

The Forest Taxation Problem in the United States

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ALTHOUGH in recent years forestry has taken great forward strides, and although many acres of forest land have been set aside as National Forests upon which further depletion of our timber supplies are automatically discontinued, the fact still remains that our timber is being cut faster than it is growing.

Vast though our National Forests are they represent but a very small fraction of the total land area whose best use is as timberland, and it is on the balance of this land that this problem of destructive utilization exists. On such privately owned land forestry is not being practiced except in rare and scattered instances.

The depletion, exhaustion and destruction of the business capital of a forest enterprise seems to be essential if such an enterprise is to show a satisfactory profit or even, perhaps, any profit at all. The management of forests on a sustained yield basis, on the other hand, seems to hold nothing of promise for the capitalist. If the long period of waiting for a return which a sustained yield forestry investment must necessarily involve is not sufficient to discourage the capitalist then the uncertainty as to the market conditions of the distant future or the hazards of such an investment such as fire, insect and disease damage and taxes will provide enough discouragement for him.

THE taxation problem is thus seen to be but one of the factors and perhaps one of the less important factors which are influencing timber owners toward liquidation procedures instead of sustained yield forestry procedures, and the removal of the taxation problem is not, as some people think, a panacea for our forest problem.

There are, however, many border-line cases where an assurance of fair taxes in the future or a special favor by way of reduced taxes might produce the necessary stimulus for sustained yield forestry, and it must also be realized that the removal of any obstacle, no matter how small, in the path of sus-

stated yield forestry will serve to hasten our progress toward that goal.

In speaking of the forest taxation problem we are concerned almost entirely with the property tax or those taxes which are levied by the States and by the lesser governments upon the value of property. Federal and other types of State taxes may definitely be considered as not a part of the problem.

Division of the forest taxation problem into two parts will also help to clarify the situation. In one part we may consider taxation of forest property in conjunction with taxation on all property, and in this respect we immediately discover that timberland owners are not the only ones who recognize a problem in taxation. Apparently something is wrong with taxation in general. This fault may be attributed either to the amount of revenue needed or to the method of distributing this amount.

CONSIDERING the amount of revenue needed there are those who contend that the costs of government are too high as a result of the many minute local governments such as townships, counties and school districts which are prevalent in many localities and which overlap each other often both in purpose and in territory. The abolition or consolidation of such governments is advised.

Also in connection with the amount of revenue needed there are those who advocate a more conservative policy on the part of these local governments. In other words it is believed that these local governments are living beyond their means and should retract. If the foregoing arguments are valid the reduced costs of government would reduce the tax load on all property, and timber owners could expect their share of relief.

In the apportionment of the property tax forest owners, as a rule, feel that they are being unjustly treated. Whether or not this is true is hard to say, but it is true that in the methods of assessment there lies much room for improvement. Too often the assessment of the property tax is carried out in a haphazard fashion by inexpert and partisan appraisers. It has been suggested that the appraisers for all of the local governments as well as for the State governments be made agents of the States alone and that they be technically trained men, well paid and of high integrity.

In the other part of the forest taxation problem we consider forest property separately from other property. Viewed in this light we discover that, as applied to the taxation of forest

lands, the property tax is at fault technically. That is, on forest property from which an annual and a sustained income is not being experienced the property tax is at fault. On forest property where such a management plan is in operation the property tax gives essentially the same treatment as for any other property. But sustained yield forests are very rare in the United States, and until they become the rule instead of the exception the property tax will remain an unfair method of taxation.

THE technical fault referred to above is briefly this: on a deferred income investment a greater proportion of the capitalized future income is taken by the property tax than from an investment yielding regular annual returns equal to the interest on the capital. At this point it is essential to remember that our goal and the solution of a great national problem is sustained yield forestry. But the realization of sustained yield forestry from the present condition of our forest land necessitates a deferralment of income, and a deferralment of income is penalized by unjust treatment at the hands of the property tax.

It is also important to realize that the bad effects of the property tax are due to the fact that the cycle of governmental demands is much shorter than the cycle of deferred income payments in forestry enterprises, and that the establishment of the property tax on any other than an annual basis to fit the needs of forestry is not feasible.

THAT part of the forest taxation problem which is inseparable from the taxation problem as a whole will submit to correction only with the combined efforts of all property owners. Acting alone the owners of forest property can expect but little progress along these lines, but as the public in general becomes more enlightened along the lines of proper taxation methods it seems not unreasonable to expect that the future will find the present methods of taxation being replaced by more equitable and more scientific methods.

Acting alone, however, foresters and owners of forest property may reasonably expect a solution to the second part of the forest taxation problem or to that part which deals with the fault of the property tax as applied to forest property. In this regard, vigorous remedial measures have been advocated from time to time by interested parties, and it is, we believe, pertinent to consider the possibilities and the weaknesses of some of these measures.

First, there are those who advocate the placing of forest taxation on a different basis from that of other property. In this category we find the yield tax which is perhaps the most widely used remedy for the inconsistencies of the property tax, fourteen States having at the present time adopted this method.

The yield tax, in general, provides for the application of the property tax to the land only and for the application of a tax on yield to the timber at the time of the harvest of the timber crop. The base for the taxation of timber is thus seen to be removed from the taxation base of other property, and there is, therefore, no theoretical justification for the rate of the yield tax.

It also becomes evident from the above explanation of the yield tax that since the owner of the timber is able to control at will the time and the amount of his harvest he is also able to control the amount of tax revenue obtainable from the harvest as well as the time that it can be collected. Such a situation can scarcely be said to be compatible with good government owing to the disturbance to local revenues which might result.

TO illustrate a specific example of the yield we may point to the law passed in Oregon in 1929. This law provides for the placing of forest lands under an acreage tax of five cents, and for the application of a tax of twelve and one half percent of their value to the timber and to the forage.

As a whole the success of the yield tax as applied in the various States is somewhat doubtful. In many cases the laws are optional, and only a small portion of the land is affected by them.

Another and more radical plan which is sometimes advocated is the leaving of all immature timber free of assessment and of the application of a property tax to the land only. This plan fails to recognize the fact that governments need revenue, and that all property should bear its just share of the burden.

OTHER plans advocate tax laws which would modify the property tax but which would be applicable only to owners who signify their intention of practicing forestry. Such laws would be out of accord with the best principles of government to such an extent that we need give them no further consideration.

Formal recognition of the forest taxation problem on the part of our national government first took place in 1923 and had

its expression as but part of an Act of Congress which provided for an investigation into the problems affecting reforestation.

The Clarke-McNary Law of 1924, one of the provisions of which required investigations into the forest taxation problem, culminated in 1926 in the establishment of the Forest Taxation Inquiry with headquarters in New Haven, Connecticut.

This Inquiry, under the direction of F. R. Fairchild, one of our foremost economists, made extensive tax delinquency studies. Records of transactions of forest property were investigated thoroughly. The tax laws of the various States and even of foreign countries were carefully considered. Finally in 1935 a 681 page report was published which contained in great detail the findings of the investigation.

Being qualified as a result of their work, as perhaps no other group of men have ever been in the United States, the members of the Inquiry proceeded to incorporate into their report their idea of the most likely solution to the forest taxation problem. They considered at length the yield tax and the other plans mentioned above, but they decided that these failed to give the correct solution to the problem.

UNDER the "adjusted property tax" plan recommended by the Forest Taxation Inquiry the owner of forest property is relieved of taxation upon the increase in value which results from the payment of taxes and the accumulation of interest prior to the receipt of income from the forest. This tax thus attempts to reduce the assessed value of the forest property in any one year by an amount equal to the amount of interest and taxes accumulated to the end of the preceding year. Critics of this plan, while conceding its theoretical soundness, have expressed the belief that the method is far too complicated.

Also recommended by the Inquiry are "deferred timber tax" and the "differential timber tax" plans. Under the first of these two the owner pays no taxes on the timber in years of no income. In years when an income is obtained he pays the smaller of the following two amounts: first, the deferred property tax on the timber accumulated without interest, and second, a definite part of the stumpage value of the timber when cut. A property tax on the land would, of course, be paid annually.

The "differential timber tax" plan also provides for the separation of the timber and the land, but in this case with a

property tax applied to both. A simple reduction factor would then be applied to the property tax on the timber.

THE IMMEDIATE situation seems to call for the putting to the test of one of the above or perhaps some other plan by some State or local governments. If such a plan can then be said to have met all the requirements of a just taxation method, and if it serves to remove, at least in part, the barriers which are now preventing the practice of forestry, it will then serve as an example for other State and local governments to follow. Thus, ultimately, we realize a condition in which forest taxation is not a factor contributing to the destruction of our forests, and forest taxation will then cease to be a problem.



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THE TREE

The tree is a great chained giant,
Skin cracked and wrinkled,
Gray and weatherbeaten,
Mouth buried in its food,
The soil;
Its massive lungs spread out
And expanded to the breezes, which,
Rustling through the ramifications,
Bring life and vitality
To its sturdy old body.
The blood courses through its veins
In the form of sap;
Fixed, immovable, but
Fulfilling its destiny,
With a purpose as steadfast
As its person.

—Daniel Carter Beard