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Background Brief on ...

# Timber Revenue

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## Background

Currently Oregon timber taxes include property tax on the assessed value of privately owned forestland and the Forest Products Harvest Tax, which is levied per thousand board feet harvested and are used to fund various Department of Forestry programs, forest research, and the Oregon Forest Resources Institute. Various statutes distinguish forestland from farmland or other land uses and allow land that is not zoned as forestland to be designated as forestland subject to penalties, if it is converted to a non forest use. Historically, Oregon timber taxes have also included, at one time or another, property tax on the value of standing timber, severance or privilege taxes on the value of timber harvested, and special programs for cutover lands and land in small ownerships.

Local governments in Oregon also receive revenue from state managed forestlands and from federally managed forestlands. Prior to 1929, all private forestland (8 million acres) and the value of standing timber on the land were subject to property taxation. Between 1929 and 1977, a Forest Fee and Yield Tax was allowed for reforestation lands (860,000 acres) in lieu of property taxes. In 1953, a Forest Products Harvest Tax was imposed per thousand board feet on all merchantable harvests from both public and private land. In 1961, the Small Tract Option allowed property tax on the productivity value of qualified forestland (200,000 acres) in western Oregon. In 1962 (eastern Oregon) and in 1977 (western Oregon), severance taxes were imposed on the value of timber harvested in lieu of property tax on the value of standing timber with the value of both forestland and timber harvested determined by the Department of Revenue. The 1977 legislation returned the reforestation lands to the regular program over roughly 20 years. State-collected severance taxes were distributed to local taxing districts.

## Oregon Law

As of July 1, 2004, all forestland is subject to the Forest Products Harvest Tax and all private forest land is taxed under the Oregon Forestland program (sometimes referred to either as the 100% program or the industrial program) unless the owner elects to have qualified parcels taxed under the Small Tract Forestland program. Under the Oregon Forestland program, forest land is assessed for property tax at the lesser of either its maximum assessed value or its specially assessed value as determined by the Department. There are no severance taxes imposed at the time of harvest other than the

Forest Products Harvest Tax. Under the Small Tract Forestland (STF) program, forest land has a specially assessed value equal to 20% of the value determined by the Department. In lieu of paying 100%, the 80% is deferred and a severance tax must be paid at the time of harvest in addition to the Forest Products Harvest Tax.

An owner of a disqualified specially assessed parcel that had been designated forestland must repay the deferred taxes that would otherwise have been assessed against the land for the lesser of the time the land was designated forestland or 10 years. An owner of a disqualified specially assessed parcel that had been designated STF must repay the deferred taxes that would otherwise have been assessed against the land for the lesser of the time the land was designated STF or 5 years.

Revenue from the sale of timber off state-owned, Common School Fund lands goes to the Common School Fund. Net revenue from the sale of timber off state-owned and managed county trust lands goes to the counties and other local taxing districts that include these lands.

### **Federal Law**

Federal legislation requires that revenue from the sale of timber off U.S. Forest Service lands (1908) and Oregon and California Railroad lands (1937) be shared with local governments. Each National Forest pays 25% of its gross revenue to counties in the forest with 25% going to the county school fund and 75% to the county road fund. The Bureau of Land Management pays 50% of the gross revenue from O & C lands to the 18 O&C counties under the O&C formula. Beginning in 1993, federal legislation provided minimum payments for lands affected by the Spotted Owl

The Secure Rural Schools & Community Self-Determination Act of 2000 allowed counties to elect to receive payments based on the average payment for the highest 3 years between 1986 and 1990. The Act expired in September, 2006. If federal payments are not extended beyond 2005-06, several counties located in SW Oregon will lose about 85% of these revenues. In addition, these counties will be unable to recoup their losses by imposing additional property taxes because of very low permanent rates under Measure 50. Raising property tax rates by local option levies would not be sufficient for some counties to replace forest revenue and may force tax rates into compression under Measure 5.

### **Revenues**

The next table shows actual timber revenues for tax and ownership groups in millions of dollars. The state revenues have been revised from FY95/96 forward in order to reflect gross figures that include ODF's share that is used for administration, management and support services before it transfers remaining balances to counties. Federal revenues listed in the table reflect county receipts. Property taxes on forestlands listed in the table are based on land that has been assessed as 'Highest and Best Use' forestland, 'Designated Forestland' and 'Small Tract Forestland', exclusive of any improvements on these parcels.

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*The table below shows actual and estimated timber revenues for tax and ownership groups in millions of dollars* **ACTUAL AND ESTIMATED TIMBER REVENUES**

	Privately Owned Land		Publicly Owned Land		Forest	
Fiscal Year	Property Tax	Severance / Privilege Tax	State	Federal	Products Harvest	Total
1990-91	15.24	58.02	29.05	247.10	4.12	353.60
1991-92	16.83	54.34	45.07	232.42	8.41	357.07
1992-93	20.02	51.83	38.15	215.70	9.26	334.96
1993-94	20.10	64.24	47.50	208.14	9.94	349.92
1994-95	20.92	68.41	61.01	196.64	8.70	355.67
1995-96	4.43	55.12	62.50	184.19	8.01	314.25
1996-97	4.66	43.79	82.99	167.54	7.96	306.94
1997-98	4.42	37.30	59.16	162.41	8.77	272.06
1998-99	4.55	35.93	82.89	153.59	13.05	290.01
1999-00	4.69	32.68	99.40	145.32	11.11	293.20
2000-01	14.12	23.68	85.83	221.89	10.48	356.00
2001-02	14.63	18.90	83.14	243.04	9.67	369.38
2002-03	15.58	13.30	83.59	243.25	11.42	367.14
2003-04	13.60	3.79	89.85	244.00	11.94	363.18
2004-05	17.49	1.05	97.11	247.86	13.02	376.53
2005-06	18.09	.74	100.74	254.03	12.00	385.60

- Rates for some programs are set by each Session of the Legislature.
- Source: FY0506 Annual SAL Property Tax Data for property taxes.
- Source: DOR - Forest Products Taxes and Severance Taxes
- Source: Association of Oregon Counties - Federal Forest Payments to Counties.
- Sources: ‘The 2006 Report of the Council of Forest Trust Land Counties’, (ODF, p.5) and ‘The 2006 Status of Common School Forest Land Management’, (ODF, p. 9) for timber revenues derived from state-owned and county–trust forest lands.



