

**Property Tax  
Sustainable Forest Program; Refunds**

March 13, 2001

	<b>Yes</b>	<b>No</b>
Separate Official Fiscal Note Requested		<b>X</b>
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings	<b>X</b>	

Department of Revenue  
Analysis of H.F. 1346 (Howes) / S.F. 1228 (Rest)

	<u>Revenue Gain or (Loss)</u>		
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>
		(000's)	<u>FY2005</u>
General Fund		(\$1,010)	(\$2,318)

Effective for taxes payable in 2003 and thereafter.

**EXPLANATION OF THE BILL**

**Current Law:** Land that is rural in character and used exclusively for growing trees for timber, lumber, and wood and wood products is classified as Class 2b timberland with a class rate of 1.2 percent. Forested land may also be classified as agricultural homestead or nonhomestead, seasonal recreational residential, resorts, or residential homestead or nonhomestead.

Subject to approval by the county, a tree growth tax may be levied in lieu of property tax on timberland consisting of five or more acres that will be used exclusively for the growing of continuous forest crops with sustained yield practices for a period of ten years. Owners must agree to keep the land open to use by the public for hunting and fishing. The tree growth tax for commercial forest types is calculated using county-average growth rates and average timber sale receipts on state lands. Non-productive forestland is taxed at a flat rate of \$0.05 per acre per year, and the owner must agree to reforest within ten years or the tax rate rises to \$0.15 per acre. If a landowner decides to withdraw from the program, a penalty is assessed equal to the difference in the tree growth and ad valorem taxes for up to ten years. About 712,000 acres are enrolled in ten counties.

**Proposed Law:** The tree growth tax program is repealed, and a new sustainable forest refund program is established. Property is eligible if it consists of a minimum of 20 contiguous acres with at least 50 percent forested during the enrollment period, which must be a minimum of eight years. A forest management plan must be prepared by a preparer approved by the commissioner of the Department of Natural Resources (DNR), and timber management guidelines must be followed. There must not be delinquent property taxes on the property. The owner must file an application for refund to the commissioner of the Department of Revenue (DOR), and the application and its approval will be deemed a covenant running with the land and must be recorded. The owner must annually certify that all requirements of the covenant are being met. The refund will be the difference between: a) the per acre estimated market value multiplied by the class rate for Class 2b timberland, multiplied by the local tax

rate for the city or town, and b) the lesser of one-third of the amount (a) or a per acre "current use value" multiplied by the class rate for timberland Class 2b, multiplied by the local tax rate for the city or town. The total refund equals the per acre amount times the number of enrolled acres. The proposal does not require that assessors change the classification of eligible timberland to Class 2b if it is not already classified as 2b.

To withdraw from the program without penalty, an owner must inform the DOR of intent to withdraw after a minimum of four years, and may withdraw four years from January 1 following the four-year notice. If the DOR determines that the property is in violation of the terms of enrollment, the DOR will assess a penalty equal to the tax benefit for the previous four years plus interest.

### **REVENUE ANALYSIS DETAIL**

- Information from the U.S. Forest Service, the DNR, a survey of county assessors, and the department's property tax simulation model was used to estimate the potential cost of the proposal.
- It was assumed that about 3,000 owners would file in the first year, and a combined total of 7,000 owners in the second year of implementation. This participation represents about 5 percent of potential acres in the first year and 12 percent in the second year.

**Number of Taxpayers Affected:** About 3,000 owners will file in the first year, and a combined total of 7,000 owners by the second year.

### **ADMINISTRATIVE/OPERATIONAL IMPACT**

Implementing the sustainable forest refund program according to this proposal requires significant department costs from forest plan oversight, design of forms (to be used as a covenant), an application process, and a database that will require ongoing maintenance. Staff time will also be required to oversee the application process, coordinate with county governments and U of MN experts as well as data entry of the expected 10,000 applicants in the program.

Source: Minnesota Department of Revenue  
Tax Research Division  
<http://www.taxes.state.mn.us/polic.html#analyses>