Forest Property Tax Policy in the United States

September 30, 2015

Michael A. Kilgore
Professor, Department of Forest Resources
Director, Natural Resources Science & Management Program
University of Minnesota
St. Paul, MN
Outline

1. National view of forest property tax programs.
2. Regional view of forest property tax programs.
3. Research on forest property tax program enrollees.
4. Data on Wisconsin family forest owners.
5. Examples of unique forest property tax programs.
Motivating Private Forest Landowners

Ways of Influencing Private Forest Landowners

- Taxation
- Financial Incentives
- Technical Assistance
- Education
- Regulation
National View of Forest Property Tax Programs
# National Data on Forest Property Tax Enrollment

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of forest landowners enrolled</td>
<td>990,000</td>
</tr>
<tr>
<td>Acres enrolled</td>
<td>179 million</td>
</tr>
<tr>
<td>Average benefit to enrollees ($ / acre / year)</td>
<td>$9.52</td>
</tr>
<tr>
<td>Total tax benefit provided annually</td>
<td>$1.7 billion</td>
</tr>
</tbody>
</table>

Source: Ellefson, Funk, Kilgore (forthcoming)
Types of Forest Property Tax Programs in the United States - 2014

- Current Use Valuation: 50%
- Modified Ad Valorem: 14%
- Flat Tax: 8%
- Yield/Severance: 8%
- Exemption: 6%
- Hybrid Tax: 14%

Source: Ellefson, Funk, Kilgore (forthcoming)
Intended Benefits: Forest Property Tax Programs - 2014

- Timber Production: 33%
- Forest Sustainability: 18%
- Open Space: 15%
- Fish/Wildlife: 14%
- Recreation: 11%
- Water: 9%

Source: Ellefson, Funk, Kilgore (forthcoming)
## Forest Property Tax Programs

### Requirements

<table>
<thead>
<tr>
<th>Attribute</th>
<th>% of Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requires a forest management plan</td>
<td>53</td>
</tr>
<tr>
<td>Requires minimum enrollment period (range is 0-50 years, 6 years is average)</td>
<td>55</td>
</tr>
<tr>
<td>Imposes a withdrawal penalty</td>
<td>85</td>
</tr>
</tbody>
</table>

Source: Butler et al. 2010
Estimated Tax Savings
Preferential Forest Property Tax Programs

Estimated Savings
- More than 75%
- 50% - 74%
- 25% - 49%
- Less than 25%
- No Estimate Given
- Automatic Assessment/Classification

Source: Butler et al. 2010
Regional View of Forest Property Tax Programs
Estimated Forest Property Tax Program Enrollment (acres) -- North Central Region

- North Dakota: 369,000
- South Dakota: 492,000
- Minnesota: 1 million
- Wisconsin: 3.3 million
- Iowa: 700,000
- Missouri: 35,000
- Illinois: 163,000
- Indiana: 600,000
- Ohio: 7 million
- West Virginia: 2.2 million
- Kentucky: 1.1 million

Source: Ellefson, Funk, Kilgore (forthcoming)
Average Annual Net Benefit (per acre) of Forest Property Tax Program Enrollees (2013)

North Central Region
Average Net Benefit Per Acre

- Michigan 1: $1.25
- Illinois: $1.54
- South Dakota: $4.83
- Nebraska: $5.06
- Minnesota 2: $5.60
- North Dakota: $6.55
- Missouri: $6.61
- Minnesota 1: $7.00
- West Virginia: $8.20
- Iowa: $12.19
- Michigan 2: $23.02
- Indiana: $24.67
- Ohio 2: $28.82
- Wisconsin 2: $32.46
- Wisconsin 1: $35.51
- Ohio 1: $60.28
- Kansas: $60.28

Source: Ellefson, Funk, Kilgore (forthcoming)
<table>
<thead>
<tr>
<th>Type</th>
<th>Number of Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-Based Amount (Ad Valorem, Current Use)</td>
<td>8</td>
</tr>
<tr>
<td>Standard Amount (Fixed, Flat Rate)</td>
<td>8</td>
</tr>
<tr>
<td>Exemption or Exclusion</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Ellefson, Funk, Kilgore (forthcoming)
## Forest Property Tax Program Attributes

### North Central Region

<table>
<thead>
<tr>
<th>Tax Program Attribute</th>
<th>Number (17 Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application Requirement</td>
<td>14</td>
</tr>
<tr>
<td>Minimum Conditions</td>
<td>16</td>
</tr>
<tr>
<td>Parcel Size (min, max)</td>
<td>15, 2</td>
</tr>
<tr>
<td>Program Commitment</td>
<td>12</td>
</tr>
<tr>
<td>Withdrawal Penalty</td>
<td>14</td>
</tr>
<tr>
<td>Forest Mgmt Plan Required</td>
<td>11</td>
</tr>
<tr>
<td>Non-Timber Benefits</td>
<td>6</td>
</tr>
<tr>
<td>Public Access Requirement</td>
<td>5</td>
</tr>
<tr>
<td>Evidence of Compliance</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Ellefson, Funk, Kilgore (forthcoming)
Recent Research on Forest Property Tax Program Enrollees

• Tax burden and forest land turnover
• Impact of multi-year development restrictions
• Value of landowner hunting rights
• Forest landowner perspectives on forest tax laws
High Property Tax Burden and Forest Land Retention

• Studies have repeatedly documented high property taxes as a major determinant of a landowner’s reason to sell forest land.

• No statistically-significant positive relationship between tax burden and likelihood of selling forest land in MN.

• Forest land sales activity actually decreases with increasing property tax burden.

Source: Kilgore 2014
Value Forest Landowners Place on Multiyear Development Restrictions

- MN has two forest property tax programs that are nearly identical, but one requires an 8-yr development restriction.
- Most tax program enrollees opted for substantially less property tax benefit ($425/year, on average) to avoid the 8 year development restriction.
- The study estimated $1,279/year tax savings is needed to get 50% enrollment in each program.

Source: Bagdon and Kilgore 2013
Value Forest Landowners Place on Exclusive Hunting Rights

MN study estimates that $50/acre/year is needed for half of all family forest landowners to keep their land open to non-motorized public hunting.

Owners more likely to sell their hunting rights:

• Concerned about property damage or littering
• Hunting is their primary ownership objective
• Don’t post their forest land
• Absentee owners
• Forest land has low market value

Source: Kilgore, et al. 2008
Family Forest Owner Perceptions

Obstacles to greater program participation

- Lack of program awareness.
- Difficulties obtaining program information.
- Negative word of mouth about the program.
- Back taxes penalty – landowners want flexibility.
- Giving “control” to the government.
- Strict adherence to program requirements.
- Don’t qualify for the program (e.g. min. acreage).
- Insignificant tax savings relative to commitment.
- Lower land sale value if enrolled.
Wisconsin Family Forest Owners
National Woodland Owner Survey Data
- A Profile of WI’s Family Forest Owners -

• Random, systematic sample of the nation’s private forest owners.

• Data collected: 2002-2006.

• WI data screened: only ownerships of 10+ acres included.

• 340 records in the WI sample.
WI Family Forest Owners
Reasons for Owning Forest Land

1,000 acres

- Beauty/Scenery
- Hunting/Fishing
- Privacy
- Protect Nature
- Pass Land to Heirs
- Non-Hunting &...
- Timber Production
WI Family Forest Owner Socio-Economic Concerns

- High property taxes
- Keeping land intact...
- Trespassing or dumping
- Vandalism or dumping
- Development
- Vehicle noise or...
- Timber theft
- Harvest regulations
- Lawsuits
- Endangered species
WI FFO Ecological Concerns

- Insects or plant diseases: 1,000 acres
- Undesirable plants: 4,000 acres
- Fire: 3,000 acres
- Air or water pollution: 2,000 acres
- Wind or ice storms: 1,500 acres
- Lack of new trees: 1,200 acres
- Wild animals: 1,000 acres
- Domestic animals: 500 acres
Comparing MFL and Non-MFL Participants

No statistical differences:
• Concern over property taxes
• Importance of hunting as ownership reason
• Likely to transfer forest land in 5 yrs.
• Concerned over keeping forest land intact

Differences:
• MFL more interested in timber management
• MFL more interested in improving wildlife habitat
Forest Property Tax Program: Effectiveness and Examples of Unique Programs
Qualities of “Effective” Tax Programs

• Clearly articulated tax program goals
• Program requirements help achieve program goals
• Significant tax break
• Complimentary of other state programs
• Consistent administration / landowner treatment
• Stable program funding
• Periodic program reviews conducted
• Application process not cumbersome/help available
Ranking of Property Tax Program by Effectiveness Criteria

COMPOSITE SCORES BASED ON ASSESSMENT OF
> Goal Articulation
> Magnitude of Tax Break
> Complementarity With Other Programs
> Consistency in Administration
> How Well Requirements Achieve Goals
> Stability of Funding
> Periodic Review
> Availability of Application Assistance

6th Quantile
4th Quantile
3rd Quantile
2nd Quantile
1st Quantile

Focus Group States
NO DATA

** Data also unavailable for Alaska & Hawaii

Source: Butler et al. 2010
Examples of Different Forest Property Laws

Minnesota Sustainable Forest Incentive Program

- Annual “Incentive” payment made by state directly to landowner ($7/acre in 2015)
- Normal property taxes levied (no break)
- Forest management plan required
- Covenant (8 year minimum) recorded on deed prohibiting development
  - 4 year advance withdrawal notice
Maine Tree Growth Tax Law

- Land value is value of annual tree growth (annual tree growth x stumpage price)
- Land value schedules for each county:
  - Softwood forests
  - Mixed wood forests
  - Hardwood forests
Summary of Forest Property Tax Policy

• State forest tax laws vary considerably.
• Tax laws are increasingly requiring landowner commitments to participate.
• Landowner participation is influenced by:
  ➢ Owner awareness of the program
  ➢ Tax benefit provided
  ➢ Program eligibility requirements
  ➢ Program requirements of landowner
Summary of Forest Property Tax Policy (continued)

• Major barriers to participation include distrust of government, fear of losing control of land, and insufficient tax benefit relative to requirements.

• Linkages between landowner tax savings and benefits produced is tenuous at best.
Discussion
Process

- What did you take away from Mike’s presentation, and what can we learn from that?

- 3 rounds each with one question, 12 minutes each round

- 1-2-4-All
Question 1: What?

What did you notice about the various other forest management incentive programs?
Question 2: So What?

How does this influence your thinking about what an incentive program can provide?
Question 3

What is the #1 take-away you have from today’s discussion that you thinking important as the CoF thinks about forest management incentive programs in Wisconsin?