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Legislative Committee Services
State Capitol Building
Salem, Oregon 97301
(503) 986-1813

Background Brief on ...

Timber Revenue

The growing and harvesting of trees on both private and public forestland generates timber revenue. Property taxes are collected on the value of private forestland. A severance tax applies to the value of trees harvested on small tracts in private ownership. A privilege and a harvest tax are levied on the volume of harvested timber from both private (and public) land. Historically, Oregon timber taxes have also included property tax on the value of standing timber and special programs for reforestation cutover lands.

Oregon Law

Local Revenue

Local governments receive timber revenue from property taxes and severance taxes. Property taxes apply to the assessed value of privately owned forestland. Severance taxes apply to the harvesting on timber on small tracts of forestland. 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.

All private forestland is taxed under the Oregon Forestland program (sometimes referred to either as the 100 percent 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, forestland is assessed for property tax at the lesser of either its maximum assessed value or its specially assessed value as determined by the Department of Revenue (**DOR**). 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, an owner of 4,999 acres or less can apply to the county assessor to have qualified parcels taxed under the STF

program. This forestland has a specially assessed value equal to 20 percent of the value determined by the DOR. In lieu of paying tax on 100 percent of assessed value, 80 percent of the tax is deferred and a severance tax based on the volume, not the value, of the timber must be paid at the time of harvest along with the Forest Products Harvest Tax.

If the county disqualifies a specially assessed parcel of previously designated forestland, the owner must repay the amount of the tax reduction (deferred taxes) they received for up to the previous five years. If the county disqualifies a specially assessed parcel previously designated STF, the owner must repay the amount of the tax reduction (deferred taxes) they received for up to the previous ten years.

Local governments in Oregon also receive shared revenue from state-owned and trust forestlands and from federally owned forestlands.

State Revenue

All forestland is subject to the Forest Products Harvest Tax. For calendar years 2010 and 2011 the combined tax rate is \$2.685 per thousand board feet harvested. The tax is used to fund the administration of the Oregon Forest Practices Act by the Department of Forestry, the Forest Research Laboratory and fire suppression.

Revenue, after administrative expenses, from the sale of timber located on 124,000 acres of state-owned Common School Fund land goes into the Common School Fund. Earnings from the Fund are distributed to school districts.

There are 658,000 acres of state-owned and managed county trust lands, also known as Board of Forestry (**BOF**) land. After certain transfers, about 66 percent of the revenue from the sale of timber from this land goes to the county where harvested. After no less than 10 percent for county administration, twenty-five percent of the remainder goes to the County School Fund for distribution to school districts and the balance is distributed to other local

taxing districts that provide services to BOF land.

Federal Law

Federal legislation requires that revenue from the sale of timber off U.S. Forest Service lands (1908) and Oregon and California Railroad (**O&C**) lands (1937) be shared with local governments. Each national forest paid 25 percent of its gross revenue to counties in the forest with 25 percent going to the county school fund and 75 percent to the county road fund. The Bureau of Land Management paid 50 percent 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. Subsequently, the Secure Rural Schools & Community Self-Determination Act of 2000 (Public Law 106-393) allowed counties to elect to receive payments based on the average payment for the highest three years between 1986 and 1990. This Act expired in 2006.

In 2007, the federal government extended provisions of the Act for one year. In 2008, the provisions were extended again for four years, but at a declining percent of base year revenue. In 2009-2010 revenue will be 80 percent of federal payments for fiscal year 2006 and in 2010-2011, 70 percent.

There is a substantial risk that the federal government will not continue the program beyond the current extension. Over half of the revenue loss impacts the five counties with large tracts of federal timber: Douglas; Lane; Jackson; Klamath; and Josephine. Some counties may be unable to fully recoup their losses by imposing voter-approved, local-option property taxes. Measure 5 limits may force local-option tax rates into compression even though Measure 50 set very low permanent county rates.

Revenues

The table on the last page shows timber revenues for ownership and tax groups in millions of dollars. State revenues reflect gross

figures that include the Oregon Department of Forestry'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.

Timber Tax History

Prior to 1929, the value of 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 Western Oregon Small Tract Option allowed property taxes based 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 DOR. The 1977 legislation returned the reforestation lands to the forest program over a 20 year period. State-collected severance taxes were distributed to local taxing districts.

In 1991, a privilege tax replaced the severance tax to avoid any conflict with the Measure 5 (1990) property tax limit and the tax rate was phased down. In 1993, standing timber became exempt from property tax but privilege taxes levied on timber harvest value were preserved equivalent to 80 percent of property taxes. Forestland property taxes accounted for the remaining 20 percent.

By 1996, the privilege rate was 3.2 percent and applied to all private harvests in western Oregon except the small tract option. The eastern Oregon rate was 1.8 percent. Property tax levies submitted by local taxing districts were reduced by privilege tax revenue until 1997-1998 and the beginning of Measure 50 (1997).

The 1999 Legislature created a new program that phased out the privilege tax at harvest with full exemption in 2003. Standing timber was exempted from property taxes and the taxation of forestland was fully integrated into the property tax system. The new forestland valuation applied to all forestland ownerships greater than 5,000 acres. To mimic the cut-and-cap procedure for determining maximum assessed value under Measure 50 (1997), the maximum assessed value base was calculated by taking the 1995 indexed statutory value and reducing it by 10 percent. This value can then grow by 3 percent per year. Specially assessed value was phased up to 100 percent of statutory value as adjusted by Measure 50 by 2003.

As an alternative for small forestland owners, a new small tract option privilege tax was developed in 2003. Privilege tax revenue is distributed to counties (not offset) for distribution to taxing districts except for education. The school share (65 percent) is divided between the State School Fund (93 percent) and the Community College Support Fund (7 percent).

For more detail refer to the [Legislative Revenue Office](#) website under publications:
"Revenues from Timber in Oregon"
Research Report #7-00 and
"Oregon's Forestland Revenue-Impacts on State and Local Public Services."
Research Report #5-07.

Timber Revenue By Ownership and Source Actual and Estimates in \$ millions						
	Privately Owned Land		Publicly Owned Land		Forest Products Harvest Tax	
Fiscal Year	Property Tax	Severance Tax	State	Federal		Total
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	0.74	100.74	254.03	12.00	385.60
2006-07	16.98	0.52	103.64	288.95	10.53	420.62
2007-08	15.71	0.19	90.72	288.35	10.18	405.15
2008-09	18.64	0.03	80.38	263.39	11.68	374.12
Rates for some programs are set by each session of the legislature. Source: DOR - Property Tax Data from SAL report, Table 2C. Source: DOR - Forest Products Taxes and Severance Taxes Source: Association of Oregon Counties - Federal Forest Payments to Counties. Sources: "The 2009 Report of the Council of Forest Trust Land Counties," (ODF, p. 7, Table 4) and "The Common School Forest Lands Annual Report," (ODF, p. 4, Table 1) for state-owned and county-trust forestlands.						

Staff Contact

Timber Revenue Economist

[Legislative Revenue Office](#)

503-986-1266