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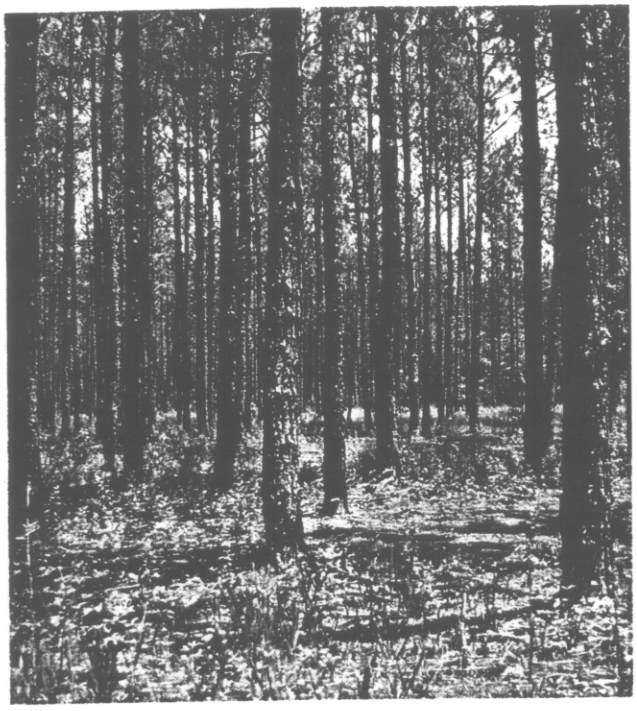

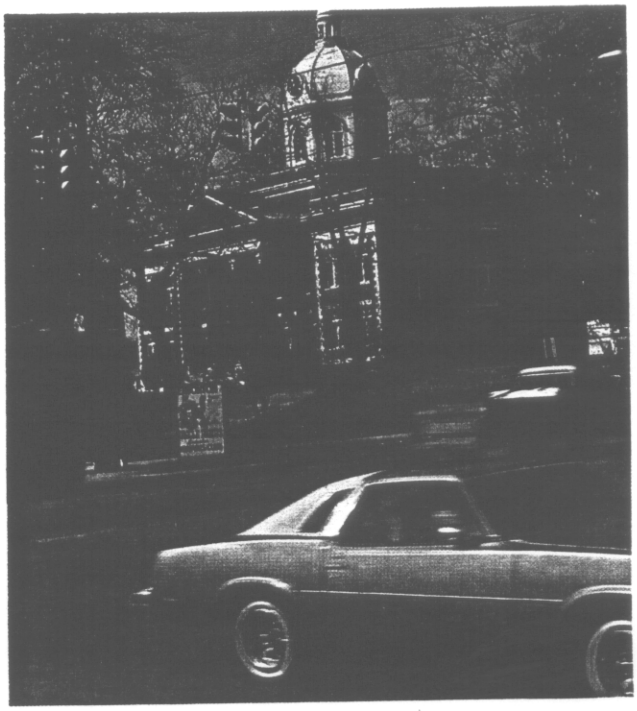

AD VALOREM TAX POSTURE ON FOREST LANDS IN GEORGIA, 1980

By

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The property tax is the principal source of revenue for local government in Georgia. By law the amount of one's tax bill is determined by the value of his property -- thus the derivation of the term ad valorem, meaning "on the basis of value."

It is the job of tax assessors to place values on all property holdings within their taxing jurisdictions. Typically they appraise each ownership on the basis of "Fair Market Value" and multiply this by a percentage called the Assessment Ratio. In Georgia this ratio is set at 40 percent. The resultant is the Assessed Value. Thus, the value of a piece of property on the open market should be two and one-half times its assessed (tax) value. Homestead exemption, applied to property on which the owner resides, is subtracted from the assessed value, yielding the amount upon which the property is taxed.

The millage, or tax rate set by the governing body of the county or municipality, is multiplied by the assessed value (minus homestead exemption, if any). The product of this calculation is the actual tax bill.

To illustrate the computation of a taxpayer's property tax bill, let us assume that one owns a 100 acre tract of timberland and does not reside on it. The property's appraised (fair market) value is $30,000, based on its $300 per acre valuation for the land and timber. The assessed value is $12,000 (40 percent of market value). There is no homestead exemption. Accordingly, if millage for the county in which the land is located is 25.00, the taxpayer will receive a bill of $300. This would indicate an obligation to the county of $3.00 per acre for that tax year.

DATA COLLECTION

Georgia Forestry Commission field personnel in each of the districts throughout the state personally contacted tax officials in all of Georgia's counties. They were provided typically high and typically low assessed values per acre of forest and non-forest lands within each county. These were multiplied by the official millages, providing high and low tax levels per acre. A mid-range representation was calculated for each county, and the statewide median was then ascertained. The median was chosen as the best statement of average, indicating half the counties were at lower levels and the other half at higher levels. These median values complement similar data collected during previous tax survey years to give the basis for establishing a long-term trend analysis.

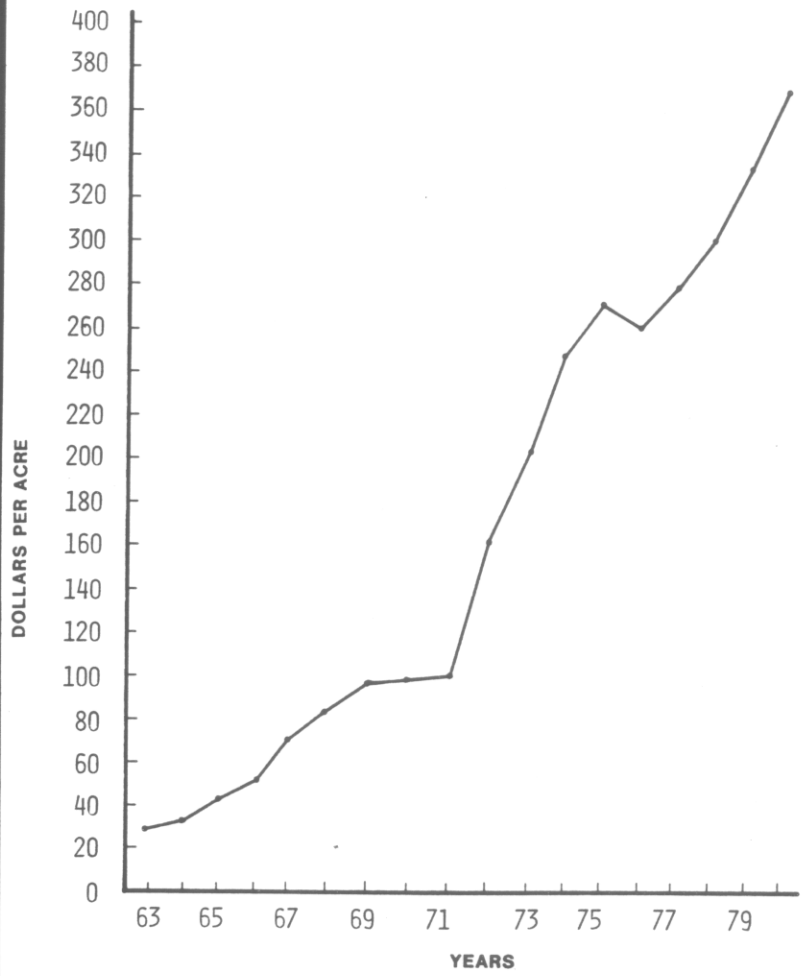
RESULTS

LAND VALUE

Assessed values for both forest and non-forest lands were converted to fair market values, providing readers a valuation standard to which they were more accustomed. During the period of available data (1963-80), the assessors' value estimates of forest land in Georgia increased some eleven-fold from $29 to $369 per acre. Non-forest (crop and pasture) land went up in value from $39 to $473 during the same time frame.

AD VALOREM TAX
Rural Georgia Lands
1963-1980

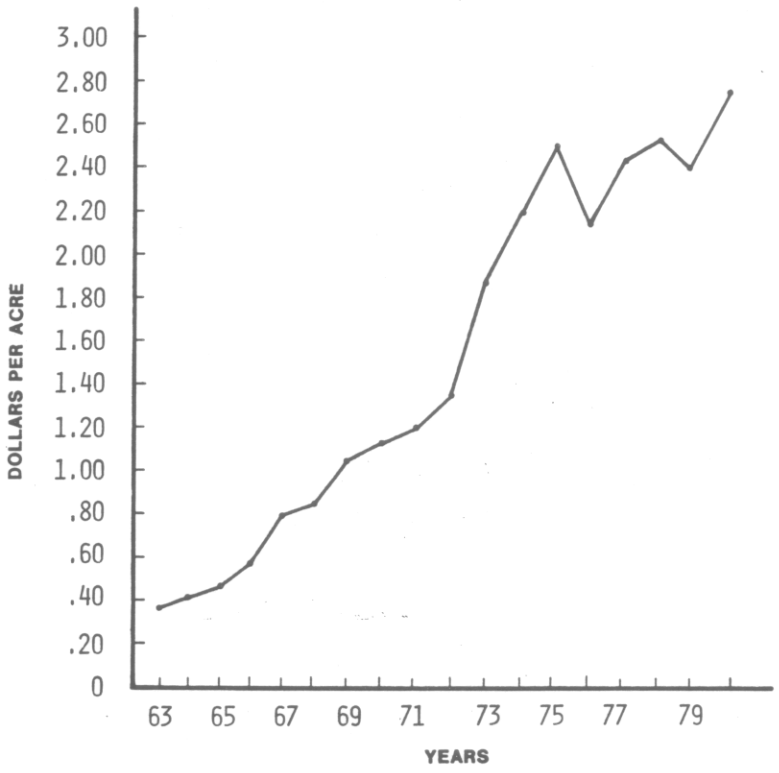
Year	Median Fair Market Value ($) Forest	Non-Forest	Median Millage	Median Tax Per Acre ($) Forest	Non-Forest
63	29	39	45.00	0.37	0.46
64	32	43	45.50	0.42	0.55
65	42	57	46.50	0.46	0.64
66	52	70	40.25	0.57	0.75
67	70	98	28.25	0.79	1.01
68	82	110	26.75	0.85	1.16
69	95	125	29.75	1.04	1.35
70	98	130	29.75	1.12	1.43
71	100	134	30.00	1.19	1.56
72	161	213	22.25	1.34	1.91
73	203	300	22.84	1.86	2.66
74	248	315	23.50	2.19	2.83
75	268	353	23.50	2.49	3.15
76	250	314	23.43	2.16	2.89
77	278	351	23.43	2.41	3.09
78	300	363	22.37	2.51	3.11
79	334	434	18.92	2.39	3.09
80	369	473	19.96	2.73	3.58



MEDIAN FAIR MARKET VALUE OF GEORGIA FOREST LAND, 1963-80

TAX LEVEL

If the tax rate had not changed during the period, landowners would be paying taxes proportionally as much more as land values rose. However, because median millage decreased from 45.00 to approximately 20.00 during this period, taxes climbed only about half as much as assessments. From $0.37 per acre in 1963, forest property taxes jumped to $2.73 in 1980, while those on non-forest land increased from $0.46 to $3.58. At the start of this decade forest landowners were paying more than seven times what they had been paying in the early sixties to support local government. Property taxes became disproportionately higher than other forms of tax levies or the general cost of living, even with double-digit inflation.



MEDIAN TAX PER ACRE, GEORGIA FOREST LAND, 1963-80

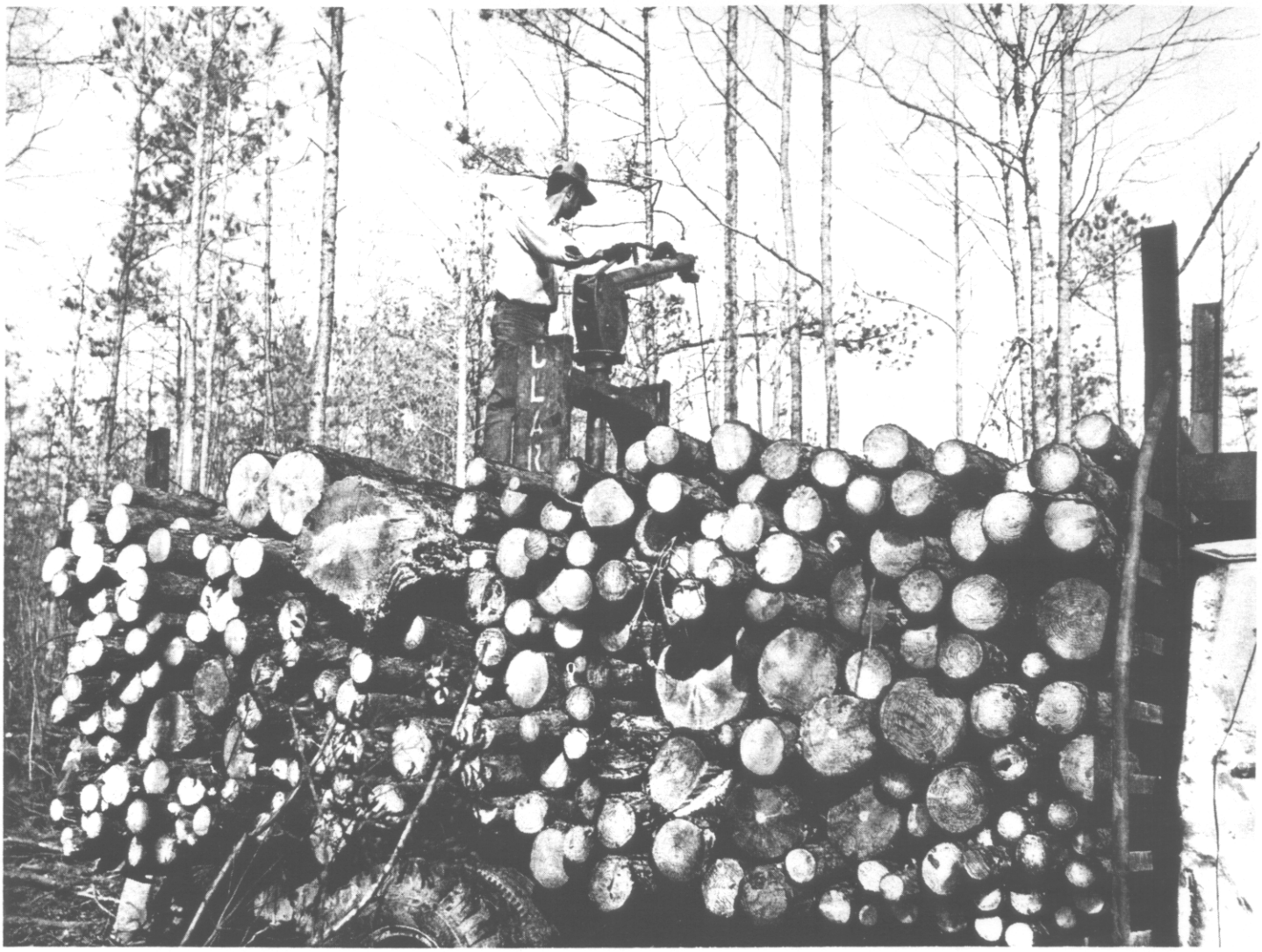
DISCUSSION

Most forest land is held for income producing purpose. Accordingly, like other prudent crop growers, forest landowners growing timber crops seek to increase profit potential by implementing wise management practices. The more inherently productive the land, the greater the profit potential.

The principal difference between growing timber and agricultural crops is the time between harvests. Whereas rotation age for rowcrops may be expressed in months, one often thinks in terms of decades for timber crops. Furthermore, rowcrops are exempt from ad valorem taxes while forest crops are taxed every year on an ad valorem basis. Thus a 50 year-old pine stand will have been taxed every year, not only on the growth for each of those years but also on the total value for every one of those years until harvest. One might say that both the interest (new growth) and the principal (previous growth) are taxed during each

This is a typical unmanaged stand of mixed species.

Shown above is a well managed stand of loblolly pine.



Georgia continues to be the nation's leader in the production of pulpwood.

year from time of establishment until the trees are severed. Before being cut, the trees, being attached to the land, are considered as real property. When severed, they (as logs) become personal property.

It would seem that the basic inequity described above, coupled with the predicted shortfall of wood fiber in this country before the end of this century, should suggest the wisdom of re-defining real property not to include the long-term crop of standing timber. By having their forest property taxed only on the value of the bare land (excluding the timber growing thereupon), landowners would be encouraged to produce larger quantities of higher quality trees. They would certainly not be as likely to be tempted to liquidate growing stock prematurely. A helpful element in the tax system would be a provision to appraise forest property on the basis of its bare land value, whereby productivity rather than market conditions would primarily determine value.

The market imposes another dilemma--speculation, as it may affect fair market value. A forest landowner may have his property assessed at a much higher valuation because an adjoining tract was sold for speculative purposes at an abnormally high level. The local tax assessor is required to assess similar properties according to recent sales of comparable properties. In Georgia, legislation providing for assessment on "present use" rather than "highest and best use" (as influenced by comparable property sales) would obviate this type problem.

RECOMMENDATIONS

1. IMPLEMENT PRESENT USE/PRODUCTIVITY VALUATION.

Land committed to timber production should be appraised on the basis of its ability to produce timber crops. It should not be valuated on the amount of timber growing on the land at the time or on the basis of how much a similar tract may have recently sold for in another (developing) portion of the county. Productivity potential is easily determined from site index -- an indicator of site quality -- which relates to soil type. Readily available soil survey maps for all land in the state provide evidence of productivity. Site index classes, as determined by soil types, can be easily developed to reflect ranges of value per acre for rural lands. Within these ranges the local assessor would pick the most realistic valuation, based on locational or other timber market factors.

2. REJECT YIELD OR SEVERANCE TAX.

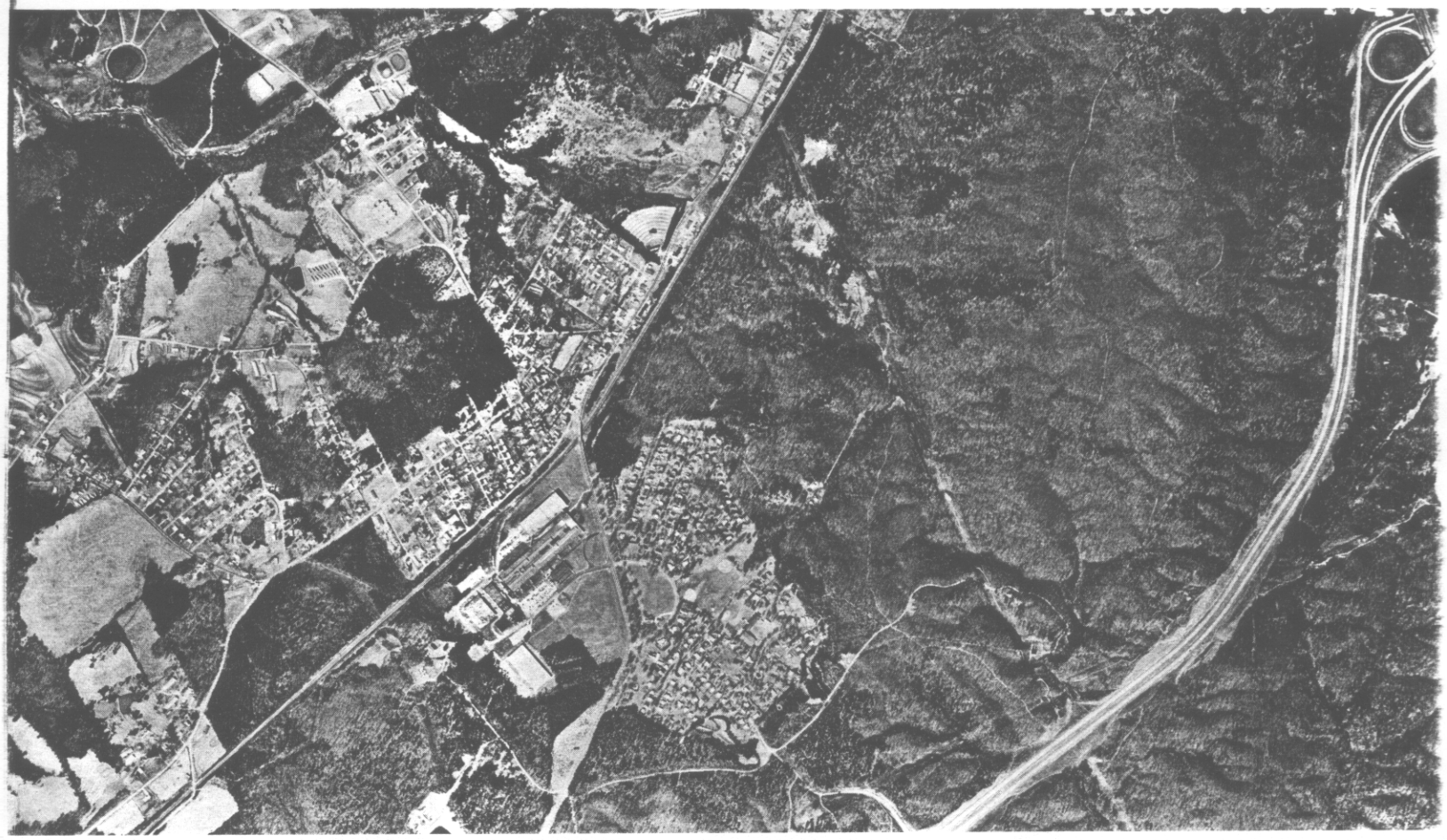
Some states have promulgated tax legislation designed to raise revenue at the time of timber harvest.

The Yield Tax, employed in 16 states, amounts to an additional tax on gross income. A percentage of the stumpage sale price at harvest time is levied to compensate for annual payments through property taxes. Major drawbacks of this approach include its difficulty to administer, ease of avoidance, and fluctuation of revenue due to unstable market conditions.

The Severence Tax, employed in seven states, supplements the ad valorem tax. Saddled with some of the same disadvantages as the yield tax, this form of revenue is a privilege tax imposed at harvest time. It is a payment of a fixed amount per unit of forest product harvested, such as per cord of pulpwood or thousand board feet of sawtimber.

If Georgia continues to rely on the property tax for local revenue, without yield or severance taxes, it would need only to implement legislation providing for present use/productivity assessment rather than highest and best use/fair market value assessment. Such a fair and equitable method would insure stable income to the county treasury and provide forest management incentive to landowners through more predictability of tax levels each year. In this way they would be better encouraged to make necessary investments for producing timber crops to satisfy our increasing needs for wood fiber -- until and beyond the turn of this century.

This aerial photo shows vast forests adjacent to an expanding urban area.



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