TAXATION AS APPLIED TO FOREST PROPERTIES
AND CUT-OVER LAND

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TAXATION is a subject that has occupied human thought since civilization began and we continue to struggle along with a tax system satisfactory to everyone still looming distant on the far horizon. Taxes are necessary to support government which, in turn, is essential to the welfare of us all. The difficulty lies in working out some system that will return an adequate revenue to the state without causing unnecessary hardship to individuals or to the structure of business as a whole. Indeed, the two interests are so nearly interlocking as to be practically one. Business structure, although vague in form, and unwieldy in fact, is, nevertheless, amazingly sensitive in its reaction to general tendencies and trends. And one of the motive forces behind those trends is taxation. In years of high taxes people economize, limit their purchases to the minimum, and, as a consequence, poor business results. That legislator who plays lightly with matters of taxation is liable to start something, the consequences of which from an economic point of view are impossible to forecast.

The subject of forest taxation and the taxing of cut-over lands (lands from which the timber has been removed) has long been a knotty problem. As matters stand at the present time in Wisconsin, timber is taxed as real estate. That is, it is assessed and taxed year after year until it is finally cut. Inasmuch as timber standing in the forest does not produce any cash revenue these taxes tend to cause the owner to liquidate his timber assets as quickly as possible. He cuts his timber, whereas under some other method of taxation he might be inclined to practice forestry or hold it as a future reserve supply waiting for the increase in lumber values that is almost certain to come with the rapid decrease in the supply of merchantable timber. Inasmuch as standing timber is usually located in counties where farm development is limited and where the major part of the county revenue comes from taxes on timber, the result is the establishment of the vicious cycle. The maintenance of the county government and the carrying on of various county projects and activities such as roads, schools, and so forth, demands a definite income each year. That income must be maintained

*The writer is a Forest Engineer of noteworthy achievements and his article deals with a subject that is rapidly growing in importance. The Review trusts that its readers will realize the necessity of present action if Wisconsin is to maintain its rank as a lumber producing state.
whether the timber is cut or not. As the amount of timber in the county decreases the taxes become higher on the timber that remains and the urge on the part of the timber owner to cut and "get out from under" becomes more intense. This might all be summarized in a little song running something like this:

- The less timber, the higher the taxes,
- The higher the taxes, the faster the cutting,
- The faster the cutting, the less timber,
- The less timber, the higher the taxes.
- And so forth.

The thing goes on and on, gathers momentum, and presently all the timber in the county is gone.

There was a time, and not so long ago, when citizens of northern counties believed that all heavily timbered land was potentially agricultural and that farms would absorb most of the cut-over land. This has not proven to be the case. Much of the soil, although well adapted to the growing of trees, is not good enough to farm and the land that was once productively engaged in growing timber now lies idle. As a result there is nothing of taxable value equal to the timber that once stood on the ground and the county finds itself unable to support itself properly. Many of the once flourishing little saw mill towns have been abandoned due to the fact that the lumber companies have shifted their operations to sections where there is more timber. The county, therefore, finds itself with few or no industries, no appreciable amount of agricultural activity, and with large acreages of cut-over lands upon the tax rolls on which the owners are reluctant to pay taxes and titles to which are frequently allowed to lapse in lieu of tax payment. The writer has no particular county in mind and there is probably no northern county in just the situation that has been described, although there are strong grounds for belief that there are some that are not far from it. The situation is pictured as the writer has seen it in other states after the cycle has run to its logical conclusion. It is not to be understood that the above situation is entirely due to the inherent injustice of existing tax laws. It is due rather to the manner in which those laws have been regarded by those whom they concerned. The men owning timberlands in the north could in all probability have operated those timberlands on forestry principles, cutting only the larger trees and leaving the smaller ones to grow. Those who have studied the situation believe that this could have been done at a profit. We know, at least, that in Europe forestry has been successfully carried on by private agencies under almost every conceivable form of taxation. Yet our timber owners feel that the present tax system forms too great a burden unless the timber is rapidly liquidated in a manner that does not conform with
the cutting system advocated by practical foresters. The timber owners are good business men; they feel that their position in the matter is correct and they feel it in all sincerity. It is the belief of many students of forest taxation that the difficulty is psychological rather than actual; indeed, a prominent member of the United States Forest Service has recently so stated in an article. But whether psychological or actual, the difficulty exists and unless some revision is made, the owner of timber will continue to cut to avoid what he believes are unnecessarily heavy taxes and our supply of standing timber will be depleted faster than would otherwise be necessary or desirable.

What is the solution to this problem? Authorities differ, but some states have passed laws that seem to be an improvement upon the type of law that we have in Wisconsin. These states have passed a law calling for a severance tax or, as it is more commonly known, a "yield tax." Under this plan of taxation, the owner of the timber pays a moderate annual tax upon each acre of land upon which his timber is growing but pays no tax upon the timber itself until the timber is cut. That is, in addition to his moderate land tax he pays a tax upon his crop or "yield." In Louisiana, which is a very progressive state in regard to forest policies, this yield tax amounts to 2 per cent of the value of the timber at the time of cutting. This plan does not result in financial hardship upon the county provided that lumber companies located within the county are engaged in an active logging program. In counties where timber owners are not cutting, however, but are holding for speculation, there is a very decided reduction in county revenue as a result. In Wisconsin, however, where logging is constantly going on, the principle of the yield tax might work out very satisfactorily. At least it would almost surely result in a slowing down of cutting programs inasmuch as lumbermen would not have to carry a heavy tax burden before cutting, and would not feel so strongly the need for rapid liquidation. Such a law would also encourage the practice of forestry because the obstacle of taxes, whether psychological or actual, would be removed.

Another vital question is that of the taxing of cut-over lands. The title on many thousands of acres of cut-over land is allowed to lapse in lieu of taxes every year. The owners find themselves unable to sell the land for farm purposes and they do not feel that they can afford to pay taxes for a long period of years while they wait for young timber to grow to maturity. As already stated, much of the cut-over land is best suited to the growing of timber. This can be done in two ways: (1) by planting; (2) by encouraging the growth of young trees already on the land provided that there are enough trees and that they are of the proper species. But the average land owner is loath to pay taxes for a period of fifty years or more pending the maturing of his forest. He
naturally demands tax reduction. He suggests that he be allowed to pay a very nominal land tax of perhaps five or ten cents per acre per year and that no tax be placed upon the growing timber until it is cut. Again the problem becomes one of county finance. If tax reductions are not granted, the taxes are not paid and the title is allowed to lapse and the county loses in revenue. If reductions are granted the county revenue drops far below the needed quota anyway. The devil is on one side—the deep blue sea on the other. Apparently the only solution is state or federal subsidy. This would be justified from the standpoint that the state and federal governments are interested in a future supply of timber and the subsidy would make tax reduction possible which would, in turn, encourage reforestation. The state of Michigan has been unusually foresighted in the handling of this situation. At the last session of the Michigan legislature a bill was passed which is generally recognized as a very constructive piece of tax legislation. It is known as Act 94 of the Public Acts of 1925. This act provides that any land owner whose land is not primarily valuable for agricultural, mineral, industrial, recreational or resort purposes, can list his land with the State Department of Conservation as a “commercial forest reserve” provided that he can present prima facie evidence to the effect that his land has enough young tree growth of valuable species to warrant reasonable expectation of a future crop. If the property is accepted for listing by the Department of Conservation, the taxes are lowered to five cents per acre per year for pine sand land and swamps and to ten cents per acre per year for hardwood land. The owner also will be assessed a yield tax of 25 per cent of the value of the timber at the time of cutting. The state agrees to subsidize the counties to the extent of five cents per acre per year for each acre listed under the law and the county also gets one half of the revenue from the yield tax. If, after having the property listed for some years, the owner wishes to withdraw it he can do so but there is a penalty attached. In cases of withdrawal from listing the county also gets one half the penalty. If the land is withdrawn within fifteen years of date of listing the penalty is five cents per acre per year in addition to the tax. If withdrawn after fifteen years, the penalty is as above for the first fifteen years and ten cents per acre per year for each year over fifteen. If withdrawn after twenty-five years there is a tax of 30 per cent of the full stumpage value of the forest products then upon the land.

This law has created a good deal of discussion and there have been some opinions to the effect that the yield tax of 25 per cent is too high. The writer is inclined to believe that there is some truth in that contention, although it is not a serious matter. Doubtless the administration of the law by the Department of Conservation will bring out the de-
sirability of various changes and adjustments and if the yield tax is found to be too high for practical operation the matter can be remedied. The general consensus of opinion seems to be that the law is a progressive and constructive piece of legislation and that the state of Michigan has taken a distinct step forward in the handling of her land problems.

The purpose of this article is not to make recommendations with reference to the state of Wisconsin. The writer has merely tried to portray the general forest and cut-over land tax problem as it now exists and to outline in brief some of the methods by which other states are trying to solve those problems. It would seem that a tax law similar to the one enacted by Michigan would be workable in Wisconsin for conditions in the two states are very similar. There has been some talk of introducing a bill to the next legislature but whether or not this will be done is a matter of conjecture. Insofar as taxation of standing timber is concerned, it is my opinion that a yield tax would be a great deal preferable to our present method of taxation.

Students of conditions in the northern part of the state feel that the early adaptation of forestry practice by timber owners is of vital importance to the welfare of that region. If that end can be achieved by a revision of our tax laws let us by all means encourage that revision. If modified tax laws can be passed that will result in improved methods of timber cutting and in a reduction in the rate of cutting and if taxes on cut-over lands can be so regulated as to encourage natural and artificial reforestation, much will have been accomplished toward promoting the future welfare of the state.