procedures relative to each tax policy. Research was directed toward counties with private forest land ownership exceeding 30,000 acres.

- Assess consequences of tax policy change. Focus was on a limited assessment of changes in current Minnesota forest tax policy based on the analysis of current tax policy status. The assessment was restricted to impacts on revenue generated and the timber management practices realized. This involved: 1) contacting officials administering forest tax policy; 2) simulating revenue impacts based on changes in tax policy (statistical data from the 44 counties sampled were used as a basis for analysis); and 3) evaluating the effectiveness of policy change, based on the results of similar tax policy in other states.
- Define major forest taxation issues pertinent to Minnesota forest tax policy. Emphasis was on better administrative procedures and more equitable tax treatment on forests. The procedure involved: 1) review of literature dealing with current issues in Minnesota forest tax policy; 2) inquiring of professionals administering forest tax policies; and 3) addressing major forest taxation issues.

Crucial to accomplishing the study's objectives was to obtain information pertaining to the administrative aspects of each forest tax law. A questionnaire (Appendix B) containing objective questions (i.e., acreage and revenue generated from each forest tax law used by the county) and subjective questions (i.e., inquiring about procedures, advantages and

difficulties of administering each forest tax law; their effect on promoting forest management; problem areas in the existing forest property tax structure; and recommendations for change in the current tax system as it relates to forest land) was used as the major information gathering source.

Interviews with various county officials indicated the county auditor to be the individual best qualified to answer the questionnaire. Questions regarding assessment procedures for 3e timberland were directed to the county assessor. Both officials were asked to provide information pertaining to 1982 assessments (taxes payable in 1983).

Criteria for selecting the counties to be sampled via the questionnaire was based on the amount of privately-owned commercial forest land in each county. Included were both individual and corporately owned, as well as industrial forest ownership. Thirty thousand acres of privately-owned commercial forest land was set as the minimum criteria standard. Counties exceeding this amount were recipients of the questionnaire; resulting in the selection of 36 counties (i.e., located in the northern, central and southeast part of Minnesota). An additional eight counties not meeting this criteria implemented at least one property tax law of importance to forestry. These counties were also contacted, bringing the total sample size to 44. All 44 counties responded to the questionnaire or phone interviews asking for forest property tax information.

FOREST PROPERTY TAXATION

Taxation represents one of the fundamental forms of power inherent to government, one which provides a basis not only for the existence of the state, but also for its prosperity. Taxation is the principal mechanism by which various levels of government collect revenue needed to execute the wide diversity of services provided to the public (Barlowe 1978). In the absence of taxes, the ability of a government to regulate authority, as well as achieve its desired goals, is severely restricted.

The apportionment of direct taxes among taxpayers is composed of two bases, namely, the possession of property and the receipt of income (Fairchild 1935). This apportionment is built on generally accepted principles of taxation that include (Due 1963):

- A tax should interfere as little as possible with attainment of an optimum allocation of resources. Whenever possible, it should assist in attaining this optimal allocation.
- A tax should be equitable; the distribution of tax load should help attain a desired pattern of income distribution.
- The real costs of collecting a tax should be a minimum (real costs include inconvenience to the taxpayer).

Although specific goals of individual societies may be different, these taxation principles can universally be applied to form a common theme upon which all societies can establish tax regulations.

Taxes are extremely diverse in form and function, reflecting the government's need for a flexible regulatory tool. One major function is to guide land-resource use towards society's goals. The tax most commonly associated with land-resource use is the general property tax. In addition to the latter, land resources are subject to special assessments, capital gains, inheritance, gift, documentary, severance taxes (e.g., forest and mineral products), along with a variety of less direct taxes (Barlowe 1978).

Taxes can be used both to encourage and discourage wise resource use. To enhance more intensive land use, property valuation for tax assessment purposes can be based on the land's potential use instead of actual use (Barlowe 1978). On the other hand, severence taxes may, in the long run, discourage intensive investment and fail to exert many of the conservative influences other taxes provide (Duerr 1960). The extent to which each type of tax is used depends on how each governing agency values the use and allocation of resources.

Property taxes, often referred to as ad valoren taxes, constitute the major tax applied to landed property (Barlowe 1978). Unlike taxes levied at federal and state levels, jurisdiction over property tax in the United States has been vested with local governments. Early use of the property tax in Minnesota provided almost all of the revenue for local taxing districts (Dana et al 1960). Although these taxes seem to be shrinking in importance relative to other forms of tax, the property tax still supplies between 85 and 90 percent of the tax revenue to local governments (Gregory 1972).

General property tax falls into two basic categories, i.e., real and personal property. Real property includes land, buildings, and other fixed improvements and is the most important category of property, accounting for almost 85 percent of the total assessed valuation on all taxable property in the United States. Personal property is generally regarded as movable property. Within the personal property classification are two subdivisions, namely, tangible and intangible personal property. Tangible personal property refers to autos, machinery and jewelry, while intangible personal property refers to wealth, such as stocks, bonds, and savings deposits (Gregory 1972).

Because local governments are the major recipients of general ad valorem taxes, they are also responsible for their administration. The latter is composed of five basic steps: assessment, review or appeal, determination of the tax rate, collection and distribution, and provision for delinquency (Gregory 1972). Assessment involves calculating a monetary value of real property, often using market value of land as the basis for appraisal. After a parcel of land is assessed, the taxpayer arguing the property was valued too high has a right to request a review of the assessed value. This review is usually executed by a local governing board presiding within a taxing district.

Determination of the tax rate for all property within a taxing district is theoretically simple. It is usually calculated by dividing the total annual tax revenue required for normal governmental operations by the total tax base within the taxing district. The resulting tax rate is

often referred to as a millage rate. This millage rate is then applied to individual tax parcels to determine the amount of tax payable on individual land parcels (i.e., multiplying the assessed value of the land by the millage rate). If this tax levy is not paid when due, the property is termed "tax delinquent." Continual failure to pay a tax bill allows the taxing district to eventually confiscate title to the land, either retaining possession in public ownership or turning it back to the private tax roles (Duerr 1980).

Historical Perspective

Taxes on forest land and timber products have long been a concern to the forest community. Recent growing concern represents an awareness of the increasing importance placed on forest lands and the benefits received from them. Many different types of taxes affect forest land and forest products, including capital gains, income, estate, inheritance, death, severance, and property taxes. These taxes fall into two basic categories; namely, taxation of the timber and taxation of the land growing the timber. It is from these two perspectives that various taxing schemes have been developed for promotion of proper forest management and administration of an equitable taxing structure.

National Setting

If one looks at the history of the property tax over the years, property tax as an issue has been of more concern in the forest economy than elsewhere in rural United States. Concern over taxation of forest

property goes back over a century and a half, originating at the time when population centers were expanding westward (Duerr 1960). Timber depletion and resource exploitation predominated in the early development of the century. Cut-and-get-out policies governed the era as rapid movement through virgin timber left vast areas of land cut-over with little concern for reforestation investment (Klemperer 1977). Interest in resource conservation was noted by only a few in the early years of westward expansion. At the time, most people saw the forest as an obstacle to be overcome; little attention was paid to the consequences of depleting the timber resource.

Interest in forest land taxation escalated in the 1920's. During the latter immense liquidation of timber took place in order to compensate for disastrous declines in timber product prices. Little, if any, money was available to pay for annual property taxes due on the cutover land. As a result, tax delinquency soared to unprecidented levels, surfacing large scale debate over forest property taxation policies (Duerr 1979). In response to the increasing fear of depletion of the nation's timber, the United States Congress established the Select Committee on Reforestation in 1923. The major purpose of which was (Fairchild 1935):

> "To investigate problems related to reforestation, with a view to establishing a comprehensive national policy for lands chiefly suited for timber production in order to ensure a perpetual supply of timber for the use and necessities of citizens of the United States."

The committee's report to the U.S. Senate in 1924 identified moderation in annual property tax rates as a means of creating a more equitable tax

system. Recommended was a tax policy that created both incentives for private reforestation investments while providing a fair share of public revenues (Fairchild 1935).

A year later, Congress passed the Clark-McNary Act, a major piece of legislation dealing with forestry. Contained therein was a section identifying a need for a nationwide study on forest taxation. Under the authority of the Act, a multi-year research project on forest taxation problems in the United States was conducted, i.e., Forest Taxation Inquiry. The final study report was published in 1935 and entitled, Forest Taxation in the United States. Its author, Fred Fairchild, described the forest taxation situation in the United States and analyzed the effect of the general property tax upon forest practices. Considerable attention was given to problems of local tax administration, assessment, and delinquency; along with suggestions for better forms of forest taxation (Duerr 1960). Shortly after publication of the study report, public sentiment drastically shifted away from forest tax issues. Increased inflation, along with national concerns over world conflicts, dissipated interest in the subject. From the late 1930's through the 1950's, interest in forest property taxation issues remained, for the most part, relatively low (Manning and Thompson 1969).

Recent years have brought about a resurgence of interest in forest taxation laws (Manning and Thompson 1969). Duerr (1969) cites three reasons for this recurring interest, namely, 1) rising costs of government which force taxes up sharply, causing them to become more noticeable cash

outlays, 2) rising forest values such that private owners give more and more thought to forest management and become more conscious of tax impacts on management decisions, and 3) a forestry conscious public which places more importance on privately owned commercial forests and on the impact of taxes on an owner's forest land stewardship. Collectively, these three reasons have helped prompt renewed study of forest tax issues.

Minnesota Interest

The State of Minnesota has also had a long history of concern over forest tax issues. The Fairchild study of the 1930's documented that the assessed taxable value of cutover lands in Minnesota was excessive in comparison with assessed values of farm and forest land, a situation which proved to be a major reason for the tax delinquency problems that the State experienced in the 1920's. In 1932, both the University of Minnesota and the Governor's Land Use Committee initiated studies that dealt with forest taxation problems. These two studies presented possible solutions to the tax delinquency problem occurring in the northern part of the State and provided fuel for further research on state forest property taxation issues to be conducted during the latter part of the decade (Dana et al. 1960).

Minnesota forest taxation issues rekindled in the 1950's, as public concern over managing forest resources escalated. In 1953, the Minnesota Legislature appointed a commission "to study the forestry situation in all of its various aspects." The ensuing report identified major forest management problem areas, including forest taxation. The report's

recommendations addressed improvements in many aspects of forest management, but over half dealt with administrative or fiscal matters, including a proper taxation structure for forest resources (Dana et al. 1960). During the same period of time, other studies were carried out by the Society of American Foresters and a Governor's Committee. They also addressed taxation problems associated with Minnesota's forests and discussed alternatives to induce more intensive forest management.

Recent developments within the state concerning forest tax policies include recommendations from advisory committees to the legislature and from a forestry commission appointed by the Governor. The most important political group to deal with Minnesota's natural resources was the Legislative Commission on Minnesota Resources (LCMR). The Commission was established in 1963 to "provide the legislature with the background necessary to evaluate program proposals to preserve, develop, and maintain the natural resources of Minnesota." One of the Commission's major accomplishments was to establish a broad based study of Minnesota's forest resources. This document, prepared by George Banzhaf and Company, contained a comprehensive assessment of the state's timber resource and proposed nearly 200 legislative changes in current state policy (Miles 1982). Among the options suggested for possible legislative change was a restructuring of the current forest property tax system to promote better forest management of private nonindustrial forest lands. Identified specifically were options for lower assessment rates on forest land, along with more lenient restrictions for classifications under a reduced assessment rate (Legislative Committee on Minnesota Resources 1980).

In 1981, a Joint Select Legislative Committee on Forestry was created to develop legislative proposals from the Commission's broad based timber study. The Committee was responsible for identifying policy alternatives for better forest management within Minnesota, write them into legislative form, and submit findings to the leaders of both the House of Representatives and the Senate (Miles 1982). Included were recommended incentives to create better timber management in the private sector. In February of 1982, the Committee submitted draft legislation which became known as the "Minnesota Forest Management Act," a very significant piece of legislation dealing with Minnesota forestry.

Among the law's many provisions is one which calls for periodic review of forest policy conditions throughout the state via preparation of a state forest plan. The document is developed every 5-years and includes seven volumes dealing with procedures for defining, assessing, and proposing changes in Minnesota's forest management (Sames 1983). Included in the second volume (issues document) is the identification of a need for a revised tax structure which would create incentives for better private forest management within the state (Minnesota Forest Resources Plan, Issues Document 1982).

The need for further research on forest taxation policies in Minnesota prompted the establishment of a 1982 Advisory Committee to the Tax Subcommittee of the Joint Select Legislative Committee on Forestry. The Committee was charged with the task of reviewing the effect of the present tax system on multiple use management and timber production in Minnesota

and recommending changes in the tax system which would encourage better forest management (Advisory Committee 1982). After a thorough review of both the state forest tax laws and the tax policy alternatives presented in the Minnesota Timber Development Study by the Legislative Commission on Minnesota Resources, the Advisory Committee concluded the following: 1) taxation appears to be one factor that can limit landowner's interest in pursuing forest management activities; 2) the relative importance of tax policy as a factor enhancing the productivity of nonindustrial private forests is difficult to assess, given the level of information available; and 3) various deficiencies exist in current forest property tax structure (Advisory Committee 1982). Based on these findings, the Advisory Committee recommended that: 1) certain specific amendments in current property tax laws be carried out to promote better forest management; 2) a study on nonindustrial private forest land programs in Minnesota be established to assess the advantages and disadvantages of these programs among different categories of owners and regions of the state; and 3) the Joint Select Legislative Committee on Forestry should be maintained to consider legislative action that may be suggested by the study of programs focused on nonindustrial private forests (Advisory Committee 1982).

The most recent effort to address forest taxation problems in Minnesota was undertaken by the Governor's Commission on Wood Products. This governor-appointed Commission was established in January of 1983 and was charged with the task of analyzing an environment that would be more favorable to the expansion of the wood products industry in Minnesota.

Specifically: 1) what new initiatives should state government be considering to foster growth of the industry?; 2) how best can the state government, higher education, and private sector work together to promote growth of the industry?; and 3) within the state government, what structure or process changes would be helpful in this effort? (Governor's Commission 1983). Participants in the Commission included professionals from various aspects of the forestry community in Minnesota. On January 31, 1983, the Commission identified property tax modifications as a means of encouraging intensification of softwood management, which is presently being discouraged because of escalating property tax payments on the pine forest types. Furthermore, the Commission advocated enactment of the recommendations of the Advisory Committee on Forest Taxation to encourage better timber management from the private sector (Governor's Commission 1983).

The aforementioned historical documentation of the forest property taxation issue provides ample evidence of its importance as a tool to promote better forest management. This tool can provide an effective means of promoting timber production and discouraging resource waste, as well as encouraging management of the noneconomic benefits derived from forests. The extent of its effectiveness in forest planning depends on the benefits realized to the governing body, taxpayer, and society.

Structural Inequities

Forest property taxation is structurally inequitable, compared to other land uses. This bias is of two types; namely parcel and time bias. Parcel bias involves the uneven assessment in valuing forest property both within and between property classes. An example is the frequent claim of over assessment of forest land as a class compared to agricultural land as a class when based on income producing potential (Manning and Thompson 1969). Parcel bias within a class, such as forest land, stems from the assessment of land with similar types of timber at the same rate, regardless of the potential productivity of the land. Examples include overtaxing unproductive, as well as understocked, forest sites due to a fixed assessment rate for certain timber types.

The second bias -- time bias -- is that forest property is taxed annually, yet allows only a periodic income; consequently the tax paid on forest properties is unduly high (Duerr 1960). According to the Fairchild Report of 1935, this deferred yield bias becomes a problem if the forest land being taxed does not produce an income until a future period. The asset producing periodic income and subject to an annual ad valorem tax is more hindered than assets that produce an annual income and must pay the annual tax (e.g., agricultural land) (White 1979). Only when forests are managed on a sustained yield basis so as to provide an annual income does the time bias disappear. McDonell (1979) estimates that given the variation in rotation age, yields, and tax rates, the average amount of property tax paid on forest land under a general

property tax system equals roughly one-third to one-half of the annual gross stumpage income. Dana, Cunningham, and Allison (1960) conclude the same, stating that the main criticisms of the general property tax are: 1) annual payment of taxes, regardless of distribution of income receipts, and 2) the extremely heavy burden on forest lands, both absolutely and in relation to other classes of real property.

Another deficiency of the general property tax applied to forest property is the issue of double counting. Duerr (1979) claims that:

> "If today's assessed value takes into account the expected yields, and then if the assessment is later increased along with the rise in property value, double counting becomes involved, for these expected increases in value were already reflected in the original assessment."

When the amount of tax levied upon property becomes as high as the property's net income before tax, the tax is said to be confiscatory. This confiscatory tax encourages the landowner to relinquish tax payments or find another land use that produces a higher income. When income from the land drops, yet taxes remain high, the confiscatory effect of taxes creates a major tax delinquency problem, especially when the alternatives for land use are restricted.

Alternative Tax Arrangements

Public concern over a more equitable treatment of forest property taxes has generated numerous alternatives to the general ad valorem tax. Although the specifics of individual tax policies may vary, four basic alternatives exist, namely, 1) modified ad valorem tax, 2) yield tax,

3) productivity tax, and 4) present-use tax (Manning and Thompson 1969) (Duerr 1979).

Modified Ad Valorem Tax

Modified ad valorem taxes represent the most simplistic modification of the general property tax. The basic premise is to value the land and timber at a percentage of its full market value. This adjusted value is then taxed at the same millage rate as all other real properties. The use of this property tax has become fairly popular in the last 30 years; increasing in application from 6 to 33 states between 1956 and 1975 (Duerr 1979).

The modified property tax is generally well accepted by governing bodies since it is neutral with respect to total tax revenue generated. The effect of lowering the assessed value of a certain class of property results in a shift in the tax burden to property classes that remain unaffected. Other property classes being assessed at close to market value usually carry the majority of the tax shift burden, due to their large assessment in proportion to the total assessed taxable value within the taxing district. This type of taxing scheme provides some distinct advantages over other forms of property taxes. Its most advantageous characteristic is that if the assessments and levy rates fluctuate very little from year to year, the tax provides a uniform and stable method of generating revenue to local governments (Scott 1975). Another advantage, as viewed by the government, is that the majority of the risk involved with growing timber is borne by the taxpayer. Because annual tax levies

are based upon the assessed value of both the land and timber, a loss of timber due to fire or disease would decrease the annual assessed value for the present and future years without compensation to the taxpayer for the higher tax rates assessed prior to the loss of timber.

One of the major disadvantages to the modified property tax system is lack of incentive for active timber management. Tax reductions are often not low enough to encourage sound management practices by the landowner. In fact, the contrary very often occurs. Because the tax is levied annually and revenue is generated only periodically, the tax liability may encourage premature cutting in order to finance the annual tax levy. Another problem is that forest land fully stocked with trees is penalized through heavier tax levies than land containing less than full stocking. Premature stocking is also penalized through a higher assessed value, except this penalty is much more burdensome; compounding the penalty by the number of years until rotation age (Gaffney 1979).

Yield Tax

Another major property tax alternative for forest land is the yield tax. The latter is one of the most widely accepted taxes used to overcome the deficiencies of the general property tax. The yield tax functions exactly as its name implies, namely, a tax imposed on the yield of timber at harvest. Marquis (1952) indicates that the yield tax is a compromise between the desire of the taxpayer to postpone payments and the need for current revenue for the taxing district. Most yield taxes separate land and timber, taxing only a minimal fixed amount on the land each year and

emphasizing the bulk of the tax payment when the timber is harvested. In this manner, the tax payment is usually made at the time of harvest, thus eliminating the "time bias" criticism imposed by the general property tax (Gregory 1972). The amount of tax levied is based on a percentage of the value of the forest crop harvested, usually between 3 and 12.5 percent (Barlowe 1978). Yield taxes provide a great deal of tax payment flexibility, allowing the landowner to determine when and how much tax to pay -- based on the decision to harvest.

The yield tax has many advantageous properties not found in other taxation methods. One of the major advantages from the taxpayer's point of view is that the majority of the risk associated with growing timber is borne by the government. Except for the minimal, annual tax on the land, the taxpayer pays no tax during the growth period and assumes virtually no risk in loss of timber before harvest. Another taxpayer advantage is that the tax is viewed as neutral in relation to the timing of costs and benefits. Payment for taxes accrues only when associated with the financial benefit derived from the land, thus providing a more equitable tax based on one's ability to pay. When a large percentage of the timber in a taxing district is old growth, the yield tax becomes very advantageous to the government. In this situation, the yield tax will generate substantially greater revenue than other tax systems due to the high yield tax revenue from harvesting mature timber (Gaffney 1979).

One of the major arguments against yield tax systems is that the amount of revenue generated from the yield tax is inadequate compensation for the revenue loss incurred while the timber was growing. Gaffney (1979) calculates that when comparing two identical parcels of land with 50-year rotation and identical discount rates, one under annual property taxation and one under yield taxation, a yield tax rate increase of 38 percent on the stumpage value is necessary to compensate for a 1 percent decline in the property tax rate on standing timber. Another negative argument is that the tax encourages instability in local government revenues. With a yield tax, annual revenues required for government function are not certain and hinge solely on the desire of the taxpayer to liquidate timber. When first proposed as an alternative to the general property tax, the use of yield taxes escalated. The aforementioned arguments against the system, however, have been deterents for its use by taxing units in recent years.

The yield tax is not to be confused with the severance tax. Although very similar in structure, the two taxes have quite different functions. The yield tax was developed as a substitute for the general ad valorem tax whereas severance tax on timber is an independent revenue-producing tax levied in addition to the general property tax (Duerr 1979). The basic premise of the severance tax is to charge for the privilege of harvesting natural resources. This tax involves either a fixed charge against each unit of natural resource extracted or a fixed percentage of its market value (Barlowe 1978). In either case, the severance tax serves as payment for use of a public resource in limited supply.

Productivity Tax

The productivity tax is a third alternative to the general property tax. This tax, unlike other tax alternatives, is structured to correspond with the land's ability to produce income, not necessarily the income actually generated from the land (Manning and Thompson 1969). Conklin (1979) cites two different tax systems which are often referred to as productivity taxes. The first system bases forest land assessments on the discounted present value of future harvest income of bare land (soil expectation value). This form of productivity tax has experienced very limited use due to the ambiguities of the values used to calculate soil expectation value.

The second form of productivity tax is often referred to as a growth tax. Unlike the productivity tax based on the bare land soil expectation value, which is suited for regions where clearcutting and even-aged management is common, the productivity tax based on growth is suited for uneven-aged timber management. The value of the forest, including both the land and timber, is determined by capitalizing the annual growth of the forest and multiplying by the average stumpage value of each species. This forest value is then taxed as a percentage of the total annual income as derived by its annual growth rate.

The productivity tax provides a very stable form of annual revenue to local taxing districts. Although revenue stability is very similar to that resulting from the general property tax, the total amount generated is significantly less than the ad valorem tax. The difference is due to

the lower tax levy needed to induce the landowner to implement the productivity tax as an alternative to the general property tax. While controversy over how to make up to this revenue shortfall continues, local governments feel that future increases in stumpage prices will eventually eliminate the revenue gap between the two systems.

One of the chief advantages of the productivity tax system is the ease with which it can be administered, once growth rates and a system for monitoring stumpage prices are established (Conklin 1979). Although the initial land assessment procedure is very expensive, subsequent monitoring and modifications require limited administration. Besides an ability to ease the landowner's tax burden, the productivity tax also promotes a tax system based on the income producing potential of the land (Spencer 1980). Such a tax structure helps prevent unfair assessment based on high development values, especially where forestry is the most profitable and practical land use. Finally, the tax does not penalize intensive forest management due to the independence between timber stocking levels and the tax levied on any given quality of land (Klemperer 1983).

A major disadvantage of the productivity tax involves the question of equity which arises when well stocked forests pay the same per acre tax as sparsely stocked forest land of the same site quality. This implies preferential treatment to taxpayers who can afford management intensification at the expense of those who cannot (Klemperer 1983). Another disadvantage of the system is the inability of administrators

and taxpayers to agree on productivity measures. In addition, McDonell (1979) identifies variables such as interest rates, rotations, management levels, and yield as key elements that have a tremendous impact on productivity values. Finally, Klemperer (1983) points out that productivity taxes can become more burdensome than an unmodified ad valorem tax if the landowner starts out with bare land. This occurs because productivity taxes are based on the potential growth of the land applied throughout all years in the rotation, while unmodified ad valorem taxes reflect the value of land based on actual incremental increases in growth. When capitalized at the same discount rate, the productivity tax rate becomes larger than the unmodified property tax due to the heavier tax burden at the front end of the rotation period as compared to ad valorem taxes.

Present-Use Tax

A fourth alternative to the unmodified property tax is an assessment based on current use of the land. Although originally intended to protect agricultural land, its practice has been expanded to protect forest land and other open space uses from more intensive development. Early use of this system in the forestry community stemmed from the concern over excessive loss of forest land to more profitable land uses. Increased land values, along with increased tax burdens, have significantly affected the taxpayer's ability to keep forest land in its current use; thus creating an incentive to sell the land or switch land use to a more profitable form which better reflects the land's assessed value. The

present-use assessment allows the land to be assessed at a value reflecting current use, independent of value in another use (Duerr 1979). Manning and Thompson (1969) cite the need for present-use assessments where many alternative uses exist, especially near urban fringes of large metropolitan areas.

The receipts from present-use taxes provide a very stable, but often inadequate form of tax revenue. As a result, other property classes must carry the burden of making up the revenue shortfall. As with the modified ad valorem tax, the incidence of the present-use tax burden is shifted to property classes with high assessed values relative to the property class under preferential treatment.

A major advantage of the present-use tax is its effectiveness as a land-use planning tool. The tax policy, when correctly designed and implemented, can promote land use that successfully protects limited or valuable resources. Environmental goals, such as resource conservation and particular land tenure goals, can also be achieved through proper use of this policy. Another advantage from the taxpayer's perspective is the relatively low tax levy applied to forested property as compared to more developed property of equal site quality. Because the forest land owner often has limited land development potential due to a restricted availability of capital, the present-use tax allows the landowner to maintain land in current use without feeling pressured to convert to a more profitable use.

Disadvantages of the present-use tax include inequitable treatment among land parcels similar in quality. Fairchild (1935) argues that classification of land development on the intentions of the owner is undesirable. Furthermore, to make the tax system dependent upon the intentions of the owner inherently eliminates property as the major element of the tax base. Another shortcoming of the present-use tax is inability to encourage efficiency as a criteria for judging tax policy. Although efficiency of a tax may be measured in many ways, one definition describes an efficient tax as that which encourages most or hinders least the growth of real national income (Duerr 1979). The present-use tax does not promote maximum economic growth and in fact can lead to misallocation of land use.

State Forest Tax Policies

Presently, 38 states implement at least one property tax law developed exclusively for forest land (Timber Tax Journal 1982) (Table 1). The structural diversity existing in state forest tax laws is tremendous. Modified assessment laws (i.e., present-use assessment laws), however, are most widely used, presently implemented in 27 states. Present-use laws applied to forestry value the land exclusively in timber production, rather than the traditional "highest and best use," therefore lowering the value otherwise assessed to these lands.

Table 1. Classification of Forest Tax Laws by State and Type of Law.

State	Exemption or Rebate	Modified Assess-ment	Modified Rate	Yield Tax	Severance Tax	Total
Alabama	x	x		x	x	4
Arkansas		x	x		x	3
California		x		x		2
Colorado	x					1
Connecticut		x		x		2
Delaware	x					1
Florida		x				1
Hawaii	x	x		x		3
Idaho	x			x		2
Indiana		x				1
Iowa	xx	x				3
Louisiana		x		x	x	3
Maine		xx				2
Maryland	x	x				2
Massachusetts		x		x		2
Michigan				xx		2
Minnesota			x	x		2
Mississippi				x		1
Missouri				x		1
Nevada		x				1
New Hampshire	x	x		x		3
New Jersey	x	x				2
New Mexico		x			xx	3
New York				xx		2
North Carolina	x	x				2
North Dakota			x			1
Ohio		x	x			2
Oregon		xx		xx	x	5
Pennsylvania		xx				2
Rhode Island	x	x				2
South Carolina		x				1
Tennessee	x	xx				3
Texas		x				1
Vermont		xx				2
Virginia		x			x	2
Washington		x		xx		3
West Virginia					x	1
Wisconsin			x	x		2
TOTAL	13	32	5	20	8	78

Source: Timber Tax Journal 1982.

Tax rate calculations for property entered under a present-use tax law occur by two basic methods. One method establishes a constant value per acre for all relevant timberland. A more sophisticated approach to this assessment technique involves using a continuum of land value per acre, based on major timber types. Assessment procedures determined by this method require relatively little administrative cost, since forest land assessment is precalculated and not site specific. Wisconsin and New Hampshire both employ this system for calculating present-use land assessments. Wisconsin's forest land entered under the Woodland Tax Law is taxed annually at 40¢ per acre. In return for this treatment, landowners sign a 15-year contract obligating the land to timber production, including maintenance of a timber management plan (Barrows and Roger 1982). New Hampshire's Current Use Assessment Law assesses timberland at values ranging from $28 to $50 per acre, depending on the type(s) of timber present. Pine types are typically assessed at the upper end, hardwoods in the middle, and spruce-fir at the lower end of this continuum. Additionally, forest land remaining open to public recreation is granted a 20 percent assessment reduction. Landowners receiving this preferential assessment are required to utilize the land primarily for growth and harvest of sustained forest crops, maintaining state-established stocking levels, and provide evidence of following accepted management practices (Timber Tax Journal 1982).

Capitalizing future income flows is also used to determine timberland values entered under a present-use law. The basic formula to calculate forest land value is (Field 1982):

$$\frac{\text{(timber yield) * (average stumpage price - management costs)}}{\text{capitalization rate}}$$

Oregon, Tennessee and Texas maintain forest tax laws using this valuation approach. Oregon capitalizes average annual net income (periodic and final harvests) at 20 percent. Tennessee incorporates factors such as: 1) acreage; 2) amount, type and growth rate of timber; and 3) management practices employed in determining the present-use value. The calculated land value is then divided by four to obtain an assessed value for timberland entered under the present-use land (Timber Tax Journal 1982). Texas derives its present-use value by dividing net-to-land income (timber value less any related expenses) by an income capitalization rate. A complex system incorporating soil surveys, average stumpage prices and average growth rates is used to determine timber values (Spencer 1980).

MINNESOTA FOREST PROPERTY TAX LAWS

Major Laws and Provisions

Modified Ad Valorem Tax

History. The modified ad valorem tax is the oldest form of preferential tax treatment applied to private forest land in Minnesota. Established by the Property Classification Law of 1913, the tax scheme provided for four land classification categories. Each category was assessed at a predetermined fraction of full and true value (ranging for 25 to 50 percent), depending upon the primary use of the land. Since established 70 years ago, a substantial number of changes have been made in both the types of property classes to receive preferential treatment and the ratio of assessed to full market value for each (Dana et al. 1960).

Presently, Minnesota forest property can be classified into four modified ad valorem categories, depending on the primary use of the land. One category is "3e timberland," a land use classification devoted exclusively to timber production. The other three ad valorem classifications for forest land define forest production and management as a secondary or non-existent land use practice.

The assessed value for forest property under the original provisions of 3e timberland was 33-1/3 percent of the full market value. This ratio of assessed to full market value remained unchanged for 42 years. In 1955, however, it was lowered to 20 percent for land classified as "rural real estate used exclusively for the purpose of growing trees for timber, lumber, wood, or wood products" (Dana et al. 1960). The most recent revision of the 3e classification was in 1980 when the assessed to full

market value ratio was lowered to 19 percent (Laws of Minnesota, 1980, Chapter 607, Article II, Section 12).

Structure and Taxation Procedure. The modified ad valorem tax is structured to give lands with different uses a tax levy representing an equal share of the total tax burden. Because different land uses have income producing potential of various magnitudes, this tax structure helps establish a tax that is equal and uniform among different land classes. Minnesota maintains provisions for four categories in which most forest land is classified under the modified ad valorem structure. They include: 1) 3e timberland; 2) vacant land; 3) agricultural-nonhomestead; and 4) seasonal recreational-residential.

All real and personal property subject to a general property tax and not subject to any other gross earnings or lieu tax is classified for tax purposes at a modified assessment rate (Minnesota Statutes Chapter 273.13, subd. 1). The assessment rate for each classification is calculated by multiplying the market value of the property, as determined by the county assessor, by the percent of assessed to market value as specified in Minnesota Statutes Chapter 273.13, "classification of property." To determine the annual tax levy, the assessment rate is then multiplied by the county determined millage rate for the land class in question. Depending on the primary use of the land, along with interpretation of a specific land class definition by each county assessor, forest properties with similar size and appearance may be taxed quite differently.

3e Timberland Classification. This timber classification states that real estate, rural in character, and used exclusively for the purpose of growing trees for timber, lumber, wood, or wood products constitutes Class 3e timberland and should be valued at 19 percent of the property's market value (Minnesota Statutes Chapter 273.13, subd. 8a). This is the primary tax classification for productive forest land taxed under the ad valorem structure. State law does not impose minimum or maximum acreage constraints on forest land taxed under this classification system. Furthermore, livestock grazing is not permitted on any land classified "3e timberland." Any property devoted exclusively to growing Christmas trees may be classified as Class 3e, although land devoted exclusively to growing nursery stock is prohibited from entering the classification (Timber Tax Journal 1982). Real estate that is "substantially" or "primarily" used for timber production is not entitled to 3e classification, since the law requires that the land must be used "exclusively" for such purposes (Taxation of Timberlands 1981).

State School Agricultural Credit. The State School Agricultural Credit was first established by the 1933 Legislature as a millage rate differential on agricultural property for the use of school maintenance levies, thus, placing the tax burden on nonagricultural properties. However, the 1971 Legislature alleviated this tax burden by mandating state aid to local school districts as a means of financing the agricultural aid mill rate differential. The initial credit was 8.3 mills, granted to all applicable ad valorem classes. However, in 1975, the amount of agricultural credit was varied according to the number of acres in each

classification. Today, the State School Agricultural Credit ranges from 8 to 18 mills, depending on the property's classification and acres of land involved. This credit represents a direct tax reduction, equivalent to the amount of credit (in mills) times the assessed value of the property. However, the amount of credit cannot exceed the levy a school district places on a specific parcel of land (Minnesota Department of Revenue 1981).

Any land entered under 3e classification becomes eligible for the State School Agricultural Credit. The tax on timberland classified 3e is reduced by applying a credit of 8 mills to the mill rate assessed, regardless of the acreage involved (Minnesota Statutes Chapter 124.2137, subc. 1).

Vacant Land and Agricultural Land. Vacant land, "Class 4b," was created in 1980 and is used as a classification for undeveloped forest land not classified as 3e timberland. Class 4b is defined as real property not improved with any structures and not utilized as part of any commercial or industrial activity. Minnesota law requires vacant land to be assessed at 40 percent of its market value (Minnesota Statutes Chapter 273.13, subd. 9(2)). If a parcel of land is being utilized for a specific purpose, then it constitutes a property classification other than 4b. However, if no explicit use is being made, the property will be classified and taxed as vacant land. Since the property is taxed at more than twice the rate of land with similar quality but a productive use, class 4b creates an incentive for landowners to utilize their property for specific purposes (Minnesota Department of Revenue 1982).

Agricultural land, not designated mineral land or used for the purpose of a homestead, is classified as "Class 3" and assessed at 19 percent of market value (Minnesota Statutes Chapter 273.13, subd. 4b). This represents the major classification for agricultural property containing areas of forest land. Property taxes on the first 320 acres of agricultural-nonhomestead land are subject to a direct reduction via a State School Agricultural Credit of ten mills. Any land in excess of 320 acres and classified as agricultural-nonhomestead is eligible for an eight mill State School Agricultural Credit (Minnesota Statutes Chapter 124.2137).

Class 3b, agricultural-homestead, although not intended to be used as a classification for timberland, can also contain forested land. According to Minnesota Statutes, Class 3b agricultural land means contiguous acreage of ten or more acres, primarily used during the preceding year for agricultural purposes. The term "agricultural" includes pasture, timber, waste, and unusable wild land, along with land included in federal farm programs. To meet this classification, land containing timber and classified as agricultural-homestead property has to be considered with all other lands used for agricultural purposes. The assessed value for this property class is 14 percent for the first $50,000 of market value and 19 percent for any market value exceeding $50,000 (Minnesota Statutes Chapter 273.13, subd. 6).

A Homestead and State School Agricultural Credit are available for any land under agricultural-homestead classification. The Homestead Credit is computed by reducing 58 percent of the gross tax, minus any credits,

and has a maximum value of $650 per year. Other supplemental forms of Homestead Credit, such as the Taconite Homestead Credit, are also available depending on the location of the property. The State School Agricultural Credit on agricultural-homestead land varies from an 18 mill credit on the first 320 acres, 10 mill credit between 320-640 acres, and an eight mill credit for any amount exceeding 640 acres (Minnesota Department of Revenue 1981) (Minnesota Statutes Chapter 273.13, subd. 6).

Seasonal Residential-Recreational Land. Noncommercial property devoted to residential occupancy (temporary and seasonal) for recreational purposes is assessed at 21 percent of market value (Minnesota Statutes Chapter 273.13, subd. 4b). In order to be classified as seasonal residential-recreational land, the property must be used for residential purposes, implying that the land has been improved with a permanent structure(s). County assessors are permitted to request an affidavit from the owner attesting to the seasonal residential-recreational use of property (Minnesota Department of Revenue 1982). Any land taxed under this classification is also eligible for a ten mill State School Agricultural Credit, regardless of property size (Minnesota Statutes Chapter 124.2137).

Assessment of real property. Determining the value of all taxable property within a taxing district is the responsibility of the assessor. With the aid of deputy and local assessors, the county assessor must determine the value of all property within the county, excluding state assessed property, and announce such valuations by January 2 of each

year. All property is assessed at its market value, defined as a selling price occurring in a normal open market transaction (Minnesota Department of Revenue 1981). The minimum market value for any land parcel is $100 and any assessed value over this amount is rounded to the nearest $100 (Minnesota Statutes Chapter 273.11). By law, at least one-fourth of all parcels within the taxing district must be reassessed every year, allowing for a maximum interval between assessments of four years. Additionally, any property undergoing construction valued in excess of $1,000 is required to be reassessed in the year of construction (Minnesota Statutes Chapter 273.17).

Prior to 1972, the market value of each parcel was divided by three to obtain an "adjusted market value" used in levying ad valorem taxes. All property assessment rates (for each land use classification) were applied to the adjusted market value to determine the assessed taxable value. With the discontinuation of the adjusted market value in 1972, current total assessed values of real and personal property have approximately tripled. In addition, the current mill rates are approximately one-third of what it was prior to 1972 when adjusted market values were used (Minnesota Department of Revenue 1981).

Auxiliary Forest Tax Law

History and General Requirements. The Auxiliary Forest Tax Law was established in 1927 in response to increasing public concern over tax delinquency of forest land in northern Minnesota. Recognized was the fact that the general property tax was not an equitable means of raising

revenue from forest lands, especially when sustained yield forest management practices on such lands were non-existent. Consequently, the existing tax structure placed an extremely heavy tax burden on forest land, resulting in improper timber management practices. The solution promoted by many was to replace the ad valorem property tax with a tax that separated the tax treatment of land and timber. This tax remedy would levy an annual tax on the land and a yield tax on the timber at the time of cutting (Dana et al. 1960).

The Legislature's original 1923 proposal was to create a new tax law through an amendment to the State Constitution. However, the proposal was soundly defeated in the 1924 general election. A re-submission of the amendment the following year was approved by the public in 1926 as Article XVIII of the Constitution. The 1927 Legislature quickly responded to this amendment by creating the Auxiliary Forest Tax Law. The initial requirements of the law provided for an annual tax of 8¢ per acre and a yield tax of 10 percent on timber harvested plus a 3¢ per acre tax for fire protection purposes. Viewed by taxpayers as a very limited improvement over the existing property tax structure, not one forest owner applied for tax treatment under the new law. A subsequent amendment in 1929 reduced the annual tax on the land from 8¢ per acre to 5¢ per acre in an attempt to attract applicants. Unfortunately, the public viewed this adjustment as a very minor modification and continued to ignore use of the law. Except for the application of 100,000 acres of cutover industrial land that was later withdrawn before review procedures were

complete, the Auxiliary Forest Tax Law remained unused for 15 years. It was not until 1942, when 560 acres were registered as an auxiliary forest that the yield tax law witnessed its first use (Dana et al. 1960).

Minnesota continued to adjust and modify the Auxiliary Forest Tax Law in an attempt to find the right combination that would satisfy both the forest landowner and the local taxing districts. Seven amendments were adopted between 1945 and 1959, restructuring the law in the following manner: increased the annual tax on land from 6¢ to 10¢ per acre; abolished the 3¢ per acre tax for forest fire protection; reduced the minimum size required for classification under the law; provided for a separate taxation structure of the merchantable timber on the tract at time of application; consolidated two or more auxiliary forests in the same county and under the same ownership; and permitted placing auxiliary forests under the operation of the Tree Growth Tax Law (Dana et al. 1960).

Even after all these attempts to create a more favorable tax, only 12 counties were implementing the law in 1959, with the total land area under the law accounting for only 6 percent of the counties commercial forest land. Of the 12 counties, only Koochiching implemented the tax law to any substantial degree. Today, Koochiching County remains the only county where the law is being used to any great extent. Future use of the law looks bleak, since contracts for land classified under the law will soon expire and state law prohibits any new entry of land. Disagreements over the specific requirements of the law and its impact on revenue stability, along with the creation of more promising forest

property tax laws, have been major obstacles inhibiting the law's development as a viable property tax alternative for forest land in Minnesota (Dana et al. 1960).

The Auxiliary Forest Tax Law was established to give preferential tax treatment in the form of a yield tax on two types of forest lands in Minnesota. The first type given preference included forests with no developments or dwellings on the premise. Any tract of land meeting these qualifications and not less than 35 acres could be classified under the law. The second type of land considered for yield tax treatment was forest land classified "woodlots." Here, the land parcel had to be greater than five, but not exceeding forty acres. Although rather vague in definition, the type of lands to be classified were those "being in the nature of wood lots guarded or protected by the owners or their tenants actually living on the land or adjacent to it." This definition implied that although forested, the land was more developed than other types of forest land and had permanent structures located near or within its boundaries. In either case, general requirements for both types of forests were that they be suitable for the planting, culture, and growth of trees for the production of timber or forest products (Minnesota Statutes Chapter 88.47, subd. 1-2).

Any corporation, association, or organization could acquire and hold any amount of land classified as an auxiliary forest without restriction or limit to acreage or quality of timber growing on the land. However, when the land no longer has status as an auxiliary forest, the owner is

given five years to dispose of the land, regardless of any state law providing for the contrary (Minnesota Statutes Chapter 88.53, subd. 1).

Because of the Auxiliary Forest Tax Law's limited use and the inconsistent revenues which it supplied to local governments, no applications for an auxiliary forest contract have been accepted or approved by the county boards after June 30, 1974, and no new auxiliary forest contracts can be executed by the Commissioner of Natural Resources. In addition, the Legislature ruled that after June 30, 1974, no existing auxiliary forest contracts could be extended by either the Commissioner of Natural Resources or any county board. Provisions were made so that when the existing contracts expired, these lands previously covered by an auxiliary forest contract automatically qualified for tax treatment under the Tree Growth Tax Law (Minnesota Statutes Chapter 88.49, subd. 1-2).

Application Procedure. The first step in the application procedure for treatment under the Auxiliary Forest Tax Law was for the landowner to make a written application to the county board of the county wherein the land was located. To be included in the application was: 1) a legal description of the land; 2) the estimated value per acre; 3) a brief statement indicating its suitability for timber production; 4) the kinds of timber proposed to be growing; 5) the quality of merchantable timber presently available; 6) the methods of timber management practices to be employed; and 7) a formal request that the land be classified under the Auxiliary Forest Tax Law (Minnesota Statutes Chapter 88.47, subd. 3).

When completed, the application was filed with the county auditor to be presented at the first county board meeting occurring ten or more days after the original filing. Prior to submitting the application to the county board, the auditor was responsible for publishing a notice of the presentation in the official county newspaper. All expenses associated with this public announcement were borne by the applicant (Minnesota Statutes Chapter 88.47, subd. 1-2).

At the meeting, the county board conducted a hearing to gather arguments in support of or against approval of the application. The board was to determine: 1) whether the land maintained suitability for planting, culture, and growth of trees; 2) the actual market value of the land; and 3) the classification of the land for tax purposes. If the application was rejected, the board had to prepare, within 30 days of the decision, a written statement explaining the reasons for rejection. If accepted, the county auditor had to notify and transmit the application, with the record of approval, to the Director of the Division of Lands and Forestry in the Minnesota Department of Natural Resources. Once received, the Commissioner of the Department approved or disapproved the application within 90 days, making proper record of the action and notifying the applicant of the county board's decision (Minnesota Statutes Chapter 88.48, subd. 1-4).

Upon receiving notification of acceptance, the applicant was given 60 days to submit an abstract of title of the land referred to in the application or a similar certificate of title to the county attorney.

Also included were statements by both the county attorney and county treasurer certifying there were no unpaid taxes on the land. In the event of an unsure deed, a search was conducted by the county attorney to determine the correct fee title or holder of the deed. A fee not exceeding ten dollars for each 640 acres was to be paid by the owner to the county attorney for this examination of correct title ownership (Minnesota Statutes Chapter 88.48, subd. 5).

Contracts and Title Transfers. Any lands to be made into auxiliary forests were subject to a contract for land management. This contract, prepared by the Director of the Division of Lands and Forestry, prescribed specific terms and conditions for maintenance of the land. As far as practicable, all auxiliary forest contracts were designed to be uniform and equal in all respects. The major provisions included in all the contracts were: 1) intent of the owner to produce merchantable timber; 2) specification of species to be planted; 3) special practices required and appropriate time schedule for reforestation; 4) certain practices to aid timber growth; 5) specific uses for the land when classified as an auxiliary forest; 6) the period of time not exceeding 50 years in which the land will be designated auxiliary forests; 7) the rate of taxation to be levied on the land; 8) provisions for keeping the land open as public hunting and fishing grounds; and 9) any other provisions deemed necessary for adequate maintenance of the land (Minnesota Statutes Chapter 88.49, subd. 2).

After being submitted to the landowner for acknowledgement of compliance, the contract was recorded (at the owner's expense) by the county recorder's office in a document designated "record of auxiliary forests." This contract became executed only when the recording procedure was accomplished. From this point until either cancellation, retraction, or expiration of the contract, the land under contract remained an auxiliary forest and was entitled to all the benefits and obligations associated with the title (Minnesota Statutes Chapter 88.49, subd. 3-4).

In the case of title transfer, the new landowner(s) of the auxiliary forest is subject to all provisions of the existing contract. In the event that ownership of an auxiliary forest is divided into two or more parts and all new owners wish to maintain the land as an auxiliary forest, a joint application may be submitted to the county board. If the county board determines that each new ownership tract is suitable to be an auxiliary forest, a new contract will be issued by the Commissioner of Natural Resources to each land parcel. All new contracts will contain the same provisions as the existing contract and remain valid for a period equal to the time remaining in the existing contract (Minnesota Statutes Chapter 88.49, subd. 11).

Cancellation Procedure and Penalties

The Commissioner has the right to cancel the contract any time the owner fails to faithfully fulfill or perform provisions or regulations stated in the contract. However, prior to official cancellation, the owner has the right to a hearing in which opportunity is given to show

why the contract should not be cancelled. If the contract is terminated, the Commissioner sends notice of action to the county auditor. All land under the auxiliary forest contract being cancelled is liable for all taxes and assessments levied against it had the land been taxed under a modified ad valorem rate rather than the auxiliary forest rate, less the taxes already paid under the Auxiliary Forest Tax Law; together with a six percent annual interest charge (Minnesota Statutes Chapter 88.49, subd. 5-6).

If the landowner applies successfully to the Tree Growth Tax Law, the Commissioner of Natural Resources may cancel the existing auxiliary forest contract, provided full payment of back taxes occurs prior to the cancellation. This tax levy is equal to the difference between the amount which would have been paid had the land been under the Tree Growth Tax Law instead of the Auxiliary Forest Tax Law, less any taxes already paid under the auxiliary forest contract. If the amount to be paid under the Tree Growth Tax Law is less than taxes already paid, the contract may be cancelled without any additional payment by the owner (Minnesota Statutes Chapter 88.49, subd. 5).

Taxation. Taxes levied on an auxiliary forest are divided into an annual tax on the land and a yield tax on any timber harvested. The annual land tax is levied at ten cents per acre. All merchantable timber growing on the land is subject to a yield tax at the time of harvest or removal. However, any auxiliary-forest timber harvested by the owner and utilized for fuel, fencing, or building on the land is exempt from the yield tax. Any timber cut within one year after March 31 following the

date of contract filing, is subject to a yield tax equal to 40 percent of the market value of the merchantable timber harvested. This tax is reduced by two percent on each following April 1 until the tax becomes ten percent, at which time the tax rate remains constant. In the event the merchantable timber is not all cut by the time of contract expiration, a yield tax is assessed on all remaining standing timber at a rate of ten percent of the market value (Minnesota Statutes Chapter 88.51, subd. 102) (Minnesota Statutes Chapter 88.52, subd. 1) (Minnesota Statutes Chapter 88.52, subd. 6).

Timber Cutting and Assessment Procedures. Any timber suitable for merchantable forest products must be inspected by the Commissioner of Natural Resources prior to harvesting. It is the responsibility of the Commissioner to make an examination of the timber and designate the kinds and number of trees to be cut, if any. The Commissioner is also responsible for inspection of the harvesting operation to determine if the procedure is in accordance with initial instructions. Ten days after the operation is complete, a report of findings will be submitted to the auditor of the county in which the land is located. Any procedures violating the harvest instructions can cause immediate auxiliary forest contract cancellation. If no violations occur, the auxiliary forest contract continues for the remainder of the contract period (Minnesota Statutes Chapter 88.52, subd. 2).

There are two procedures for assessing and paying the yield tax on the timber harvested. One method is as follows. Before any cutting begins, the Director of Lands and Forestry in conjunction with the county

board or county land commissioner must determine the kinds, quantities, and value of timber to be harvested. Based on the results of this investigation, the county auditor assesses and levies the owner an estimated yield tax on the timber. The owner must present either a bond payable to the State of Minnesota or a cash deposit to the county treasurer before any timber on the auxiliary forest can be cut. Both the cash or bond payable cannot be less than 150 percent of the amount levied; conditioned for payment of all taxes. Once the bond or cash is deposited, the Director will issue a cutting permit. It is the landowner's responsibility to establish and maintain an accurate count or scale of all timber harvested. Prior to April 15 in each year the harvesting permit is valid, the owner must submit a sworn statement to the Director of Lands and Forestry specifying the variety, quantity, and value of forest products cut or removed during the previous year. The auditor has until May 15 of that year to assess and levy a yield tax on any timber harvested the preceding year. This tax must be paid in full on or before May 31 of that year. To determine if all harvesting operations are in compliance with the permit, the Director may order an immediate inspection of the cutting area, including the owner's records of total timber harvested (Minnesota Statutes Chapter 88.52, subd. 3a).

A second method of assessing and paying the yield tax on an auxiliary forest is based on the value of annual timber growth. Each county board is given the opportunity to accept or reject this method. For auxiliary forest lands entered under this method, the yield tax is determined by

multiplying the acreage of each auxiliary forest by the per acre annual growth of each major species, calculated in either cords or thousands of board feet. The value is then multiplied by the appraised stumpage price for each species to determine the annual timber growth value. All stumpage prices used are set by the Minnesota Department of Natural Resources, based on trust fund timber sales located within the same district as the auxiliary forest. The value of the annual timber growth is subject to a ten percent of stumpage value yield tax, payable each year on or before May 31. All other assessment, levy, and collection procedures pertaining to auxiliary forests are done in accordance with the first assessment method (Minnesota Statutes Chapter 88.52, subd. 3b). To qualify for this assessment procedure, the forest owner is required to submit a map and an accurate tabulation, in acres and growth rates, of the major forest types existing on the auxiliary forest. There are eight major forest type classifications, including six productive, one temporary nonproductive and one permanently nonproductive types. The legal definition for these classifications are determined by the Director of Lands and Forestry, with assistance from the county land commissioners; College of Forestry, University of Minnesota; and Director of the North Central Forest Experiment Station. These agencies also assist in verifying the owner's accuracy in determining the distribution of forest types within the auxiliary forest. Once all forest classifications are determined and specified in the contract, reclassification due to harvesting operations cannot occur until a minimum of ten years following the termination of the cutting (Minnesota Statutes Chapter 88.52, subd. 3b).

Throughout the life of an auxiliary forest, any yield tax accruing constitutes a lien upon all the timber growing on the land. If not paid when due, the yield tax, together with the penalties, interest, and collection expenses will continue to be a lien on both the land and timber. Only when all uncollected taxes and associated costs are paid in full does this lien become foreclosed (Minnesota Statutes Chapter 88.52, subd. 5).

Tree Growth Tax Law

History. The Tree Growth Tax Law, established in 1957, represents Minnesota's most recent attempt to adjust property taxation focused on forest lands. The Tree Growth Tax Law is a productivity law, basing the amount of tax payable on the average annual growth of various forest types located within a county. Productive forest lands accepted for registration under the law pay an annual tax based on the average stumpage value times the annual growth of each species. Nonproductive forest types, both temporary and permanent, are taxed at a fixed annual per acre tax. Since its enactment 26 years ago, few modifications have been made to the law (Dana et al. 1960).

The Tree Growth Tax Law has very sound justification for use, given that the tax is based on the average productivity of the land. Once initial tax rates are determined, the law provides for much simpler administration than occurs with Minnesota's other two forest property tax laws. Because both stumpage values and growth rates are determined by average county values, the tax may be favorable to certain land parcels. Timber lands with growth rates higher than the county average benefit

from the law (i.e., paying less than their share of taxes), while lands with below average growth rates will be overtaxed.

Although seemingly applicable for widespread acceptance in Minnesota, numerous criticisms of the law have impeded its use. Main criticisms are: 1) required public access for hunting and fishing on any lands entered under the law; 2) county opportunities to provide preferential use of the law to certain landowners; and 3) tax on percent of annual value growth too high making the law a poor alternative to ad valorem taxes. Although experiencing limited use, the Tree Growth Tax Law, when modified to adequately meet the needs of both the taxpayers and local governments, has the potential to serve as a major land use tool (Dana et al. 1960).

Application and Cancelation Procedures. The Tree Growth Tax Law was enacted for the purpose of permitting privately owned lands, suitable for the planting, culture, and growth of continuous forest products, to be taxed on the basis of the annual increase in timber value (Minnesota Statutes Chapter 270.32). Owners of five or more acres of forest land may apply to the county board wherein the property is located for treatment under the law. An application must include: 1) legal description or descriptions of the property desired to be taxed under the law; 2) number of acres of each forest type and dominant species of each type; 3) forest map and a statement concerning the owner's intentions to reforest any temporary nonproductive land; and 4) statement signed and sworn to by the applicant stating that "while the land is under the Tree Growth Tax Law, it will be used exclusively for growing continuous forest crops in

accordance with sustained yield practices and remain open to public hunting and fishing, except within one-fourth mile of a permanent dwelling or during periods of high fire hazard, as determined by the Commissioner of Natural Resources" (Minnesota Statutes Chapter 270.38, subd. 1).

Upon proper filing, the county board has 90 days to approve or reject the application. An investigator, qualified to examine the application, may be appointed by the county board to assist in the review procedure. If the application is approved, the agreement must be recorded (at the applicant's expense) by the county recorder within ten days of approval. The validation of the application commences at the beginning of the succeeding calendar year in which the application was recorded. If no action is taken by the county board within the 90 day limit, the applicant may submit the application to the Commissioner of Revenue, who will act on the matter with all the powers of the county board (Minnesota Statutes Chapter 270.38, subd. 2).

Owners wishing to amend or cancel the agreement stated in the tree growth application must file with the county board. The same procedures used for the initial application are applicable for the amendment or cancellation procedures. A hearing addressing the issue must be conducted before the county board can make a decision whether or not to amend or cancel the owner's agreement. Failure of the owner to attend the hearing will be deemed as consent with the county board's action. If mutual consent exists between the land owner and the county board regarding alteration of the tree growth agreement, no formal hearing or review is

required. Regardless of the amendment's instigator, all amendments and cancellations must be officially registered with the county recorder within ten days after a decision has been made (Minnesota Statutes Chapter 270.38, subd. 2).

During the sixth year of each calendar decade, landowners may apply to the county board for reclassification of any property entered under the Tree Growth Tax Law. In this application, the owner must adequately state reasons that justify the reclassification (Minnesota Statutes Chapter 270.38, subd. 4). If the county board determines that any property taxed under the Tree Growth Tax Law should be reclassified, they have the right to reclassify these lands, making them effective in the year the misinterpretation became effective (Minnesota Statutes Chapter 270.38, sub. 6).

Any time the county board determines property under the Tree Growth Tax Law is more valuable in a land use other than the production of timber crops, that land may be removed from the Tree Growth Tax structure only after consent of the owner. In the event of a disagreement between the county and the taxpayer, the county board has the right to appoint a three-member committee to recommend the appropriate action (Minnesota Statutes Chapter 270.38, subd. 7).

The owner, upon approval of the county board, may withdraw any government subdivision (40 acres) from taxation under the Tree Growth Tax Law at any time. However, payment of all back taxes and penalties, based on an ad valorem tax and giving credit for taxes already paid, must be made

for all agreements established less than ten years. If the contractual agreement has been in effect for more than ten years, payment is required for the penalties and ad valorem taxes accruing within the past ten years. Subsequent classification of the property for tax purposes is under the general real property tax laws, beginning with the next calendar year following the date of withdrawal (Minnesota Statutes Chapter 270.38, subd. 5). Failure of the owner to comply with any of the requirements of the Tree Growth Tax Law enables the county board to withdraw the land from the classification and return it to the general provisions of the ad valorem tax structure. In the event the county board discovers misrepresentation or an attempt to willfully deceive, the county is entitled to triple the amount of tree growth taxes which should have been paid for all previous years, as well as the current year in which the misrepresentation was discovered (Minnesota Statutes Chapter 270.38, subd. 6).

Annual Growth Rate Determination. The average annual growth of each forest type is defined in the Tree Growth Tax Law as the average amount of commercial forest product produced on one acre of land each year (Minnesota Statutes Chapter 270.33, subd. 15). A forest type is characterized by the predominance of one or more key species which make up 50 percent or more of the: 1) sawlog volume in a sawlog stand; 2) cordwood in pole timber stands; or 3) number of trees in seedling or sapling stands. The Tree Growth Tax Law identifies nine such forest types, representing the major forests found within the state (Minnesota Statutes Chapter 270.33, subd. 2-11).

Each county board establishes average annual growth rates for each of the nine forest types found within the county, taking into consideration the studies of average annual growth rates conducted by the Minnesota Department of Natural Resource's Division of Forestry and the U.S. Forest Service's North Central Forest Experiment Station. Prior to 1966, any growth rates determined by the county board were deemed final; they could not be revised or updated. It was not until 1966 when provisions were made for updating growth rates in the sixth year of every decade.

All growth rates, once determined and certified by the county board, are submitted to the county auditor for use on all tree growth forest types. Any person questioning a change in a specific growth rate(s) can appeal to a readjustment committee of the county board. If the owner is not satisfied with the committee's decision, appeal can be made directly to the Commissioner of Revenue, provided the appeal occurs within one year of the rate change. The Commissioner has the authority to supersede the judgement of the county board and to change any rate(s) and refund in whole or in part any taxes, costs, penalties, or interest paid since the rate change (Minnesota Statutes Chapter 270.34).

Stumpage Value Determination. The term "stumpage value" is the monetary value placed on standing timber before it is cut, expressed in either dollars per cord or dollars per thousand board feet (Minnesota Statutes Chapter 270.33, subd. 16). Within each county, stumpage values are determined exclusively from the average sale price of all state timber sales of that species within the county during the two previous

calendar years. Each county board has final authority in computing all tree growth stumpage prices, updating of these values every even-numbered calendar year. In the event a county has experienced no timber sales within the past two years or a total wood product sale of less than 500 cords, the Commissioner of the Department of Natural Resources has the authority to set a stumpage price for all relevant species. Anyone disagreeing with these values has the right to appeal to the Commissioner of Revenue, who has the authority to overrule all previously determined rates (Minnesota Statutes Chapter 270.35).

Taxation and Tax Credit. Once average annual growth rates and stumpage values have been obtained, the county auditor computes the value of the annual growth for the major types of timber growing in the county. Forest lands subject to provisions of the Tree Growth Tax Law are taxed in the following manner:

- Lands growing a commercial forest type (minimum of three cords or 500 stems per acre) are taxed each year at 30 percent the value of the estimated annual growth for each forest type.
- Temporary, nonproductive forest types are taxed five cents per acre per year, provided the owner complies with a reforestation agreement. In the event of noncompliance with this agreement, the landowner will be taxed at 15 cents per acre per year.
- Permanently, nonproductive lands are subject to a five cents per acre per year tax.

- Lands used for administrative or management purposes, such as roads or work sites, are taxed the same as the adjoining lands.
- Camp buildings, or other temporary structures are taxed as personal property under class 3 (Minnesota Statutes Chapter 270.36, subd. 1-2) (Minnesota Statutes Chapter 270.33, subd. 12).

For each acre of land planted and maintained with a minimum of 500 commercial trees, a tree growth tax credit of 50 cents per acre per year on other lands within the same 40 acres where the planting occurs is awarded. However, the credit can never exceed the amount of tax due on the land in each 40-acre subdivision and does not apply to areas devoted to growing trees for ornamental purposes. When a plantation is ten years old, it will be classified as a commercial forest type and taxed accordingly, cancelling the use of any previous tax credits. In the event the planted trees are cut before ten years of age, all credits received, plus triple the tax that would have otherwise been levied, must be repaid (Minnesota Statutes Chapter 270.37, subd. 1-2).

Forest Property Tax Status 1982-1983

Frequency of Tax Law Use

Thirty-nine of Minnesota's 87 counties used one or more of the state's forest property tax laws during assessment year 1982. Timberland classification 3e was the most commonly used forest tax law (i.e., implemented in 35 counties) (Tables 2 and 3). The Tree Growth Tax Law and the Auxiliary Forest Tax Law were implemented in 11 and 7 counties respectively, with the number of counties using the tree growth tax increasing by one and the number of counties containing auxiliary forests remaining unchanged from assessment year 1981. Twenty-eight counties (64 percent) implemented only one of the three forest tax laws, whereas 11 counties (28 percent) used at least two tax laws specifically for forested property. Use of all three forest tax laws was evident in only 3 of the 39 counties (8 percent). Counties using specific forest property tax laws are listed in Table 3.

Forest Acreage Enrolled

Acreage enrolled under Minnesota's three forest tax laws in 1982 totaled nearly 1.7 million acres (Tables 2 and 3, and Figure 1). Of this sum, approximately 1.1 million acres were classified as 3e timberland, i.e., 63 percent of all property taxed as forest land in the state during 1982. The Tree Growth Tax Law enrolled over 400 thousand acres (24 percent of total) while the least enrolled acreage occurred under the Auxiliary Forest Tax Law, namely, 220 thousand acres or 13 percent of the total (Table 2). The state's 10 leading counties in terms of acreage

Table 2. 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 3. Minnesota Forest Property Tax Law Acreage and Revenue, by County. 1982 Assessment.

County	Property Tax Law					
	3e Timberland Classification		Auxiliary Forest Tax		Tree Growth Tax	
	Acres	Revenue (dollars)	Acres	Revenue (dollars)	Acres	Revenue (dollars)
Anoka	625.86	7,465.00				
Becker	19,785.42	39,732.60			2,943.00	4,162.72
Beltrami	23,690.00	64,485.95				
Carlton	66,952.00	79,247.00			20,252.00	15,586.00
Cass	11,390.00	33,578.00			27,284.09	39,681.18
Chisago	277.92	3,751.16				
Clearwater	27,470.41	57,072.36				
Cook	49,959.59	70,036.14				
Crow Wing	134,130.00	237,325.92			22,594.00	21,994.00
Dakota	247.00	2,694.03				
Goodhue	3,364.88	14,378.00				
Hennepin	105.38	3,612.99				
Houston	173.45	407.20				
Hubbard	6,866.98	23,593.32*	2,812.16	443.59	21,851.85	31,235.56
Isanti	4,151.00	37,340.00				
Itasca	337.00	1,614.36	23,352.10	5,353.44	161,247.15	126,670.51
Kanabec	34,268.73	682,958.00	198.48	19.84		
Koochiching			161,620.00	46,486.00	46,222.00	35,438.00
Lake	206,942.00	178,075.00				
Lake of the Woods	47,424.00	148,008.30				
Le Sueur	8.00	25.66				
Mahnomen	19,126.00	36,780.24				
McLeod	28.00	103.12				
Meeker	20.00	113.40				
Mille Lacs			80.00	8.00		
Morrison	251.39	1,104.12			2,324.93	3,405.79
Norman	975.00	1,784.80				

Table 3. (continued)

County	Property Tax Law					
	3e Timberland Classification		Auxiliary Forest Tax		Tree Growth Tax	
	Acres	Revenue (dollars)	Acres	Revenue (dollars)	Acres	Revenue (dollars)
Otter Tail	120.00	335.56*				
Pine	9,290.00*	28,200.32*				
Polk					400.00	91.02
Ramsey	25.13	366.98				
St. Louis	400,000.00	1,073,932.90*	31,340.91	8,621.60	84,853.51	61,009.88
Sherburne	115.00	464.00				
Stearns			382.29	38.23		
Todd	767.31	2,549.83				
Wabasha	102.75	200.68				
Wadena	2,089.15	5,107.88			22,224.77	27,594.60
Washington	49.40	1,116.60				
Winona	130.00	264.86				
State Total	1,067,258.75	2,837,826.28	219,795.94	60,970.70	412,197.30	366,869.26

* Estimated

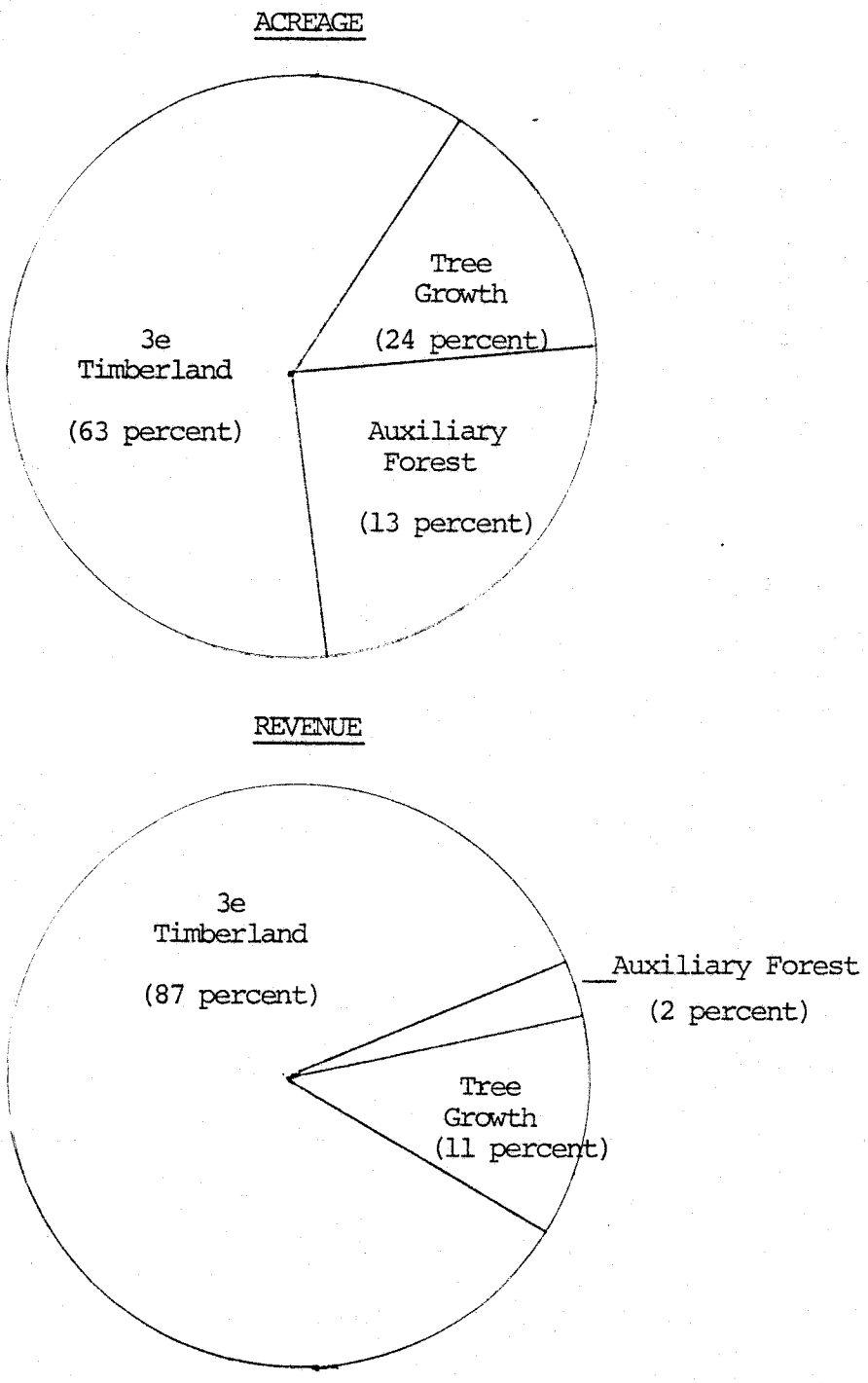

Figure 1. Minnesota Forest Property Tax Laws Acreage Enrolled and Revenue Generated. 1982-1983.

enrolled in a forest property tax classification during 1982 were (Table 3):

. 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)

Minnesota's privately-owned commercial forest land totals 6.4 million acres -- 27 percent of which was taxed in 1982 under a tax law explicit to forest land. Almost two-thirds (17 percent) of the acreage enrolled under a forest tax law was in the 3e classification (Table 2 and 3). The remaining 10 percent enrolled was involved with the Tree Growth Tax Law (6.5 percent) and the Auxiliary Forest Tax Law (3.5 percent). Such a breakdown leads to the observation that 73 percent of Minnesota's privately-owned commercial forest land was classified as a use other than forest land in 1982. Agricultural, recreational, and vacant land-use categories appear to be major classes, i.e., accounting for the remaining 4,654,150 acres identified as nonpublic commercial forest land.

Individual counties exhibited extreme variation in the use of each forest tax law (Table 4). Timberland classified as 3e was most variable, ranging from less than one percent to 88 percent of a county's total privately-owned commercial forest land (Table 4). Six of the seven counties implementing the Auxiliary Forest Tax Law had less than four percent of county-wide private forest land classified as auxiliary forests,

Table 4. Minnesota Forest Property Tax Law Acreage as Proportion of Private Commercial Forest Land Acreage, by County. 1982 Assessment.

County	Commercial Forest Land			Proportion of County Private Commercial Forest Land Enrolled in Tax Law			
	Total	Privately-Owned Area	Proportion	3e Timberland Classification	Auxiliary Forest Tax	Tree Growth Tax	All Forest Property Tax Laws
	(thousand acres)	(thousand acres)	(percent)	(percent)	(percent)	(percent)	(percent)
Anoka	36.6	31.5	86	2			2
Becker	313.9	183.2	58	11		2	13
Beltrami	794.6	183.4	23	13			13
Carlton	312.8	203.7	65	33		10	43
Cass	858.6	272.4	32	4		10	14
Chisago	50.2	42.4	84	<1			<1
Clearwater	301.7	155.5	52	15			15
Cook	538.8	90.7	17	55			55
Crow Wing	371.9	280.7	75	48		8	56
Dakota	16.5	14.1	85	2			2
Goodhue	56.4	49.4	88	7			7
Hennepin	7.8	6.4	82	2			2
Houston	111.5	100.3	90	<1			<1
Hubbard	398.0	203.8	51	3	1	11	15
Isanti	46.9	40.2	86	10			10
Itasca	1,281.0	545.1	43	<1	4	30	34
Kanabec	129.0	104.5	81	33	<1		33
Koochiching	1,278.9	362.7	28		45	13	58
Lake	855.3	234.6	27	88			88
Lake of the Woods	360.6	88.3	24	54			54
Le Sueur	10.0	8.2	82	<1			<1
Mahnomen	106.4	52.2	49	37			37
McLeod	5.8	5.7	98	<1			<1

Table 4. (continued)

County	Commercial Forest Land			Proportion of County Private Commercial Forest Land Enrolled in Tax Law			
	Total	Privately-Owned Area	Proportion	3e Timberland Classification	Auxiliary Forest Tax	Tree Growth Tax	All Forest Property Tax Laws
	(thousand acres)	(thousand acres)	(percent)	(percent)	(percent)	(percent)	(percent)
Meeker	10.8	10.6	98	<1			<1
Mille Lacs	122.8	100.0	81		<1		<1
Morrison	148.7	127.7	86	<1		2	2
Norman	22.2	20.5	92	5			5
Otter Tail	186.3	151.7	81	<1			<1
Pine	425.6	322.2	76	3			3
Polk	68.0	61.3	90			<1	<1
Ramsey	Less than 100 acres						
St. Louis	2,465.6	957.6	39	42	3	9	54
Sherburne	56.9	49.9	87	<1			<1
Stearns	56.0	50.3	90		<1		<1
Todd	104.5	87.5	84	<1			<1
Wabasha	57.4	49.9	87	<1			<1
Wadena	107.3	90.1	84	2		25	27
Washington	10.2	8.2	80	1			1
Winona	103.6	94.9	92	<1			<1

Source: USFS North Central Forest Experiment Station

four of which contained one percent or less. Koochiching County was the only county where auxiliary forests accounted for a significant portion of the county's private timberland (45 percent). Use of the Tree Growth Tax Law ranged from 30 percent in Itasca County to less than one percent in Polk County.

Revenue Generated

Revenue totaling nearly $3.3 million was generated from Minnesota's forest property tax laws in 1982 (Table 2). The 3e Timberland Classification accounted for the greatest proportion, namely, over $2.8 million or 87 percent of the total (Figure 1). Tree Growth Tax Law produced nearly $367 thousand (11 percent) in revenue while only $61 thousand resulted from the land and yield tax assessed to auxiliary forests -- 2 percent of the revenue generated by land in the 3e classification.

The average revenue per acre generated from use of each forest tax law in 1982 varied immensely (Table 5). Forest land classified "3e timberland" produced the highest average revenue per acre (i.e., 2.66 per acre) yet experienced the greatest variation in average revenue per acre, ranging from $34.29 per acre in Hennepin County to $0.86 per acre in Lake County. Different methods used to value 3e timberland accounted for most of this variation. Tree growth forests produced a statewide average revenue per acre of $0.89, with Morrison County leading at $1.46 per acre and Polk County producing the lowest at $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 only the tax on land experienced a

Table 5. Average Minnesota Forest Property Tax Revenue per Acre, by Tax Law and County. 1982 Assessments.

County	Property Tax Law		
	3e Timberland Classification	Auxiliary Forest Tax	Tree Growth Tax
	(dollars)	(dollars)	(dollars)
Anoka	11.93		
Becker	2.01		1.41
Beltrami	2.72		
Carlton	1.18		.77
Cass	2.95		1.45
Chisago	13.50		
Clearwater	2.43		
Cook	1.40		
Crow Wing	1.77		.97
Dakota	10.91		
Goodhue	4.27		
Hennepin	34.29		
Houston	2.35		
Hubbard	3.44	.16	1.43
Isanti	9.00		
Itasca	4.79	.23	.79
Kanabec	19.93	.10	
Koochiching		.29	.77
Lake	.86		
Lake of the Woods	3.12		
Le Sueur	3.21		
Mahnomen	1.92		
McLeod	3.68		
Meeker	5.67		
Mille Lacs		.10	
Morrison	4.39		1.46
Norman	1.83		
Otter Tail	2.80		
Pine	3.04		
Polk			.23
Ramsey	14.60		
St. Louis	2.68	.28	.72
Sherburne	4.03		
Stearns		.10	
Todd	3.32		
Wabasha	1.95		
Wadena	2.44		1.24
Washington	22.60		
Winona	2.04		
State Average	2.66	.28	.89

very minimal revenue return per acre, i.e., average of $0.10. Koochiching County, which assessed a substantial yield tax in 1982, received the highest auxiliary forest revenue average, although amounting to $0.29 per acre.

State average market value per acre for 3e timberland equaled $141.84 per acre (Appendix A). The wide variety of methods used to determine the market value accounted for extreme county average rates per acre. Hennepin County produced the highest market value per acre for 3e timberland (i.e., $2,342.95 per acre). In contrast, Lake County averaged only $46.46 per acre, the lowest county average market value rate per acre.

Acreage and Revenue Trends 1981-1982

Changes in acreages and revenues associated with the Auxiliary Forest Tax Law between 1981 and 1982 are as follows:

	1981 Assessment Year	1982 Assessment Year	Percent Change
Acreage	220,563.63	219,795.94	-0.35
Revenue	$60,038.72	$60,970.70	+1.55
Proportion of Private Commercial Forest Land	3.47 percent	3.46 percent	-0.29
Counties involved	7	7	

A moratorium placed on entrance of any new auxiliary forest contracts after June 30, 1974, accounts for declines in acreages, as existing contracts expired or were converted to another forest tax law. Although acreage decreased, total revenue generated from auxiliary forests increased slightly in this same period. The $931.98 (1.55 percent) increase from 1981 to 1982 was due to an increase in the yield tax

collected, through either higher stumpage prices or increased harvesting activity.

The Tree Growth Tax Law experienced a slight increase in acreage, but a much greater revenue increase from 1981 to 1982 as indicated by the following:

	1981 Assessment Year	1982 Assessment Year	Percent Change
Acreage	403,262.06	412,197.30	+2.22
Revenue	$272,868.60	$366,869.26	+34.45
Proportion of Private Commercial Forest Land	6.35 percent	6.49 percent	+2.20
Counties involved	10	11	

An acreage increase of 8,935.24 acres (2.22 percent) over 1981 raised the percentage of privately-owned commercial forest land in Minnesota classified under the tax law from 6.35 to 6.49 percent. Although six of the eleven counties using the Tree Growth Tax Law experienced a net decrease in tree growth acreage, Itasca County's acreage increase for the law produced a net gain in total state tree growth acreage. In this same period, tree growth tax revenue increased $94,000.66 (34.45 percent). Higher stumpage values or growth rates were main contributors to this increase, as acreage expansion was minimal.

Forest land classified 3e timberland experienced the greatest revenue and acreage increase of the three Minnesota forest tax laws as depicted in the following and Table 6:

	1981 Assessment Year	1982 Assessment Year	Percent Change
Acreage	347,438	1,067,259	+207.18
Revenue	$ 452,444	$2,837,826	+527.22
Market Value	$29,729,041	$151,378,346	+409.19
State School Agricultural Credit	$45,082	$247,734	+449.52
Proportion of Private Commercial Forest Land	5.47 percent	16.80 percent	$207.13
Counties involved	33	35	

Although county use of this classification increased by only two, total acreage rose 207 percent or nearly 720 thousand acres, expanding the state's private forest land classified as 3e from 5.47 to 16.80 percent. Revenue experienced an even larger increase, namely $2,385,382 (527 percent increase) from 1981 to 1982. Because 3e timberland tax assessments are based on the land's market value, an increase in 3e timberland's total market value can be expected. In fact, market values increased $121,649,305 from 1981 to 1982 assessments.

Table 6. Market and Assessed Value and Gross and Net Tax for Minnesota Land Classified 3e Timberland. 1973-1982 Assessment Year.

Assessment Year	Market Value	Assessed Value	Gross Tax	Net Tax
	(dollars)			
1973	7,157,475	1,431,495	104,456	104,456
1974	7,143,240	1,428,648	121,943	121,943
1975	8,339,440	1,667,888	129,956	129,956
1976	9,851,885	1,970,377	171,459	151,758
1977	11,142,655	2,228,531	197,014	174,729
1978	13,706,476	2,741,306	249,695	222,280
1979	16,548,300	3,309,660	316,404	283,308
1980	23,327,332	4,432,192	401,884	357,611
1981	29,729,041	5,648,517	497,844	452,444
1982	151,378,346	29,975,163*	3,085,646	2,837,826

* 1982 theoretical assessed value is $28,761,884 (i.e., 19 percent assessed to market value ratio). Deviation from this ratio was evident in Anoka, Carlton, Cook, Todd and Winona Counties, explaining the difference between theoretical and actual values.

Administrative Perspective on Tax Laws

The State of Minnesota has delegated the apportionment and collection of all real and personal property taxes to local governing units since 1966 (Minnesota Department of Revenue 1981). County governments are primarily responsible for property tax administration. City, town, and school taxing districts determine the appropriate tax levy required to maintain their annual operations. Once determined, the various levy amounts from each taxing district are aggregated at the county level. County officials primarily responsible for administration of the general property tax are the assessor, auditor and treasurer. Duties of the county assessor include: 1) locating individual taxable parcels; 2) determining the appropriate market value for each parcel; and 3) assigning each parcel the correct land-use classification. The assessed (taxable) value of each land parcel is determined by multiplying the estimated market value by the assessed to market value ratio for each land-use classification. Once assessed values for all taxable property within the county are totaled, they are forwarded to the county auditor. The county auditor is responsible for determining the county's tax rate. This rate, referred to as the county millage rate, is calculated by dividing the county's total budget requests by the total assessed value for the county's taxable property. Individual tax assessments are determined by multiplying the parcel's assessed value by the county millage rate. Any credits or tax reductions (i.e., State School Agricultural Credit) are subtracted from the tax assessment to determine the landowner's net tax levy. When all tax levies

are calculated, the auditor transmits a list of all landowners and their respective tax assessments to the county treasurer.

Responsibility for establishing and collecting individual tax statements rests with the county treasurer. Tax statement billing occurs on or before January 31 of the year following assessment. Payment of this tax is divided into two installment periods; May 31 and October 31. Once received, the county treasurer distributes the proper amount of tax revenue to each taxing district within the county.

Administrative responsibility of the tree growth and auxiliary forest tax is different than that of property taxed under the ad valorem system. Tree growth tax assessments are based on average forest productivity while auxiliary forest taxes are determined by the value of the timber harvested. The absence of land assessment on any property entered under either of these laws relinquishes any administrative involvement from the county assessor. The county auditor assumes administrative responsibility, namely, establishing the amount of tax levied on all tree growth and auxiliary forests based on precalculated tax rates.

Frequency of Use and Ease of Administration

Reasons for failure to implement a particular forest tax law varied extensively among counties. For 3e timberland classification, no dominant reason surfaced although common responses included: 1) all timber is classified as agricultural land; 2) timber is not valuable; and 3) county believes required timber management practices would not be practiced. Reasons for not implementing the Auxiliary Forest and Tree Growth Tax laws

were very similar. The most commonly cited explanation for not implementing these two laws, however, was the absence of applications from forest landowners. Over 45 percent of counties queried about auxiliary forests and over 53 percent queried about the tree growth law indicated "never applied for" as the explanation for not using such laws. The absence of applications probably indicates: 1) the landowner is unaware of the tax law alternatives available to forest land, or 2) the benefits of a reduced tax do not outweigh the costs of implementing the law. Reduced tax rates granted to auxiliary and tree growth forests compared to 3e classification (i.e., $0.28 per acre and $0.89 per acre versus $2.66 per acre) indicate landowner unawareness is likely to be a major determining factor.

The most frequently mentioned administrative advantages for 3e timberland included simple assessment procedures and consistency in computing tax along with other real property. Almost two-thirds of the responding counties referred to one of these factors. Because 3e timberland is one of many land use classes established under Minnesota's ad valorem tax system, these responses were fairly predictable. Responses regarding administrative advantages for the auxiliary and tree growth tax laws were very similar. Ease of computing the tax and "no advantages" were the two most common replies. Tree growth and auxiliary tax rates are predetermined by the state, leaving county administrators to determine the annual tax levy by simply multiplying forest acreage for each tax rate. Thus, the complexity of auxiliary and tree growth tax computation relative to ad valorem assessments is minimal. Extensive application procedures and the

high degree of policing action required by counties implementing the Tree Growth or Auxiliary Forest Tax Law are factors influencing the "no advantages" response.

Counties did, however, express dissatisfaction with forest property tax laws. Counties expressed concern over 3e timberland because of the added burden of including an additional category to an already complex land classification system. Establishing qualifications for 3e classifications was also cited as a major difficulty. However, an equal number of counties indicated the absence of any disadvantages associated with administering the 3e Timberland Classification. The major concern over auxiliary forest administration was the procedural complexity required for each auxiliary forest contract. In addition to the initial application and contract, constant monitoring of the forest is required. One county indicated the law was "too time consuming for the amount of tax collected." The difficulty in including auxiliary forest tax revenue in the annual budgeting process, along with field inspections, reports, and cutting permits, also made for unfavorable administration. However, two counties indicated there were no administrative difficulties associated with the law. Further examination indicated that both counties were not collecting a yield tax (i.e., only an annual 10¢ per acre land tax); thus experiencing only a portion of the administrative requirements associated with the law. Responses concerning administrative disadvantages of the Tree Growth Tax Law were similar to those of the auxiliary forest tax. Additional monitoring and checking applications, as well as keeping

separate tax records, were mentioned as burdensome to county officials. One county expressed difficulty in explaining various aspects of the tree growth law to taxpayers, specifically: 1) the rationale for taxation; 2) the different tax rates used; and 3) various application procedure requirements.

Revenue Generation

Dissatisfaction with the revenue generated from each forest tax law was quite evident; many county officials indicated no financial advantages associated with any tax law applied to forest land in Minnesota. One-third of all counties responding to the 3e classification and 40 percent of those responding to the auxiliary and tree growth laws indicated lack of any financial advantages. Although this response is fairly predictable for both the auxiliary and tree growth law (i.e., given the reduced tax revenue per acre relative to 3e timberland), the reasoning behind the dissatisfaction in 3e timberland revenue is not as apparent. When analyzing financial advantages received from forest land taxed under the 3e classification, it appears many county administrators compare this revenue to earnings generated from other ad valorem classifications (i.e., vacant or recreational land), instead of auxiliary or tree growth revenue. This comparison limits the financial advantages derived from 3e timberland, since assessed to market value ratios may be 21 percent higher for vacant property, generating substantially greater revenue than the timberland classification.

Of counties using a 3e classification, 30 percent indicated no or limited concern over finances generated. A major criticism of 3e Timberland Classification from a financial perspective, however, was reduced State School Agricultural Credit, compared to agricultural or seasonal recreational-residential land classes. In 1982, State School Agricultural Credit for 3e timberland was eight mills, regardless of acreage. In contrast, Seasonal Recreational-Residential Classification received a ten mill credit on all acreage; Agricultural Non-Homestead Classification received a ten mill credit for the first 320 acres, and an eight mill credit on any remaining acreage; and Agricultural Non-Homestead Classification received an 18 mill credit for the first 320 acres, ten mills for acreage between 320-640 acres, and eight mills for all acreage exceeding 640 acres. Although the assessed to market ratio for land classified agricultural non-homestead is equivalent to 3e timberland, the greater State School Agricultural Credit granted to agricultural lands makes them more financially attractive to landowners than 3e Timberland Classification.

Revenue inadequacy was a major concern of county officials administering Auxiliary Forest and Tree Growth Tax laws. Over 57 percent of auxiliary forest respondents and 63 percent of tree growth respondents cited this as the principal financial disadvantage, often referring to revenue potentially available if land were taxed under the ad valorem system. The high costs of administering both laws often consumed all revenue generated. One county estimated over $200 in state and county administrative work was required to collect $50 of auxiliary forest yield tax.

Requirements for Enrollment and Compliance

Requirements imposed by counties on landowners desiring use of the Auxiliary Forest or Tree Growth Tax Law remained fairly consistent with the restrictions stated in Minnesota Statutes 1982. Included for auxiliary forests were: 1) minimum of 35 acres; 2) generally suitable for planting, culture, and growth of trees; 3) follow all procedures for the initial application and timber harvesting; and 4) remain open for public hunting and fishing. Requirements set by law for the Tree Growth Tax Law included: 1) minimum of 5 acres; 2) used exclusively for growing continuous forest products; 3) prepare a forest map delineating legal boundaries and major forest vegetation types; 4) remain open to public hunting and fishing; and 5) require all temporary nonproductive sites to be reforested within ten years. Other restrictions not mandated by the State but imposed by individual counties included: 1) minimum of 40 acres; 2) contain no structures; 3) bounding no lake or river; and 4) require establishment and maintenance of a sound forest management plan.

Minnesota Statutes have established liberal requirements for entrance of land into the 3e Timberland Classification. The land must be used "exclusively for the purposes of growing trees for timber, lumber, and wood products." Tree nurseries are one of the few timber producing land-uses prohibited from entering this classification. Individual counties, however, have imposed their own requirements and restrictions, varying immensely among counties. The criteria established by counties before land can be classified 3e timberland include:

. used exclusively for timber growth

. growing any trees

. at least 20 acres

. at least 40 acres

. establish and maintain a timber management plan

. exhibit tree growing practices, established by the Minnesota DNR

. contain no structures or developments

. cannot be adjacent to a lake or river shoreline

. cannot be used for agriculture, residential or recreational purposes

. maintain firebreaks, insect and rodent control

. growing planted, not native trees

. rural in character

. non-tillable and less than ten percent pasture

Each county is given freedom to impose regulations thought necessary as based on attitudes of forest management and interpretation of the 3e Timberland Classification definition. Property acceptable for entry as class 3e in one county may not be acceptable in another, creating inequity among forest lands. The potential use of 3e timberland rests not only on the amount of privately-owned commercial forest land available but on the severity of restrictions imposed by each county.

Counties imposing additional regulations on forest land enrolled under any forest tax law were asked to estimate the level of compliance from landowners. Choices included: 1) over 95 percent, 2) 75 percent - 95 percent; 3) 50 percent - 75 percent; or 4) less than 50 percent compliance.

The Auxiliary Forest Tax Law, although subject to many requirements, achieved the greatest level of compliance. Three-fourths of all counties containing auxiliary forests indicated over 95 percent compliance, while the remaining counties experienced between 50 and 75 percent conformity. The most commonly cited violation was failure of the landowner to harvest timber at times specified by the county or state. The 3e Timberland Classification experienced a remarkably high level of compliance, considering the wide restriction diversity established among counties. Two-thirds of all counties using the 3e classification encountered over 95 percent compliance with restrictions and four of every five counties experienced at least 75 percent conformity. The most commonly violated restrictions were: 1) failure to establish a timber management plan, and 2) using the land for purposes other than timber growth. Compliance with restrictions was lowest on tree growth forests, with less than one-half (45 percent) of the counties experiencing over 95 percent conformity; one-third witnessed between 75 and 95 percent; and the remaining counties encountering less than 75 percent compliance. Failure to follow forest management plans and the posting of tree growth forests to public hunting and fishing were the two most common violations cited, accounting for 90 percent of all Tree Growth Tax Law violations.

Application Rejection and Ownership Limitations

Application procedures as well as rejections were common in each Minnesota forest property tax law. Mandated by law, entrance of forest land into tree growth or auxiliary forest tax treatment was accomplished

only after review of an application by the county board. With one exception, all counties reviewing auxiliary forest applications (prior to June 30, 1974) based all rejections on non-compliance with the legal statutory requirements. The abstaining county indicated there was no history of rejecting Auxiliary Forest Tax Law applications. Failure to comply with state-established requirements was also cited as the major reason for rejecting Tree Growth Tax Law applications. Establishment of a timber management plan, implemented at individual county discretion, was also referenced as a determining factor. Some counties denied tree growth status, based on the county board's perception of the landowner's intent to manage for forest production or previous record of demonstrating generally accepted forest culture practices.

Minnesota does not require an application process for land entered under the 3e Timberland Classification, although individual counties often establish entrance procedures. Most counties instituting application procedures presented various explanations for limiting admittance of forest land under this law. Responses ranged from looking at landowner's history of practicing timber management to failure to produce or maintain a timber management plan. The Minnesota Department of Natural Resources, Forestry Division, also became involved in the application process. One county indicated application rejection if not first approved by the State, while others limited use of 3e timberland classification to landowners willing to follow a management plan prepared and supervised by a state forester.

Only one county limited forest tax law use to a certain ownership class, namely, forest industry. The county perceived most landowners applying for Tree Growth Tax treatment as just trying to secure a tax break without intending to practice forest management. Consequently, a one year moratorium was placed on any new applications under the Tree Growth Tax Law, except from forest industries.

Another county instituted an indefinite suspension on all new applications into the Tree Growth Tax Law. The county contains a very high percentage of public land removed from the ad valorem property tax roles. Continued tree growth application approval would remove more property from ad valorem taxation, causing further erosion of the county's tax base. In order to stop a shift in the property tax burden to taxable property not classified as tree growth forests, the county board decided to discontinue tree growth application approval.

Tax Policy Influence on Forest Management

Counties were asked to evaluate the influence of present forest tax structure on promotion of private timber management activities. The choice of responses included taxation is: 1) the most important factor; 2) an influential factor; or 3) neutral in its affect on land management. No county indicated its forest land tax structure was the most important factor influencing proper forest management. Only 25 percent indicated tax structure as an influential, although often very minor, factor. The majority of counties (68 percent), identified the present tax system as neutral in its affect on land management, whereas seven percent did not

know the extent to which tax structure influenced forest management. Such information reveals the modest effect of forest property tax laws on private forest land management. Even when designed explicitly for promoting timber production, Minnesota's forest tax policies exhibit limited, if not non-existent, influence -- at least in the eyes of tax administrators. Modest use, liberal requirements, and the inability to police each law have been factors limiting the effectiveness of tax policy as a management tool.

Valuation Procedures and Frequency of Valuation

3e Timberland. Taxes levied on all ad valorem property in Minnesota are determined by the value of the land (i.e., market value of the property). Different market value assessment practices can produce great dissimilarity when valuing 3e timberland. Three methods were used by counties to determine value, namely: 1) constant per acre rate; 2) graduated rate determined by timber types; and 3) market data approach where rates are based on sales of land comparable in size and quality. A great amount of diversity exists, however, within these categories. Assessment procedures used in 1982 included:

Flat rates

- $140 per acre for all wooded land
- $165 per acre for all wooded land
- $175 per acre for all wooded land
- $350 per acre for all wooded land
- $800 per acre for all wooded land

Graduated rates

- wooded highland - $250 per acre; lowland timber - $150 per acre; lowland - $60 per acre
- upland woods - $150 per acre; lowland brush - $110 per acre
- $160 to $200 per acre, based on quality, location and type of timber
- highland with trees - $150 to $500 per acre; lowland timber - $80 to $120 per acre; swamp - $50 per acre
- general forest land - $238 to $275 per acre; plantations or land with marketable pines - $300 to $400 per acre
- $100 to $400 per acre, based on types of timber present
- all woods - $175 to $275 per acre

Market data rates

- market data average; all sales are averaged to determine a mean value, applied for all forest land
- review comparable land sales and assign value, depending on access, land topography and forest types
- all land is valued equally, based on previous sales and land use
- land is graded by forest type, an average market value is then determined for each type, based on sales
- comparable land sales, no distinction between hardwoods and softwoods

Methods used to determine the market value of 3e timberland were numerous in both procedure and complexity. Average market value by county ranged from $46.46 per acre up to $2,342.95 per acre, producing a state-wide mean of $141.84 per acre (Appendix A). Counties containing substantial agricultural land or a high population density (i.e., central and southern Minnesota) generally produced market values above the state average, whereas those in primarily forested regions (i.e., northern Minnesota) generated lower than average market values.

The variation in assessing 3e timberland created parcel bias both within and between counties. Timber values on one land parcel, relative to another, become meaningless when a county implements a flat market value per acre for all forest land. Large variations in stumpage values and stocking levels only compound the problem, diminishing any value differentiation between forested property. Timberland taxation in these counties essentially becomes a land tax, ignoring any value of the standing timber.

Property tax inequitability becomes even more evident when comparing 3e timberland value from different counties. Variations to $2,300 per acre were apparent, resulting in a $33 per acre tax differential between counties. Seemingly inconsequential when analyzed on a per acre basis, individual tax assessments exceeded $1,300 on identical 40 acre tracts.

Minnesota law mandates every land parcel taxed under the ad valorem system to be reassessed at least once every four years. Individual counties, however, are given the authority to determine if property should be assessed more frequently. Three of five counties assessed 3e timberland

annually, four percent every two years, and 20 percent every fourth year. Additionally, 16 percent of the counties varied 3e assessment frequency from year to year, depending on real estate market changes.

Lack of uniformity in 3e timberland assessment frequency complicates the need to establish uniform statewide valuation procedures. When land prices are increasing annually, property revalued every four years does not reflect the true market value of the land. Consequently, taxes paid on identical parcels may be different, depending on the assessment frequency. Combined with the assessment procedure variability, the deviation among Minnesota counties in valuing 3e timberland becomes enormous.

Auxiliary Forest and Tree Growth. In contrast to 3e timberland assessment procedures, auxiliary forest yield tax and tree growth productivity tax assessment procedures were found to be consistent among all counties implementing such laws. County boards were given the option of assessing the yield tax based on: 1) a percentage of the value of timber harvested; or 2) a percentage of the value of the annual timber growth. All counties administering a yield tax in 1982 based the assessments on the value of the timber harvested.

Minnesota Statutes state timber growth rates are to be recalculated every ten years. Average stumpage values are recalculated every two years, based on average state timber sales of similar timber types within the county. Questionnaire responses indicated all counties implementing the Tree Growth Tax Law calculated growth rates and stumpage values in accordance with state mandated procedures.

County Perception of Forest Taxation Issues

Policy Issues. County officials identified numerous issues involving Minnesota's forest taxation structure. Included were:

- overhaul and simplify the entire forest tax policy system in Minnesota.
- auxiliary forest and tree growth laws currently provide insufficient revenue to county governments.
- 3e timberland's highest and best use is often recreational, not timber growth.
- forest management plans should be maintained with greater frequency.
- most landowners enrolled in the Tree Growth Tax Laws are motivated by a reduced tax rate, not forest management and development.
- county personnel are often not qualified to determine if proper timber management is being conducted on forest land.
- the State School Agricultural Credit applied to 3e timberland is less than other land-use classes.
- during a land exchange, auxiliary forests should be transferred into the Tree Growth Tax Law without penalty.
- large use of preferential tax treatment on forest land shrinks the total tax base and produces an excessive tax shift to other taxable property.

Proposed Changes. Forest taxation issues are deserving of attention according to county administrators. Possible changes in existing laws and their administration include the following county suggestions:

- abolish the 3e Timberland Classification.
- abolish the Tree Growth Tax Law.
- abolish the Auxiliary Forest Tax Law.
- provide one tax classification for forest land and vary the assessed to market value ratio, depending on the intensity of forest management.

- reduce the assessed to market value ratio for 3e timberland.
- increase the amount of State School Agricultural Credit granted to 3e timberland.
- reduce the number of restrictions on the 3e Timberland Classification.
- use only 3e classification to help alleviate the wide disparity of tax on similar properties caused by the various tax laws.
- limit Tree Growth Tax Law use in townships where population is sparse, reducing the severity of tax shift on property not taxed under this law.
- limit Tree Growth Tax Law use to very large tracts of land; making this law economical to administer.
- restrict use of the Tree Growth Tax Law.
- find a new approach to calculate tree growth tax payments.
- change the auxiliary forest tax rate.
- simplify the tax classification system, striving for fewer property classifications.

Opposition existed to every forest property tax law, although the most workable law appeared to be the 3e Timberland Classification. Use of this classification was favored since forest property is taxed on the same basis as other land use classes. Recommended modifications in 3e timberland included reducing the assessed to market ratio and increasing the amount of State School Agricultural Credit granted; thus making the 3e classification more competitive with its chief ad valorem competitor — agriculturally classified land.

Critical comments regarding recommended changes in the Tree Growth Tax Law indicate the desire among county administrators to use the law under limited circumstances. Reduced tax rates on tree growth forest land

shifts the tax burden to other property classes. When the proportion of tree growth forests to total taxable property is high, the tax shift effect becomes enormous. Tree Growth Tax Law administration is also costly, especially when individual parcels contain very small acreage. The administrative requirements for each tree growth forest contract are approximately equal regardless of tract size, creating an administrative hinderance to those counties accepting many minimal acreage tree growth applications. Finally, county officials find it difficult to accept a radically new approach to calculating annual property taxes (i.e., based on the productivity of the land) when historically taxes have been based on the land's value.

Two-thirds of all responding counties were against establishing a new forest tax law in Minnesota. The fear of adding to the already complex tax structure was cited as the major reason for such opposition. Most county administrators favoring new property tax laws applied to forest land expressed the need for a simplified tax system that established equity with other property classes, as well as among different types of forest land. A single tax for forest land was cited as a workable policy option. Included were: 1) all forest land be taxed equally, paying the same fair rate; 2) only the 3e Timberland Classification be used, granting a lower tax rate to property open to public hunting and fishing; and 3) provide no credits or modified assessment rates, establishing a neutral land value tax that would be economical and efficient to administer.

County administrators expressed the need to redefine the basis for real estate taxation. One county suggested that all property be taxed according to the land value without regard to structures, uses, crops, or timber while another indicated a need to share the county's forest tax law administrative responsibility with state officials. Proposals for shared responsibility with the state included setting restrictions and providing policy authority for each forest tax law. If structured in this manner, county authority would be limited to collecting taxes, relying on the state to promote forest management from the private sector.

Suggestions for new forest tax laws incorporated modifications in the existing 3e Timberland Classification; specifically: 1) lowering the assessed to market ratio from 19 to 15 percent; 2) increasing the amount of State School Agricultural Credit from eight to 13 mills; and 3) levying a minimal tax on all wooded property used for recreational purposes.

SUMMARY AND OBSERVATIONS

The administrative freedom granted to Minnesota county governments creates a very intricate network of tax policies focused on privately-owned forest land. Analysis of the 1982-1983 Minnesota forest property tax structure leads to the following observations:

- A relatively low proportion (27 percent or 1.7 million acres) of Minnesota's privately-owned forest land is taxed under a specific forest tax law. For tax purposes, nearly 4.7 million acres of private commercial forest land is classified in land-use categories such as agriculture, recreation or vacant land.
- Of the 1.7 million acres of private commercial forest land taxed under a specific forest property tax law, 63 percent is taxed as 3e timberland, 24 percent as tree growth forest, and 13 percent as auxiliary forests.
- The 3e timberland classification experienced the greatest increase in acreage included and tax revenue generated between 1981 and 1982.
- Current property tax structure gives each county authority to limit use of each forest tax law.
- Minnesota forest landowners are basically unaware of the tax law alternatives available to them.
- Administrative procedures for Tree Growth and Auxiliary Forest Tax laws are consistent among counties. However, considerable variation exists between counties in interpretation and administration of the 3e Timberland Classification.

- Administrative requirements for property tax laws focused on forest land are currently viewed as unfavorable by county administrators (costs associated with administering and policing forest tax laws exceed revenue generated).
- County officials are dissatisfied with the present tax laws applied to timberland in Minnesota. However, they prefer a simplified tax structure rather than creation of a new, administratively complex law.
- Current forest property tax system in Minnesota provides limited incentives for timberland management according to county administrators. They indicate the tax structure is an ineffective tool for promoting private forest management. Complex application procedures, cumbersome restrictions and policing difficulty appear to be major contributing factors inhibiting the influence of property tax policies on management of Minnesota's private forests.

Modification Possibilities

Strategies altering current tax policies often occur in an incremental fashion, providing only slight modification of existing tax structures. Tax modeling involving substantial policy change, however, can be useful in predicting the impacts on important variables (e.g., revenue), which can in turn help direct policymakers toward future tax modifications. Following are a number of hypothetical changes in the present tax structure applied to Minnesota's forest land. Many impacts resulting from such

modifications are very difficult to accurately predict. They do, however, provide policymakers with an appreciation of the type and magnitude of impact that is associated with various changes (Appendices B and C).

. modification - Establish a one percent change in the assessed to market value ratio for all land entered as 3e timberland in 1982.

  . result - A one percent change in the assessed to market value ratio will generate a $149,360 net revenue change; or 14¢ per acre average for all 3e timberland.

. modification - Establish a one percent change in the tree growth tax rate applied to all land entered under this law in 1982.

  . result - A one percent change in the tree growth tax rate will generate a $12,230 revenue change; or 3¢ per acre average for all tree growth forests.

. modification - Convert all forest land classified under the Tree Growth Tax Law in 1982 into 3e timberland.

  . result - Conversion of all tree growth forest land into 3e timberland will generate a $729,575 net tax revenue increase and a $88,868 increase in State School Agricultural Credit reimbursement to local governments.

. modification - Convert all forest land classified 3e timberland in 1982 into the Tree Growth Tax Law.

  . result - Conversion of all 3e timberland into tree growth forests will generate a $1,887,966 net tax revenue decrease and a $247,734 loss of State School Agricultural Credit reimbursement to local government.

. modification - Abolish the Tree Growth and Auxiliary Forest Tax Law, converting this land into 3e timberland.

  . result - Abolishing these two laws and placing all land into the 3e classification will generate a $1,253,261 net revenue increase and a $136,256 increase in State School Agricultural Credit reimbursement to local governments.

. modification - Classify all property entered under a forest tax law in 1982 as 3e timberland, assessed a market value of $100 per acre.

. result - Classifying all 1,699,252 acres under the 3e Timberland Classification will generate a gross tax = $3,442,542.42; a State School Agricultural Credit = $258,285.09; and a net tax = $3,184,257.33 producing a net decrease in total net tax = $81,408.91 and a net increase in State School Agricultural Credit granted to local governments = $10,731.06. Appendix B indicates a county by county breakdown of this modification.

. modification - Assume all counties containing either 3e timberland or tree growth forests are required to accept any Tree Growth Tax Law applications, producing a 1,000 acre forest land shift from 3e Timberland Classification to the Tree Growth Tax Law in these counties.

. result - The total revenue loss to counties (state aid and tax revenue) from this 1,000 acre shift equals $206,056. Statewide, average revenue loss per county approximated $1,700 in net tax revenue. Additionally, Minnesota counties averaged a $215.60 loss in State School Agricultural Credit. Appendix C indicates the effect of this change in each county. State average revenue per acre was used for any county currently implementing only one of these forest tax laws.

. modification - Forest property tax exemptions and rebates are often used to encourage forest management (i.e., 13 such laws implemented in 12 states). Assume any 3e timberland complying with state-established restrictions (i.e., timber management plan, reforestation agreement and commitment of the land to timber production for 30 years) be exempt from all property taxes for five years. Additional assumptions include: 1) 50 percent of all gross revenue (net revenue and State School Agricultural Credit) presently generated from 3e timberland be initially exempt; and 2) revenue exemption increases by 20 percent annually from increases in acreage enrollment and average tax per acre.

. result - This exemption law would produce an $11.3 million tax revenue loss to local governments (discounted at six percent) over the five year period. Actual revenue loss will be substantially greater if acreage entrance and/or average revenue per acre increases faster than projected values.

Suggested Options for Future

Changes in Minnesota tax structure focused on Minnesota privately-owned forest land are probably in order. Doing so, however, implies that the new structure be easy to understand, economical to administer, and equitable both within and between property classes. Decisions to change the tax structure should involve county administrators. They possess extremely valuable insights as to the economic and operational feasibility of tax laws under their jurisdiction.

Future considerations for Minnesota forest property tax modifications could include the following:

- Mandate all counties to accept Tree Growth Tax Law applications from any landowner meeting the established requirements.
- Require establishment and maintenance of a timber management plan along with an agreement committing the property to timber production for a specified number of years for all forest land entered under the Tree Growth Tax Law.
- Provide a state reimbursement to counties implementing the Tree Growth Tax Law, basing payment on the difference between average tree growth and 3e timberland tax revenue generated in that county.
- Eliminate the Auxiliary Forest Tax Law, converting all auxiliary forests into the Tree Growth Tax Law or 3e Timberland Classification.

- Create a statewide assessment procedure for 3e timberland that reflects the land's value in timber production alone. Require establishment and maintenance of a timber management plan, along with a contractual agreement committing the land to timber production for a specific number of years. Assess all noncomplying 3e property at its market value, based on comparable sales.
- Provide an assessment reduction for 3e timberland open to public recreational use (i.e., hunting, fishing and hiking).
- Establish uniform requirements for all 3e timberland, to be implemented statewide (i.e., average restrictions, qualifying characteristics and timber management plans).
- Enforce all forest tax law requirements at the state level, relieving a portion of the administrative burden imposed on county governments (i.e., state foresters check management plans and land use practices).

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Appendix Table A. Minnesota 3e Timberland Forest Property Tax Law Status, by County. 1982 Assessments.

County	Acreage Enrolled	Gross Tax	State School Ag. Credit	Net Tax	Market Value	Assessed Value	Market Value Per Acre
				(dollars)			
Anoka	625.86	8,057.00	592.00	7,465.00	409,948	86,089	655.02
Becker	19,785.42	44,184.54	4,451.94	39,732.60	2,928,909	556,493	148.03
Beltrami	23,690.00	71,083.06	6,597.11	64,485.95	4,340,117	824,639	183.20
Carlton	66,952.00	84,722.00	5,475.00	79,247.00	3,575,800	684,342	53.41
Cass	11,390.00	37,408.00	3,830.00	33,578.00	2,519,796	478,789	221.23
Chisago	277.92	4,106.92	269.50	3,751.16	184,016	34,963	662.12
Clearwater	23,470.41	62,956.12	5,883.76	57,072.36	3,870,900	735,471	164.93
Cook	49,959.59	78,863.08	8,826.94	70,036.14	5,805,190	1,103,265	116.20
Crow Wing	134,130.00	265,750.34	28,424.42	237,325.92	18,700,106	3,553,020	139.42
Dakota	247.00	3,009.00	314.97	2,694.03	207,215	39,370	838.93
Goodhue	3,364.88	16,310.00	1,932.00	14,378.00	1,270,789	241,450	377.66
Hennepin	105.38	3,988.28	375.29	3,612.99	246,900	46,911	2,342.95
Houston	173.45	453.46	46.26	407.20	30,425	5,781	175.41
Hubbard	6,866.98	26,515.90	2,922.58	23,593.32	1,922,754	365,323	280.00
Isanti	4,151.00	40,420.00	3,080.00	37,340.00	2,026,100	384,959	488.10
Itasca	337.00	1,782.99	168.63	1,614.36	110,942	21,080	329.20
Kanabec	34,268.73	738,883.00	55,925.00	682,958.00	36,792,850	6,990,640	1,073.66
Lake	206,942.00	192,688.00	14,613.00	178,075.00	9,613,500	1,826,565	46.46
Lake of the Woods	47,424.00	156,182.25	8,173.95	148,008.88	5,377,600	1,021,744	113.39
Le Sueur	8.00	28.70	3.04	25.66	2,000	380	250.00
Mahnomen	19,126.00	40,301.16	3,520.92	36,780.24	2,382,200	452,618	124.55
McLeod	28.00	117.80	14.68	103.12	9,660	1,835	345.00
Meeker	20.00	127.08	13.68	113.40	9,000	1,710	450.00
Morrison	251.39	1,223.22	119.10	1,104.12	78,340	14,885	311.63
Norman	975.00	2,108.56	323.76	1,784.80	170,400	32,376	174.77
Otter Tail	120.00	370.82	35.26	335.56	23,200	4,408	193.33
Pine	9,290.00	30,625.32	2,425.00	28,200.32	1,595,462	303,137	171.74
Ramsey	25.13	399.18	32.20	366.98	21,168	4,025	842.34
St. Louis	400,000.00	1,162,220.00	88,287.81	1,073,932.90	46,467,268	8,828,781	116.17
Sherburne	115.00	532.70	68.70	464.00	45,200	8,588	393.04
Todd	767.31	2,788.83	239.00	2,549.83	145,091	27,925	189.09
Wabasha	102.75	222.71	22.03	200.68	14,500	2,755	141.12
Wadena	2,089.15	5,671.03	563.15	5,107.88	370,500	70,395	177.34
Washington	49.40	1,245.65	129.05	1,116.60	84,900	16,131	1,718.62
Winona	130.00	299.18	34.32	264.86	25,600	4,290	196.92
State Total	1,067,258.75	3,085,645.88	247,734.05	2,837,826.28	151,378,346	29,975,163*	
State Average							141.84

* Theoretical assessed value is $28,761,884 based on a 19 percent assessed to market value ratio. Deviation from this ratio was found in Anoka, Carlton, Cook, Todd, and Winona Counties, explaining the difference between theoretical and actual values.

Appendix Table B. Impact of $100 per Acre Market Value Assessment for All Forest Land Enrolled Under a Minnesota Forest Property Tax Law in 1982, by County.

County	Net Revenue (1982)	New Gross Revenue	New State School Ag. Credit	New Net Revenue	Net Revenue Difference	State School Ag. Credit Difference
			(dollars)			
Anoka	7,465.00	1,112.90	95.13	1,017.77	-6,447.23	-496.87
Becker	43,895.32	34,288.09	3,454.72	30,833.37	-13,061.95	-997.22
Beltrami	64,485.95	38,799.00	3,600.88	35,198.12	-29,287.83	-2,996.23
Carlton	94,833.00	205,122.36	13,255.01	191,867.35	+97,034.35	+7,780.01
Cass	73,259.18	57,410.86	5,878.46	51,532.40	-21,726.78	+2,048.46
Chisago	3,751.16	620.27	42.24	578.03	-3,173.13	-227.26
Clearwater	57,072.36	38,172.16	3,567.50	34,604.66	-22,467.70	-2,316.26
Cook	70,036.14	67,852.58	7,593.86	60,258.72	-9,777.42	-1,233.08
Crow Wing	259,319.92	222,722.83	23,822.05	198,900.78	-60,419.14	-4,602.37
Dakota	2,694.03	358.68	37.54	321.14	-2,372.89	-277.43
Goodhue	14,378.00	4,318.67	511.46	3,807.21	-10,570.79	-1,420.54
Hennepin	3,612.99	170.22	16.02	154.20	-3,458.79	-359.27
Houston	407.20	258.50	26.36	232.14	-175.06	-19.90
Hubbard	55,272.47	43,483.11	4,792.71	38,690.40	-16,582.07	+1,870.13
Isanti	37,340.00	8,281.10	630.95	7,650.15	-29,689.85	-2,449.05
Itasca	133,638.31	297,203.50	28,110.31	269,093.19	+135,454.88	+27,941.68
Kanabec	682,977.84	69,217.91	5,239.02	63,978.89	-618,998.95	-50,685.98
Koochiching	81,924.00	412,893.92	31,593.50	381,300.42	+299,376.42	+31,593.50
Lake	178,075.00	414,783.78	31,455.18	383,328.60	+205,253.60	+16,842.18
Lake of the Woods	148,008.30	137,733.98	7,208.45	130,525.53	-17,482.77	-965.50
Le Sueur	25.66	11.48	1.22	10.26	-15.40	-1.82
Mahnomen	36,780.24	32,356.65	2,907.15	29,449.50	-7,330.74	-613.77
McLeod	103.12	34.15	4.26	29.89	-73.23	-10.42
Mecker	113.40	28.24	3.04	25.20	-88.20	-10.64
Mille Lacs	8.00	158.92	12.16	146.76	+138.76	+12.16
Morrison	4,509.91	4,022.62	391.01	3,631.61	-878.30	+271.91
Norman	1,784.80	1,206.48	148.20	1,058.28	-726.52	-175.56
Otter Tail	335.56	191.80	18.24	173.56	-162.00	-17.02
Pine	28,200.32	17,832.43	1,412.08	16,420.35	-11,779.97	-1,012.92
Polk	91.02	794.59	60.80	733.79	+642.77	+60.80
Ramsey	366.98	47.35	3.20	44.15	-322.83	-29.00
St. Louis	1,143,564.38	1,291,083.90	78,461.55	1,212,622.35	+69,057.97	-9,826.26
Sherburne	464.00	135.53	17.48	118.05	-345.95	-51.22
Stearns	38.23	759.41	58.11	701.30	+663.07	+58.11
Todd	2,549.83	1,455.97	116.63	1,339.34	-1,210.49	-122.37
Wabasha	200.68	157.82	15.62	142.20	-58.48	-6.41
Wadena	32,702.48	37,215.92	3,695.72	33,520.20	+817.72	+3,132.57
Washington	1,116.60	72.48	7.51	64.97	-1,051.63	-121.54
Winona	264.86	172.26	19.76	152.50	-112.36	-14.56
State Total	3,265,666.24	3,442,542.42	258,285.09	3,184,257.33	-81,408.91	+10,731.06

Appendix Table C. Impact of 1,000 Acre Shift of Forest Land Classified 3e to Forest Land Enrolled Under Tree Growth Tax Law, by County. 1982 Assessments.

County	Tree Growth Tax Revenue Gain	3e Timberland Revenue Loss	State School Ag. Credit Loss	Net Change in Revenue
	(dollars)			
Anoka	890	11,930	996	-12,036
Becker	1,410	2,010	225	- 825
Beltrami	890	2,720	278	- 2,108
Carlton	770	1,180	81	- 491
Cass	1,450	2,950	336	- 1,836
Chisago	890	13,500	1,006	-13,616
Clearwater	890	2,800	294	- 2,204
Cook	890	1,400	177	- 687
Crow Wing	970	1,770	211	- 1,011
Dakota	890	10,910	1,275	-11,295
Goodhue	890	4,270	574	- 3,954
Hennepin	890	34,290	3,561	-36,961
Houston	890	2,350	267	- 1,727
Hubbard	1,430	3,440	425	- 2,435
Isanti	890	9,000	742	- 8,852
Itasca	790	4,790	500	- 4,500
Kanabec	890	19,930	1,632	-20,672
Koochiching	770	2,660	215	- 2,105
Lake	890	860	70	- 40
Lake of the Woods	890	3,120	172	- 2,402
Le Sueur	890	3,210	380	- 2,700
Mahnomen	890	1,920	189	- 1,219
McLeod	890	3,680	524	- 3,314
Meeker	890	5,670	684	- 5,464
Morrison	1,410	4,390	474	- 3,454
Norman	890	1,830	266	- 1,206
Otter Tail	890	2,800	294	- 2,204
Pine	890	3,040	261	- 2,411
Polk	230	2,660	215	- 2,645
Ramsey	890	14,600	1,280	-14,990
St. Louis	720	2,680	176	- 2,136
Sherburne	890	4,030	597	- 3,737
Todd	890	3,320	287	- 2,717
Wabasha	890	1,950	215	- 1,275
Wadena	1,240	2,440	270	- 1,470
Washington	890	22,600	2,612	-24,322
Winona	890	2,040	299	- 1,449
Statewide County Average	890	2,660	215	- 1,985

Note: Statewide revenue loss = $206,056.00.

Appendix D. Forest Property Tax Questionnaire and County Officals Receiving Questionnaire.

County Officials Receiving Questionnaire

County	Auditor	Assessor	Address	Telephone
Aitkin	Helena Dotzler	Gerald P. Lundberg	Aitkin 56431	218/927-2102
Anoka	Charles R. Lefebvre	Gayle Leone	Anoka 55303	612/421-4760
Becker	Conrad J. Ohm	Clarence Ward	Detroit Lakes 56501	218/847-7659
Beltrami	Julie Thompson	Harris Sachau	Bemidji 56601	218/751-7300
Carlton	Allan W. Naslund	Richard O. Wiitanen	Carlton 55718	218/384-4281
Cass	Robert F. Hansen	Oliver Opheim	Walker 56484	218/547-3300
Chisago	Dennis J. Freed	David Johnson	Center City 55012	612/257-1300
Clearwater	Lorraine Theis	Steven W. Kuha	Bagley 56621	218/694-6520
Cook	Carol Gresczyk	Thomas Kurpius	Grand Marais 55604	218/387-2282
Crow Wing	Conrad A. Bye	Alex Griffin	Brainerd 56401	218/829-1481
Fillmore	Richard Stensgard	Douglas Richardson	Preston 55965	507/765-4701
Goodhue	Bill Miller	Virgil Rapp	Red Wing 55066	612/388-8261
Houston	Douglas Moen	Orren Flaby	Caledonia 55921	507/724-5211
Hubbard	Roland K. Vik	Richard E. Laurvick	Park Rapids 56470	218/732-3196
Isanti	Doris Sandquist	Frank Mennenga	Cambridge 55008	612/689-1644
Itasca	Robert Loscheider	Allan Hovi	Grand Rapids 55744	218/326-9628
Kanabec	Jerry T. Tvedt	Leon Johnson	Mora 55051	612/679-1030
Kittson	E. W. Johnson	William Krumholz	Hallock 56728	218/843-2655
Koochiching	Joseph A. Gust	James Kalstad	International Falls 56649	218/283-3831
Lake	Mel Roy Peterson	Gerald Carlson	Two Harbors 55616	218/834-2254
Lake of the Woods	Charles F. Gosen	John F. Hagen	Baudette 56623	218/634-2836
Mahnomen	Joanne M. Terway	Melvin Gunderson	Mahnomen 56557	218/935-5669
Marshall	Charles G. Cheney	Dale Lambrecht	Warren 56762	218/745-4851
Mille Lacs	Elmer Warolin	(vacant)	Milaca 56353	612/983-2561
Morrison	Elvira J. Johnson	Steven Hurni	Little Falls 56345	612/632-2941
Otter Tail	Sylvia G. Bergerud	Gene Davenport	Fergus Falls 56537	218/739-2271
Pine	Lawrence Perreault	Martyn Schmidt	Pine City 55063	612/629-6781
Polk	Lawrence H. Fontaine	Henry Gredvig	Crookston 56716	218/281-2554
Roseau	Richard C. Bergan	James A. Hanson	Roseau 56751	218/463-1282
St. Louis	Russell Peterson	Peter N. Handberg	Duluth 55802	218/723-3428
Sherburne	E. Dale Palmer	Tyrus J. Bischoff, Jr.	Elk River 55330	612/441-1441
Stearns	Hank Koborst	Junie Weisbrick	St. Cloud 56301	612/251-4377
Todd	Melvin Bense	Richard Sobotka	Long Prairie 56347	612/732-6181
Wabasha	Charles E. McDonald	Howard Fischer	Wabasha 55981	612/565-3978
Wadena	Bob Fort	Richard Peterson	Wadena 56482	218/631-2425
Winona	Catherine Sherwood	Florence Papenfuss	Winona 55987	507/452-3337

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QUESTIONNAIRE TO COUNTY AUDITORS

The following questions deal with forest property tax laws available to Minnesota landowners. For each question, answer only those parts dealing with the forest property tax laws implemented within your county. If more space is required, please complete your answer on the back of each page. The County Auditor is best suited to answer most of these questions. Assistance from the County Assessor may be necessary to answer questions 1c and 10. Please refer to these officials to obtain any information unavailable in your office.

1. Minnesota tax law currently maintains three special provisions for taxation of forest property. They include: 1) 3e Timberland Classification, a modified ad valorem tax; 2) Auxiliary Forest Tax Law, a yield tax on timber; and 3) Tree Growth Tax Law, a tax based on average productivity of the land.

   Complete the following concerning use of each tax law within the county. If any of the information is unavailable, please provide an accurate estimate of such information.

   a) 3e Timberland Classification
   Total acreage in 1982..... _____ acres

   Gross tax payable in 1983..... _____ dollars

   Total State School Agricultural Credit granted to 3e timberland taxes payable in 1983..... _____ dollars

   Net tax payable in 1983..... _____ dollars

   Total market value in 1982..... _____ dollars

   Total assessed value in 1982..... _____ dollars

   Average county mill rate for taxes payable in 1983..... _____ mills

   b) Auxiliary Forest Tax
   Total acreage in 1982..... _____ acres

   Taxes payable in 1980 (including any yield tax)... _____ dollars

   Taxes payable in 1981 (including any yield tax)... _____ dollars

   Taxes payable in 1982 (including any yield tax)... _____ dollars

   Taxes payable in 1983 (including any yield tax)... _____ dollars

   c) Tree Growth Tax
   Total acreage in 1982..... _____ acres

   Taxes payable in 1983..... _____ dollars

2. In what year did the county begin to use the:

   3e Timberland Classification?....._____year

   Auxiliary Forest Tax?....._____year

   Tree Growth Tax?....._____year

3. If the county does not use each of these three forest property tax laws, please indicate the reason(s) why.
   3e Timberland Classification

   Auxiliary Forest Tax

   Tree Growth Tax

4. The following set of questions deal with the administrative aspects of the tax laws implemented within the county.

   a) Describe any administrative advantages associated with each tax law. (e.g., ease of computing tax, simple assessment procedure, etc.)
   3e Timberland Classification

   Auxiliary Forest Tax

   Tree Growth Tax

b) Describe any administrative disadvantages associated with each tax law. (e.g., assessment procedure too time consuming, difficult to compute tax, etc.)
3e Timberland Classification

Auxiliary Forest Tax

Tree Growth Tax

c) Describe any financial advantages for the county from each tax law. (e.g., stability of revenue, amount of revenue, etc.)
3e Timberland Classification

Auxiliary Forest Tax

Tree Growth Tax

d) Describe any financial disadvantages for the county from each tax law. (e.g., instability of revenue, inadequate revenue, etc.)
3e Timberland Classification

Auxiliary Forest Tax

Tree Growth Tax

e) Identify any special requirements asked of the landowner by the county in return for use of each tax law. (e.g., timber management plans, minimum and maximum size, years of commitment, availability of land to public use, etc.)
3e Timberland Classification

Auxiliary Forest Tax

Tree Growth Tax

5. If there were any special requirements identified in question 4e, estimate the level of compliance to these restrictions for each law.

	over 95%	75%-95%	50%-75%	less than 50%
		(circle one)		
3e Timberland Classification	a	b	c	d
Auxiliary Forest Tax	a	b	c	d
Tree Growth Tax	a	b	c	d

6. If you chose response b, c, or d in question 5, please describe the restriction(s) most often violated.
3e Timberland Classification

Auxiliary Forest Tax

Tree Growth Tax

7. If your county requires an application procedure for each forest tax law, please state the tax law and the major reason(s) for application rejection under each law.

8. Are any of these tax laws on forest land restricted in use by the county to a certain class(es) of landowners? (e.g., industry, etc.)

yes no

If you answered yes, identify each law and describe its use resrictions.

9. How important is the county's present tax structure in influencing proper management of forest land?
(circle one)
a. the most important factor
b. an influential factor
c. neutral in its affect on land management

10. For each type of forest tax law implemented within the county, answer the following questions concerning the assessment procedure for the land and timber.
a) 3e Timberland Classification
-What factor(s) determine whether land is classified as 3e timberland as opposed to another ad valorem classification such as class 4b vacant land or class 3 agricultural-nonhomestead?

-Briefly describe the procedure used in your county to determine the market value of forest land classified as 3e timberland. (e.g., flat rate of $200 per acre for softwood timber types, $150 per acre for hardwood timber types, etc.)

-If the market values for land and timber are calculated separately, briefly describe the procedure used in your county to determine the market value of standing timber on forest land classified as 3e timberland. (e.g., measure volume of each species in merchantable stands and assign unit price based on the value of public land timber sales in the county, etc.)

-How often is the assessment procedure updated for a tract of land classified 3e?

b) Auxiliary Forest Tax
-There are two methods for assessing and paying the yield tax on timber.
Method 1 bases the yield tax on a percent of the value of all timber harvested.
Method 2 bases the yield tax on a percent of the value of annual timber growth.
Which method is used in your county?
(circle one)

Method 1 Method 2

c) Tree Growth Tax
-What method is used to calculate annual timber growth rates?

-What method is used to calculate the average stumpage values?

11. What are the key issues in forest property tax policy that you feel need to be addressed?

12. What changes in existing tax laws pertaining to forest land would you recommend? (e.g., change assessment rates, assessment procedures, tax rates, abolish law altogether, etc.)

13. Do you believe that a new forest property tax law should be developed in Minnesota?

yes no

If you answered yes, give a brief description of the law you would like to see implemented.

Thank you for participating.