

HOUSE BILL NO. 340

INTRODUCED BY REAM, B. BROWN  
BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE

IN THE HOUSE

JANUARY 22, 1991                   INTRODUCED AND REFERRED TO COMMITTEE  
ON TAXATION.

JANUARY 23, 1991                   FIRST READING.

MARCH 27, 1991                   COMMITTEE RECOMMEND BILL  
DO PASS AS AMENDED. REPORT ADOPTED.

                                  ON MOTION, TAKEN FROM SECOND READING  
AND REREFERRED TO COMMITTEE  
ON APPROPRIATIONS.

MARCH 28, 1991                   PRINTING REPORT.

APRIL 1, 1991                    COMMITTEE RECOMMEND BILL  
DO PASS AS AMENDED. REPORT ADOPTED.

                                  PRINTING REPORT.

APRIL 2, 1991                    SECOND READING, DO PASS.

APRIL 3, 1991                    ENGROSSING REPORT.

APRIL 4, 1991                    THIRD READING, PASSED.  
AYES, 68; NOES, 31.

                                  TRANSMITTED TO SENATE.

IN THE SENATE

APRIL 4, 1991                   INTRODUCED AND REFERRED TO COMMITTEE  
ON TAXATION.

                                  FIRST READING.

APRIL 10, 1991                   COMMITTEE RECOMMEND BILL BE  
CONCURRED IN. REPORT ADOPTED.

APRIL 15, 1991                   SECOND READING, CONCURRED IN.

APRIL 16, 1991                   THIRD READING, CONCURRED IN.  
AYES, 49; NOES, 0.

                                  RETURNED TO HOUSE.

IN THE HOUSE

APRIL 17, 1991

RECEIVED FROM SENATE.

SENT TO ENROLLING.

APRIL 19, 1991

REPORTED CORRECTLY ENROLLED.

APRIL 20, 1991

SIGNED BY PRESIDENT.

SIGNED BY SPEAKER.

DELIVERED TO GOVERNOR.

APRIL 25, 1991

RETURNED FROM GOVERNOR WITH  
RECOMMENDED AMENDMENTS.

SECOND READING, GOVERNOR'S  
AMENDMENTS CONCURRED IN.

IN THE SENATE

APRIL 29, 1991

SECOND READING, GOVERNOR'S  
AMENDMENTS CONCURRED IN.

THIRD READING, GOVERNOR'S  
AMENDMENTS CONCURRED IN.

IN THE HOUSE

APRIL 29, 1991

SENT TO ENROLLING.

REPORTED CORRECTLY ENROLLED.

1 HOUSE BILL NO. 340  
 2 INTRODUCED BY Ream Bob Brown  
 3 BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE  
 4

5 A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE THE  
 6 TAXATION OF PRIVATE FOREST LANDS; DEFINING FOREST LAND AND  
 7 FOREST PRODUCTIVITY VALUE; REQUIRING THE DEPARTMENT OF  
 8 REVENUE TO VALUE FOREST LANDS OF 5 ACRES OR MORE ON THE  
 9 BASIS OF PRODUCTIVITY BY CAPITALIZING THE NET INCOME OF  
 10 FOREST LAND; AUTHORIZING THE DEPARTMENT OF REVENUE TO  
 11 ESTABLISH FOREST VALUATION ZONES; PROVIDING FOR A TRANSITION  
 12 PERIOD IN THE TAXATION OF FOREST LANDS BY EXTENDING THE  
 13 TERMINATION DATE OF CLASS THIRTEEN PROPERTY; PROVIDING THAT  
 14 CLASS THIRTEEN WILL APPLY TO THE TAXATION OF FOREST LANDS  
 15 BEGINNING JANUARY 1, 1994; PROVIDING THAT LAND MUST BE  
 16 CLASSIFIED AS AGRICULTURAL LAND IF ITS GRAZING VALUE IS  
 17 GREATER THAN ITS FOREST PRODUCTIVITY VALUE; EXEMPTING TIMBER  
 18 FROM AD VALOREM PROPERTY TAXATION; PROVIDING AN  
 19 APPROPRIATION; AMENDING SECTIONS 15-1-101, 15-6-143,  
 20 15-6-201, AND 15-8-111, MCA, AND SECTION 10, CHAPTER 681,  
 21 LAWS OF 1985; AND PROVIDING EFFECTIVE DATES, APPLICABILITY  
 22 DATES, AND A TERMINATION DATE."  
 23

24 WHEREAS, the Department of Revenue does not have  
 25 adequate resources to properly administer the existing

1 standing inventory method of taxing forest lands; and  
 2 WHEREAS, the standing inventory method of taxing forest  
 3 lands encourages landowners to harvest timber without regard  
 4 to good forest management; and  
 5 WHEREAS, the valuation of forest lands in Montana is  
 6 often based on outdated information; and  
 7 WHEREAS, the Forest Taxation Subcommittee of the Revenue  
 8 Oversight Committee found that the forest productivity  
 9 method of taxing forest lands encourages good forest  
 10 management and is a more equitable method of taxing forest  
 11 lands; and  
 12 WHEREAS, the forest productivity method of taxing forest  
 13 lands is in the long run easier and less costly to  
 14 administer than the standing inventory method; and  
 15 WHEREAS, the Forest Taxation Subcommittee of the Revenue  
 16 Oversight Committee recommends that forest lands be taxed on  
 17 the basis of productivity; and  
 18 WHEREAS, it is the intent of the Legislature to  
 19 implement the recommendation of the Forest Taxation  
 20 Subcommittee of the Revenue Oversight Committee.  
 21 THEREFORE, it is the purpose of this bill to implement  
 22 the recommendation to change the method of taxing forest  
 23 lands in the state.

24 STATEMENT OF INTENT  
 25



-2- INTRODUCED BILL  
 HB 340

1 A statement of intent is required for this bill because  
 2 the department of revenue is granted authority to adopt  
 3 rules for the administration and enforcement of the forest  
 4 productivity method of taxing forest lands.

5 The legislature contemplates that rules adopted by the  
 6 department should, at a minimum, address the following:

7 (1) guidelines for information that must be contained  
 8 in the statement of intent submitted by the forest landowner  
 9 as provided for in [section 2(5)(b)];

10 (2) the form to be used by the forest landowner for the  
 11 statement of intent;

12 (3) the procedures for determining appropriate forest  
 13 valuation zones and for computing forest land valuation  
 14 schedules;

15 (4) the notification of landowners who may be eligible  
 16 for forest land classification under this bill;

17 (5) the process by which a landowner may appeal the  
 18 valuation of the owner's forest land; and

19 (6) the definition of terms and establishment of  
 20 procedures as appropriate for the efficient administration  
 21 of the forest productivity method of taxation.

22 In determining forest productivity values and in  
 23 computing forest land valuation schedules, the department  
 24 shall use the assistance of the university of Montana. The  
 25 legislature also intends that, in implementing this bill,

1 the department seek the advice of the department of state  
 2 lands, landowners of private forest lands, the timber  
 3 industry, and local governments.  
 4

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

6 NEW SECTION. **Section 1.** Short title. [Sections 1  
 7 through 5] may be cited as the "Forest Lands Tax Act".

8 NEW SECTION. **Section 2.** Definitions. For the purposes  
 9 of [sections 1 through 5], unless the context requires  
 10 otherwise, the following definitions apply:

11 (1) "Culmination of mean annual increment" means the  
 12 point of optimum net wood production on an acre of forest  
 13 land.

14 (2) "Cultivated Christmas trees" means Christmas trees  
 15 that are grown on land prepared by intensive cultivation and  
 16 tilling, such as by plowing or turning over the soil, and on  
 17 which all unwanted plant growth is controlled for the  
 18 exclusive purpose of raising Christmas trees.

19 (3) "Department" means the department of revenue.

20 (4) "Forest" means forest land and the timber on the  
 21 land.

22 (5) "Forest land" means contiguous land of 5 acres or  
 23 more in one ownership that is capable of producing timber  
 24 that can be harvested in commercial quantity and is  
 25 producing timber unless the trees have been removed by man

1 through harvest, including clearcuts, or by natural  
2 disaster, including but not limited to fire. Forest land  
3 includes land:

4 (a) that has not been converted to another use; or  
5 (b) that has a dedicated use that is evidenced by a  
6 statement of intent by the owner for the eventual harvest of  
7 timber.

8 (6) "Forest productivity value" means the value of  
9 forest land for assessment purposes, which value is  
10 determined only on the basis of its ability to produce  
11 timber, other forest products, and associated agricultural  
12 products through an income approach provided for in [section  
13 3].

14 (7) "Harvest" means an activity related to the cutting  
15 or removal of timber for use or sale as a forest product.

16 (8) "Landowner" means an individual, corporation,  
17 association, company, firm, joint venture, syndicate, or  
18 trust.

19 (9) "Mean annual net wood production" means the average  
20 net usable volume of wood 1 acre of forest land will grow in  
21 1 year under average current and actual forest conditions  
22 and under current and reasonable management practices for  
23 each forest valuation zone established under [section 3].

24 (10) "Stumpage value" means the amount that timber would  
25 sell for under an arm's-length transaction made in the

1 ordinary course of business, expressed in terms of dollars  
2 per unit of measure.

3 (11) "Timber" means all wood growth on privately owned  
4 land, mature or immature, alive or dead, standing or down,  
5 that is capable of furnishing raw material used in the  
6 manufacture of lumber or other forest products. The term  
7 does not include cultivated Christmas trees.

8 **NEW SECTION. Section 3. Legislative intent -- value of**  
9 **forest lands -- valuation zones.** (1) In order to encourage  
10 landowners of private forest lands to retain and improve  
11 their holdings of forest lands, to promote better forest  
12 practices, and to encourage the investment of capital in  
13 reforestation, forest lands must be classified and assessed  
14 under the provisions of this section.

15 (2) The forest productivity value of forest land must  
16 be determined by:

17 (a) capitalizing the value of the mean annual net wood  
18 production at the culmination of mean annual increment plus  
19 other agriculture-related income, if any; less

20 (b) annualized expenses, including but not limited to  
21 the establishment, protection, maintenance, improvement, and  
22 management of the crop over the rotation period.

23 (3) To determine the forest productivity value of  
24 forest lands, the department shall:

25 (a) divide the state into appropriate forest valuation

1 zones, with each zone designated so as to recognize the  
2 uniqueness of marketing areas, timber types, growth rates,  
3 access, operability, and other pertinent factors of that  
4 zone; and

5 (b) establish a uniform system of forest land  
6 classification that takes into consideration the productive  
7 capacity of the site to grow forest products and furnish  
8 other associated agricultural uses.

9 (4) In computing the forest land valuation schedules  
10 for each forest valuation zone to take effect on January 1,  
11 1994, the department shall determine the productive capacity  
12 value of all forest lands in each forest valuation zone  
13 using the formula  $V = I/R$ , where:

14 (a) V is the per-acre forest productivity value of the  
15 forest land;

16 (b) I is the per-acre net income of forest lands in  
17 each valuation zone and is determined by the department  
18 using the formula  $I = (M \times SV) + AI - C$ , where:

19 (i) I is the per-acre net income;

20 (ii) M is the mean annual net wood production;

21 (iii) SV is the stumpage value;

22 (iv) AI is the per-acre agriculture-related income; and

23 (v) C is the per-unit cost of the forest product and  
24 agricultural product produced, if any; and

25 (c) R is the capitalization rate determined by the

1 department as provided in subsection (6).

2 (5) Net income must:

3 (a) be calculated for each year of a base period, which  
4 is the most recent 5-year period for which data is  
5 available;

6 (b) be based on a rolling average of stumpage value of  
7 timber harvested within the forest valuation zone and on the  
8 associated production cost data for the base period from  
9 sources considered appropriate by the department; and

10 (c) include agriculture-related net income for the same  
11 time period as the period used to determine average stumpage  
12 values.

13 (6) The capitalization rate must be calculated for each  
14 year of the base period and is the annual average interest  
15 rate on agricultural loans as reported by the federal land  
16 bank association of Spokane, Washington, plus the effective  
17 tax rate.

18 (7) The effective tax rate must be calculated for each  
19 year of the base period by dividing the total estimated tax  
20 due on forest lands subject to the provisions of this  
21 section by the total forest value of those lands.

22 (8) For the purposes of this section, if forest service  
23 sales are used in the determination of stumpage values, the  
24 department shall take into account purchaser road credits.

25 (9) In determining the forest productivity value of

1 forest lands and in computing the forest land valuation  
2 schedules, the department shall use information and data  
3 provided by the university of Montana.

4 NEW SECTION. **Section 4.** Reduction in valuation on  
5 forest lands for trees destroyed by natural disaster. (1)  
6 Forest lands upon which, at any time after December 31,  
7 1993, trees are destroyed by fire, disease, insect  
8 infestation, or other natural disaster so that the lands  
9 affected will not meet minimum stocking requirements are  
10 eligible for a reduction in value for the first 20 tax years  
11 following the loss.

12 (2) If a landowner shows to the department's  
13 satisfaction that the landowner's forest lands have been  
14 destroyed as provided in subsection (1), the department  
15 shall reduce the value of the forest land by 50% of the  
16 original forest productivity value per year.

17 NEW SECTION. **Section 5.** Administration -- rules. The  
18 department shall:

19 (1) administer and enforce the provisions of [sections  
20 1 through 5];

21 (2) arrange for the preparation and distribution of  
22 forms and information necessary to administer the provisions  
23 of [section 1 through 5]; and

24 (3) promulgate rules necessary to administer and  
25 enforce the provisions of [sections 1 through 5].

1 **Section 6.** Section 15-6-143, MCA, is amended to read:

2 "15-6-143. (Temporary) Class thirteen property --  
3 description -- taxable percentage. (1) Class thirteen  
4 property includes all timberland.

5 (2) Timberland is contiguous land exceeding 15 acres in  
6 one ownership that is capable of producing timber that can  
7 be harvested in commercial quantity.

8 (3) Class thirteen property is taxed at the percentage  
9 rate-"P" 3.84% of the combined appraised value of the  
10 standing timber and grazing productivity of the property.

11 ~~(4) For taxable years beginning January 1, 1986, and~~  
12 ~~thereafter, the taxable percentage rate-"P" applicable to~~  
13 ~~class thirteen property is 30%/B, where B is the certified~~  
14 ~~statewide percentage increase to be determined by the~~  
15 ~~department of revenue as provided in subsection (5). The~~  
16 ~~taxable percentage rate-"P" shall be rounded downward to the~~  
17 ~~nearest 0.01% and shall be calculated by the department~~  
18 ~~before July 1, 1986.~~

19 ~~(5) Prior to July 1, 1986, the department shall~~  
20 ~~determine the certified statewide percentage increase for~~  
21 ~~class thirteen property using the formula B = X/Y, where:~~

22 ~~(i) X is the appraised value, as of January 1, 1986, of~~  
23 ~~all property in the state, excluding use changes occurring~~  
24 ~~during the preceding year, classified under class thirteen~~  
25 ~~as class thirteen is described in this section, and~~

{ii}-Y is the appraised value, as of January 1, 1985, of all property in the state that, as of January 1, 1986, would be classified under class thirteen as class thirteen is described in this section.

{b}-B shall be rounded downward to the nearest 0.0001%.

{6}-After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate "P" until a valuation has been made as provided in 15-7-111, (Terminates January 1, 1991 - sec. 10, Ch. 681, B, 1985.)"

Section 7. Section 15-6-143, MCA, is amended to read:

"15-6-143. {Temporary} Class thirteen property -- description -- taxable percentage -- alternative classification. {1}-Class thirteen property includes all timberland.

{2}-Timberland is contiguous land exceeding 15 acres in one ownership that is capable of producing timber that can be harvested in commercial quantity.

{3}-Class thirteen property is taxed at the percentage rate "P" of the combined appraised value of the standing timber and grazing productivity of the property.

{4}-For taxable years beginning January 1, 1986, and thereafter, the taxable percentage rate "P" applicable to class thirteen property is 30%/B, where B is the certified statewide percentage increase to be determined by the department of revenue as provided in subsection (5). The

taxable percentage rate "P" shall be rounded downward to the nearest 0.01% and shall be calculated by the department before July 1, 1986.

{5}-{a}-Prior to July 1, 1986, the department shall determine the certified statewide percentage increase for class thirteen property using the formula B = X/Y, where:

{i}-X is the appraised value, as of January 1, 1986, of all property in the state, excluding use changes occurring during the preceding year, classified under class thirteen as class thirteen is described in this section; and

{ii}-Y is the appraised value, as of January 1, 1985, of all property in the state that, as of January 1, 1986, would be classified under class thirteen as class thirteen is described in this section.

{b}-B shall be rounded downward to the nearest 0.0001%.

{6}-After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate "P" until a valuation has been made as provided in 15-7-111, (Terminates January 1, 1991 - sec. 10, Ch. 681, B, 1985.)

(1) Except as provided in subsection (5), class thirteen property includes all forest lands as defined in [section 2].

(2) Class thirteen property is taxed at the percentage rate "P" of its forest productivity value.

(3) For taxable years beginning January 1, 1994, and



1 thereafter, the taxable percentage rate "P" applicable to  
 2 class thirteen property is 3.84%/B, where B is the certified  
 3 statewide percentage increase to be determined by the  
 4 department of revenue as provided in subsection (4). The  
 5 taxable percentage rate "P" must be rounded downward to the  
 6 nearest 0.01% and must be calculated by the department  
 7 before July 1, 1994.

8 (4) (a) Prior to July 1, 1994, the department shall  
 9 determine the certified statewide percentage increase for  
 10 class thirteen property using the formula  $B = X/Y$ , where:

11 (i) X is the appraised value, as of January 1, 1994, of  
 12 all property in the state, excluding use changes occurring  
 13 during the preceding year, classified under class thirteen  
 14 as class thirteen is described in this section; and

15 (ii) Y is the appraised value, as of January 1, 1993, of  
 16 all property in the state that would be classified under  
 17 class thirteen as class thirteen is described in this  
 18 section as this section reads in 1993.

19 (b) B must be rounded downward to the nearest 0.0001%.

20 (5) If the department of revenue determines that the  
 21 grazing value of a parcel of forest land is greater than the  
 22 forest productivity value determined under [section 3], the  
 23 land must be classified as agricultural land under  
 24 15-6-133."

25 **Section 8.** Section 15-1-101, MCA, is amended to read:

1 "15-1-101. Definitions. (1) Except as otherwise  
 2 specifically provided, when terms mentioned in this section  
 3 are used in connection with taxation, they are defined in  
 4 the following manner:

5 (a) The term "agricultural" refers to the raising of  
 6 livestock, poultry, bees, and other species of domestic  
 7 animals and wildlife in domestication or a captive  
 8 environment, and the raising of field crops, fruit, and  
 9 other animal and vegetable matter for food or fiber.

10 (b) The term "assessed value" means the value of  
 11 property as defined in 15-8-111.

12 (c) The term "average wholesale value" means the value  
 13 to a dealer prior to reconditioning and profit margin shown  
 14 in national appraisal guides and manuals or the valuation  
 15 schedules of the department of revenue.

16 (d) (i) The term "commercial", when used to describe  
 17 property, means any property used or owned by a business, a  
 18 trade, or a nonprofit corporation as defined in 35-2-102 or  
 19 used for the production of income, except that property  
 20 described in subsection (ii).

21 (ii) The following types of property are not commercial:

22 (A) agricultural lands;

23 (B) timberlands and, beginning January 1, 1994, forest  
 24 lands;

25 (C) single-family residences and ancillary improvements

1 and improvements necessary to the function of a bona fide  
2 farm, ranch, or stock operation;

3 (D) mobile homes used exclusively as a residence except  
4 when held by a distributor or dealer of trailers or mobile  
5 homes as his stock in trade;

6 (E) all property described in 15-6-135; and

7 (F) all property described in 15-6-136.

8 (e) The term "comparable property" means property that  
9 has similar use, function, and utility; that is influenced  
10 by the same set of economic trends and physical,  
11 governmental, and social factors; and that has the potential  
12 of a similar highest and best use.

13 (f) The term "credit" means solvent debts, secured or  
14 unsecured, owing to a person.

15 (g) The term "improvements" includes all buildings,  
16 structures, fences, and improvements situated upon, erected  
17 upon, or affixed to land. When the department of revenue or  
18 its agent determines that the permanency of location of a  
19 mobile home or housetrailer has been established, the mobile  
20 home or housetrailer is presumed to be an improvement to  
21 real property. A mobile home or housetrailer may be  
22 determined to be permanently located only when it is  
23 attached to a foundation which cannot feasibly be relocated  
24 and only when the wheels are removed.

25 (h) The term "leasehold improvements" means

1 improvements to mobile homes and mobile homes located on  
2 land owned by another person. This property is assessed  
3 under the appropriate classification and the taxes are due  
4 and payable in two payments as provided in 15-24-202.  
5 Delinquent taxes on such leasehold improvements are a lien  
6 only on such leasehold improvements.

7 (i) The term "livestock" means cattle, sheep, swine,  
8 goats, horses, mules, and asses.

9 (j) The term "mobile home" means forms of housing known  
10 as "trailers", "housetrainers", or "trailer coaches"  
11 exceeding 8 feet in width or 45 feet in length, designed to  
12 be moved from one place to another by an independent power  
13 connected to them, or any "trailer", "housetrailer", or  
14 "trailer coach" up to 8 feet in width or 45 feet in length  
15 used as a principal residence.

16 (k) The term "personal property" includes everything  
17 that is the subject of ownership but that is not included  
18 within the meaning of the terms "real estate" and  
19 "improvements".

20 (l) The term "poultry" includes all chickens, turkeys,  
21 geese, ducks, and other birds raised in domestication to  
22 produce food or feathers.

23 (m) The term "property" includes moneys, credits,  
24 bonds, stocks, franchises, and all other matters and things,  
25 real, personal, and mixed, capable of private ownership.

1 This definition must not be construed to authorize the  
2 taxation of the stocks of any company or corporation when  
3 the property of such company or corporation represented by  
4 the stocks is within the state and has been taxed.

5 (n) The term "real estate" includes:

6 (i) the possession of, claim to, ownership of, or right  
7 to the possession of land;

8 (ii) all mines, minerals, and quarries in and under the  
9 land subject to the provisions of 15-23-501 and Title 15,  
10 chapter 23, part 8; all timber belonging to individuals or  
11 corporations growing or being on the lands of the United  
12 States; and all rights and privileges appertaining thereto.

13 (o) "Research and development firm" means an entity  
14 incorporated under the laws of this state or a foreign  
15 corporation authorized to do business in this state whose  
16 principal purpose is to engage in theoretical analysis,  
17 exploration, and experimentation and the extension of  
18 investigative findings and theories of a scientific and  
19 technical nature into practical application for experimental  
20 and demonstration purposes, including the experimental  
21 production and testing of models, devices, equipment,  
22 materials, and processes.

23 (p) The term "taxable value" means the percentage of  
24 market or assessed value as provided for in Title 15,  
25 chapter 6, part 1.

1 (q) The term "weighted mean assessment ratio" means the  
2 total of the assessed values divided by the total of the  
3 selling prices of all area sales in the stratum.

4 (2) The phrase "municipal corporation" or  
5 "municipality" or "taxing unit" shall be deemed to include a  
6 county, city, incorporated town, township, school district,  
7 irrigation district, drainage district, or any person,  
8 persons, or organized body authorized by law to establish  
9 tax levies for the purpose of raising public revenue.

10 (3) The term "state board" or "board" when used without  
11 other qualification shall mean the state tax appeal board."

12 **Section 9.** Section 15-6-201, MCA, is amended to read:

13 **"15-6-201. Exempt categories.** (1) The following  
14 categories of property are exempt from taxation:

15 (a) the property of:

16 (i) the United States, the state, counties, cities,  
17 towns, school districts, except, if congress passes  
18 legislation that allows the state to tax property owned by  
19 an agency created by congress to transmit or distribute  
20 electrical energy, the property constructed, owned, or  
21 operated by a public agency created by the congress to  
22 transmit or distribute electric energy produced at privately  
23 owned generating facilities (not including rural electric  
24 cooperatives);

25 (ii) irrigation districts organized under the laws of

1 Montana and not operating for profit;  
 2 (iii) municipal corporations; and  
 3 (iv) public libraries;  
 4 (b) buildings, with land they occupy and furnishings  
 5 therein, owned by a church and used for actual religious  
 6 worship or for residences of the clergy, together with  
 7 adjacent land reasonably necessary for convenient use of the  
 8 buildings;  
 9 (c) property used exclusively for agricultural and  
 10 horticultural societies, for educational purposes, and for  
 11 nonprofit health care facilities, as defined in 50-5-101,  
 12 licensed by the department of health and environmental  
 13 sciences and organized under Title 35, chapter 2 or 3. A  
 14 health care facility that is not licensed by the department  
 15 of health and environmental sciences and organized under  
 16 Title 35, chapter 2 or 3, is not exempt.  
 17 (d) property that meets the following conditions:  
 18 (i) is owned and held by any association or corporation  
 19 organized under Title 35, chapter 2, 3, 20, or 21;  
 20 (ii) is devoted exclusively to use in connection with a  
 21 cemetery or cemeteries for which a permanent care and  
 22 improvement fund has been established as provided for in  
 23 Title 35, chapter 20, part 3; and  
 24 (iii) is not maintained and operated for private or  
 25 corporate profit;

1 (e) institutions of purely public charity;  
 2 (f) evidence of debt secured by mortgages of record  
 3 upon real or personal property in the state of Montana;  
 4 (g) public art galleries and public observatories not  
 5 used or held for private or corporate profit;  
 6 (h) all household goods and furniture, including but  
 7 not limited to clocks, musical instruments, sewing machines,  
 8 and wearing apparel of members of the family, used by the  
 9 owner for personal and domestic purposes or for furnishing  
 10 or equipping the family residence;  
 11 (i) a truck canopy cover or topper weighing less than  
 12 300 pounds and having no accommodations attached. This  
 13 property is also exempt from taxation under 61-3-504(2) and  
 14 61-3-537.  
 15 (j) a bicycle, as defined in 61-1-123, used by the  
 16 owner for personal transportation purposes;  
 17 (k) motor homes, travel trailers, and campers;  
 18 (l) all watercraft;  
 19 (m) land, fixtures, buildings, and improvements owned  
 20 by a cooperative association or nonprofit corporation  
 21 organized to furnish potable water to its members or  
 22 customers for uses other than the irrigation of agricultural  
 23 land;  
 24 (n) the right of entry that is a property right  
 25 reserved in land or received by mesne conveyance (exclusive

1 of leasehold interests), devise, or succession to enter land  
 2 whose surface title is held by another to explore, prospect,  
 3 or dig for oil, gas, coal, or minerals;

4 (o) property owned and used by a corporation or  
 5 association organized and operated exclusively for the care  
 6 of the developmentally disabled, mentally ill, or  
 7 vocationally handicapped as defined in 18-5-101, which is  
 8 not operated for gain or profit;

9 (p) all farm buildings with a market value of less than  
 10 \$500 and all agricultural implements and machinery with a  
 11 market value of less than \$100;

12 (q) property owned by a nonprofit corporation organized  
 13 to provide facilities primarily for training and practice  
 14 for or competition in international sports and athletic  
 15 events and not held or used for private or corporate gain or  
 16 profit. For purposes of this subsection (q), "nonprofit  
 17 corporation" means an organization exempt from taxation  
 18 under section 501(c) of the Internal Revenue Code and  
 19 incorporated and admitted under the Montana Nonprofit  
 20 Corporation Act.

21 (r) provided the tools are owned by the taxpayer, the  
 22 first \$15,000 or less of market value of tools that are  
 23 customarily hand-held and that are used to:

24 (i) construct, repair, and maintain improvements to  
 25 real property; or

1 (ii) repair and maintain machinery, equipment,  
 2 appliances, or other personal property;

3 (s) harness, saddlery, and other tack equipment; and

4 (t) a title plant owned by a title insurer or a title  
 5 insurance producer, as those terms are defined in 33-25-105;  
 6 and

7 (u) beginning January 1, 1990, timber as defined in  
 8 [section 2].

9 (2) (a) The term "institutions of purely public  
 10 charity" includes organizations owning and operating  
 11 facilities for the care of the retired or aged or  
 12 chronically ill, which are not operated for gain or profit.

13 (b) The terms "public art galleries" and "public  
 14 observatories" include only those art galleries and  
 15 observatories, whether of public or private ownership, that  
 16 are open to the public without charge at all reasonable  
 17 hours and are used for the purpose of education only.

18 (3) The following portions of the appraised value of a  
 19 capital investment made after January 1, 1979, in a  
 20 recognized nonfossil form of energy generation, as defined  
 21 in 15-32-102, are exempt from taxation for a period of 10  
 22 years following installation of the property:

23 (a) \$20,000 in the case of a single-family residential  
 24 dwelling;

25 (b) \$100,000 in the case of a multifamily residential

1 dwelling or a nonresidential structure."

2 **Section 10.** Section 15-8-111, MCA, is amended to read:

3 "15-8-111. **Assessment -- market value standard --**  
4 **exceptions.** (1) All taxable property must be assessed at  
5 100% of its market value except as otherwise provided.

6 (2) (a) Market value is the value at which property  
7 would change hands between a willing buyer and a willing  
8 seller, neither being under any compulsion to buy or to sell  
9 and both having reasonable knowledge of relevant facts.

10 (b) If the department uses construction cost as one  
11 approximation of market value, the department shall fully  
12 consider reduction in value caused by depreciation, whether  
13 through physical depreciation, functional obsolescence, or  
14 economic obsolescence.

15 (c) Except as provided in subsection (3), the market  
16 value of all motor trucks; agricultural tools, implements,  
17 and machinery; and vehicles of all kinds, including but not  
18 limited to boats and all watercraft, is the average  
19 wholesale value shown in national appraisal guides and  
20 manuals or the value of the vehicle before reconditioning  
21 and profit margin. The department of revenue shall prepare  
22 valuation schedules showing the average wholesale value when  
23 no national appraisal guide exists.

24 (3) The department of revenue or its agents may not  
25 adopt a lower or different standard of value from market

1 value in making the official assessment and appraisal of the  
2 value of property, except:

3 (a) the wholesale value for agricultural implements and  
4 machinery is the loan value as shown in the Official Guide,  
5 Tractor and Farm Equipment, published by the national farm  
6 and power equipment dealers association, St. Louis,  
7 Missouri;

8 (b) for agricultural implements and machinery not  
9 listed in the official guide, the department shall prepare a  
10 supplemental manual where the values reflect the same  
11 depreciation as those found in the official guide; and

12 (c) as otherwise authorized in Title 15 and Title 61.

13 (4) For purposes of taxation, assessed value is the  
14 same as appraised value.

15 (5) The taxable value for all property is the  
16 percentage of market or assessed value established for each  
17 class of property.

18 (6) The assessed value of properties in 15-6-131  
19 through 15-6-133 is as follows:

20 (a) Properties in 15-6-131, under class one, are  
21 assessed at 100% of the annual net proceeds after deducting  
22 the expenses specified and allowed by 15-23-503 or, if  
23 applicable, as provided in 15-23-515.

24 (b) Properties in 15-6-132, under class two, are  
25 assessed at 100% of the annual gross proceeds.

1 (c) Properties in 15-6-133, under class three, are  
 2 assessed at 100% of the productive capacity of the lands  
 3 when valued for agricultural purposes. All lands that meet  
 4 the qualifications of 15-7-202 are valued as agricultural  
 5 lands for tax purposes.

6 (d) Properties Beginning January 1, 1990, and ending  
 7 December 31, 1993, properties in 15-6-143, under class  
 8 thirteen, are assessed at 100% of the combined appraised  
 9 value of the standing timber and grazing productivity of the  
 10 land when valued as timberland.

11 (e) Beginning January 1, 1994, properties in 15-6-143,  
 12 under class thirteen, are assessed at 100% of the forest  
 13 productivity value of the land when valued as forest land.

14 (7) Land and the improvements thereon are separately  
 15 assessed when any of the following conditions occur:

16 (a) ownership of the improvements is different from  
 17 ownership of the land;

18 (b) the taxpayer makes a written request; or

19 (c) the land is outside an incorporated city or town."

20 **Section 11.** Section 10, Chapter 681, Laws of 1985, is  
 21 amended to read:

22 "Section 10. Effective date -- termination date. This  
 23 act is effective January 1, 1986, and, except for ~~section--3~~  
 24 sections 2 through 4, terminates January 1, 1991."

25 NEW SECTION. Section 12. Appropriation. (1) There is

1 appropriated from the general fund to the department of  
 2 revenue \$614,076 to fund the determination of the forest  
 3 productivity value of forest lands required by [section 3].

4 (2) There is appropriated from the general fund to the  
 5 department of revenue \$366,762 to administer the provisions  
 6 of [sections 1 through 5 and section 7].

7 (3) Notwithstanding the provisions of 17-7-302 through  
 8 17-7-304, the unexpended appropriation in subsection (1) may  
 9 be encumbered for payment in fiscal year 1994.

10 (4) Notwithstanding the provisions of 17-7-302 through  
 11 17-7-304, the unexpended appropriation in subsection (2) is  
 12 reapportioned for fiscal year 1994.

13 NEW SECTION. Section 13. Codification instruction.  
 14 [Sections 1 through 5] are intended to be codified as an  
 15 integral part of Title 15, and the provisions of Title 15  
 16 apply to [sections 1 through 5].

17 NEW SECTION. Section 14. Saving clause. [This act]  
 18 does not affect the rights and duties that matured,  
 19 penalties that were incurred, or proceedings that were begun  
 20 before [the effective date of this act].

21 NEW SECTION. Section 15. Severability. If a part of  
 22 [this act] is invalid, all valid parts that are severable  
 23 from the invalid part remain in effect. If a part of [this  
 24 act] is invalid in one or more of its applications, the part  
 25 remains in effect in all valid applications that are

1 severable from the invalid applications.

2 NEW SECTION. Section 16. Applicability -- retroactive  
3 applicability. (1) Except as provided in subsection (2),  
4 [this act] applies to taxable years beginning after December  
5 31, 1993.

6 (2) [Sections 6 and 11] apply retroactively, within the  
7 meaning of 1-2-109, to taxable years beginning after  
8 December 31, 1990.

9 NEW SECTION. Section 17. Effective dates. (1) Except  
10 as provided in subsections (2) and (3), [this act] is  
11 effective July 1, 1991.

12 (2) [Sections 6 and 11] and this section are effective  
13 on passage and approval.

14 (3) [Section 7] is effective January 1, 1994.

15 NEW SECTION. Section 18. Termination. [Section 6 and  
16 section 10(6)(d)] terminate January 1, 1994.

-End-



STATE OF MONTANA - FISCAL NOTE  
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0340, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:


An act to generally revise the taxation of private forest lands; defining forest land and forest productivity value; requiring the Department of Revenue to value forest lands of 5 acres or more on the basis of productivity by capitalizing the net income of forest land; authorizing the Department of Revenue to establish forest valuation zones; providing for a transition period in the taxation of forest lands by extending the termination date of class thirteen property; providing that class thirteen will apply to the taxation of forest lands beginning January 1, 1994; providing that land must be classified as agricultural land if its grazing value is greater than its forest productivity value; exempting timber from ad valorem property taxation; providing appropriation; and providing effective dates, applicability dates, and a termination date.


ASSUMPTIONS:

1. It is assumed for the purposes of this note that current taxation practices (FY91) of class thirteen (timberland) will continue.
2. The proposal will not impact the taxable value of class 13 in FY92 and FY93.
3. In determining forest productivity values and in computing forest land valuation schedules, the Department of Revenue will use the assistance of the University of Montana.
4. Standing timber will be exempt from taxation beginning January 1, 1994.
5. The impact on University of Montana expenditures include 5.58 FTE in FY92 and FY93, and related operating costs. The University of Montana would be reimbursed for these costs through a contract with the Department of Revenue.
6. The Department of Revenue will incur one-time costs for the transition to the new valuation system as shown below (in addition to the University of Montana contract).

FISCAL IMPACT:

see next page

  
ROD SUNDSTED, BUDGET DIRECTOR      DATE  
Office of Budget and Program Planning

      1/30/91  
BOB REAM, PRIMARY SPONSOR      DATE

Fiscal Note for HB0340, as introduced

**HB 340**

Expenditures:

University of Montana (by contract with the Department of Revenue):

|                      | FY '92             |                     |                   | FY '93             |                     |                   |
|----------------------|--------------------|---------------------|-------------------|--------------------|---------------------|-------------------|
|                      | <u>Current Law</u> | <u>Proposed Law</u> | <u>Difference</u> | <u>Current Law</u> | <u>Proposed Law</u> | <u>Difference</u> |
| FTE                  | 0                  | 5.58                | 5.58              | 0                  | 5.58                | 5.58              |
| Personal Services    | 0                  | 139,270             | 139,270           | 0                  | 145,964             | 145,964           |
| Equipment Costs      | 0                  | 100,000             | 100,000           | 0                  | 40,000              | 40,000            |
| Operating Expenses   | 0                  | 30,000              | 30,000            | 0                  | 20,000              | 20,000            |
| Indirect Costs (20%) | 0                  | 53,854              | 53,854            | 0                  | 41,193              | 41,193            |
| Total                | 0                  | 323,124             | 323,124           | 0                  | 247,157             | 247,157           |

Department of Revenue:

|                    | FY '92             |                     |                   | FY '93             |                     |                   |
|--------------------|--------------------|---------------------|-------------------|--------------------|---------------------|-------------------|
|                    | <u>Current Law</u> | <u>Proposed Law</u> | <u>Difference</u> | <u>Current Law</u> | <u>Proposed Law</u> | <u>Difference</u> |
| FTE                | 0                  | 0                   | 0                 | 0                  | 3.00                | 3.00              |
| Personal Services  | 0                  | 0                   | 0                 | 0                  | 62,359              | 62,359            |
| Equipment Costs    | 0                  | 18,500              | 18,500            | 0                  | 7,070               | 7,070             |
| Operating Expenses | 0                  | 4,800               | 4,800             | 0                  | 25,550              | 25,550            |
| Total              | 0                  | 23,300              | 23,300            | 0                  | 94,979              | 94,979            |

Funding:

|                   |   |         |         |   |         |         |
|-------------------|---|---------|---------|---|---------|---------|
| General Fund (01) | 0 | 346,424 | 346,424 | 0 | 342,136 | 342,136 |
|-------------------|---|---------|---------|---|---------|---------|

Revenue Impact:

The proposal includes the methodology (section 7) to compute a tax rate such that the total statewide taxable value of class thirteen will not change due to the change in valuation methods. However, two important points regarding taxable valuation are recognized. First, the proposed valuation method may provide shifting of taxable valuation between local taxing jurisdictions. The extent of this inter-jurisdiction shifting is unknown. Second, the proposal reduces the amount of acreage (from 15 contiguous acres to 5 contiguous acres) necessary to qualify as class thirteen property. This will result in landowners who currently have 5 to 15 contiguous acres of land with timber to seek reclassification of their property from class four to the more advantageous classification of class thirteen. The extent of the loss in taxable value due to this type of reclassification is unknown.

**HB 340**

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The University of Montana will have expenditures in FY 94 totaling \$43,796. This includes \$25,497 for personal services from 0.63 FTE, \$11,000 for operating expenses and \$7,299 for indirect costs. These cost would be funded by the general fund through a contract with the Department of Revenue.

The Department of Revenue will require nine temporary FTE at a cost of \$198,308, \$47,700 in operating expenses and \$2,475 in equipment expenses for a total general fund cost of \$248,483.

Technical Note:

Section 9(u) exempts standing timber from taxation beginning January 1, 1990. The date should be January 1, 1994.

## STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0340, third reading.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to generally revise the taxation of private forest lands; defining forest land and forest productivity value; requiring the Department of Revenue to value forest lands of 15 acres or more on the basis of productivity by capitalizing the net income of forest land; authorizing the Department of Revenue to establish forest valuation zones; providing for a transition period in the taxation of forest lands by extending the termination date of class thirteen property; providing that class thirteen will apply to the taxation of forest lands beginning January 1, 1994; exempting timber from ad valorem property taxation; imposing an assessment on all privately owned timberland; providing appropriation; and providing effective dates, applicability dates, and a termination date.

ASSUMPTIONS:

1. It is assumed for the purposes of this note that current taxation practices (FY91) of class thirteen (timberland) will continue.
2. The taxable value for Class 13 timberland property is estimated to be \$5,521,613. The proposal will increase this taxable value by approximately \$230,000.
3. Average levies applied to Class 13 timberland property are 6 mills for the universities, 95 for the school foundation program, 124.07 for counties and 99.90 for local schools.
4. The proposal will increase the taxable value of class 13 in FY92 and FY93.
5. The number of acres of privately owned timberland in the state is estimated to be 3,500,000 in FY92, FY93 and FY94.
6. In determining forest productivity values and in computing forest land valuation schedules, the Department of Revenue will use the assistance of the University of Montana.
7. Standing timber will be exempt from taxation beginning January 1, 1994.
8. The impact on University of Montana expenditures include 5.58 FTE in FY92 and FY93 and related operating costs. Expenditures for FY94 total \$43,796 (\$25,497 for personal services, \$11,000 for operating expenses and \$7,299 indirect costs) including 0.62 FTE. The University of Montana would be reimbursed for these costs through a contract with the Department of Revenue.
9. The impact on Department of Revenue expenditures of the implementation of the forest productivity system would be a one-time cost. It would require 12.00 FTE's to complete the project: 3.00 in FY93 and 9.00 in FY94. Total expenditures in FY94 would be \$248,483 (\$198,308 for personal services, \$2,475 for equipment and \$47,700 in operating expenses).

FISCAL IMPACT:

see next page

Rod Sundsted 4/15/91  
 ROD SUNDSTED, BUDGET DIRECTOR DATE  
 Office of Budget and Program Planning

Bob Ream 4/15/91  
 BOB REAM, PRIMARY SPONSOR DATE

Fiscal Note for HB0340, third reading**HB 340-2**

University of Montana (by contract with the Department of Revenue):

| <u>Expenditures:</u>             | <u>FY '92</u>      |                     |                   | <u>FY '93</u>      |                     |                   |
|----------------------------------|--------------------|---------------------|-------------------|--------------------|---------------------|-------------------|
|                                  | <u>Current Law</u> | <u>Proposed Law</u> | <u>Difference</u> | <u>Current Law</u> | <u>Proposed Law</u> | <u>Difference</u> |
| FTE                              | 0.00               | 5.58                | 5.58              | 0                  | 5.58                | 5.58              |
| Personal Services                | 0                  | 139,270             | 139,270           | 0                  | 145,964             | 145,964           |
| Equipment Costs                  | 0                  | 100,000             | 100,000           | 0                  | 40,000              | 40,000            |
| Operating Expenses               | 0                  | 30,000              | 30,000            | 0                  | 20,000              | 20,000            |
| Indirect Costs (20%)             | <u>0</u>           | <u>53,854</u>       | <u>53,854</u>     | <u>0</u>           | <u>41,193</u>       | <u>41,193</u>     |
| Total                            | 0                  | 323,124             | 323,124           | 0                  | 247,157             | 247,157           |
| <u>Funding:</u>                  |                    |                     |                   |                    |                     |                   |
| General Fund                     | 0                  | 323,124             | 323,124           | 0                  | 247,157             | 247,157           |
| <br><u>Department of Revenue</u> |                    |                     |                   |                    |                     |                   |
| FTE                              | 0.00               | 0.00                | 0.00              | 0.00               | 3.00                | 3.00              |
| Personal Services                | 0                  | 0                   | 0                 | 0                  | 62,359              | 62,359            |
| Equipment Costs                  | 0                  | 18,500              | 18,500            | 0                  | 7,070               | 7,070             |
| Operating Expenses               | <u>0</u>           | <u>4,800</u>        | <u>4,800</u>      | <u>0</u>           | <u>25,550</u>       | <u>25,550</u>     |
| Total                            | 0                  | 23,300              | 23,300            | 0                  | 94,979              | 94,979            |
| <u>Funding:</u>                  |                    |                     |                   |                    |                     |                   |
| General Fund                     | 0                  | 23,300              | 23,300            | 0                  | 94,979              | 94,979            |
| General Fund Impact (decrease)   |                    |                     | (346,424)         |                    |                     | (342,136)         |

Revenue Impact:

The 10 cent per acre assessment will result in an increase to the General Fund of approximately \$350,000 in FY92, FY93, and FY94 (the actual amount collected may be less than this estimate due to non-payment of the assessment).

The increase in taxable value will result in an increase of approximately \$1,300 for universities, \$21,850 for the foundation program, \$18,006 for counties and \$28,536 for local schools for FY92 and subsequent fiscal years.

The proposal includes the methodology (section 7) to compute a tax rate such that the total statewide taxable value of class thirteen will not be impacted by the change in valuation methods. The proposed valuation method may provide shifting of taxable valuation between local taxing jurisdictions. The extent of this inter-jurisdiction shifting is unknown.

APPROVED BY COMMITTEE  
ON TAXATION

HOUSE BILL NO. 340

INTRODUCED BY REAM, B. BROWN

BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE

A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE THE TAXATION OF PRIVATE FOREST LANDS; DEFINING FOREST LAND AND FOREST PRODUCTIVITY VALUE; REQUIRING THE DEPARTMENT OF REVENUE TO VALUE FOREST LANDS OF 5 15 ACRES OR MORE ON THE BASIS OF PRODUCTIVITY BY CAPITALIZING THE NET INCOME OF FOREST LAND; AUTHORIZING THE DEPARTMENT OF REVENUE TO ESTABLISH FOREST VALUATION ZONES; PROVIDING FOR A TRANSITION PERIOD IN THE TAXATION OF FOREST LANDS BY EXTENDING THE TERMINATION DATE OF CLASS THIRTEEN PROPERTY; PROVIDING THAT CLASS THIRTEEN WILL APPLY TO THE TAXATION OF FOREST LANDS BEGINNING JANUARY 1, 1994; ~~PROVIDING--THAT--LAND--MUST--BE CLASSIFIED--AS--AGRICULTURAL--LAND--IF--ITS--GRAZING--VALUE--IS GREATER--THAN--ITS--FOREST--PRODUCTIVITY--VALUE;~~ EXEMPTING TIMBER FROM AD VALOREM PROPERTY TAXATION; PROVIDING AN APPROPRIATION; AMENDING SECTIONS 15-1-101, 15-6-143, 15-6-201, AND 15-8-111, MCA, AND SECTION 10, CHAPTER 681, LAWS OF 1985; AND PROVIDING EFFECTIVE DATES, APPLICABILITY DATES, AND A TERMINATION DATE."

WHEREAS, the Department of Revenue does not have adequate resources to properly administer the existing

standing inventory method of taxing forest lands; and  
WHEREAS, the standing inventory method of taxing forest lands encourages landowners to harvest timber without regard to good forest management; and

WHEREAS, the valuation of forest lands in Montana is often based on outdated information; and

WHEREAS, the Forest Taxation Subcommittee of the Revenue Oversight Committee found that the forest productivity method of taxing forest lands encourages good forest management and is a more equitable method of taxing forest lands; and

WHEREAS, the forest productivity method of taxing forest lands is in the long run easier and less costly to administer than the standing inventory method; and

WHEREAS, the Forest Taxation Subcommittee of the Revenue Oversight Committee recommends that forest lands be taxed on the basis of productivity; and

WHEREAS, it is the intent of the Legislature to implement the recommendation of the Forest Taxation Subcommittee of the Revenue Oversight Committee.

THEREFORE, it is the purpose of this bill to implement the recommendation to change the method of taxing forest lands in the state.

STATEMENT OF INTENT



1 A statement of intent is required for this bill because  
 2 the department of revenue is granted authority to adopt  
 3 rules for the administration and enforcement of the forest  
 4 productivity method of taxing forest lands.

5 The legislature contemplates that rules adopted by the  
 6 department should, at a minimum, address the following:

7 (1) guidelines for information that must be contained  
 8 in the statement of intent submitted by the forest landowner  
 9 as provided for in [section 2(5)(b)];

10 (2) the form to be used by the forest landowner for the  
 11 statement of intent;

12 (3) the procedures for determining appropriate forest  
 13 valuation zones and for computing forest land valuation  
 14 schedules;

15 (4) the notification of landowners who may be eligible  
 16 for forest land classification under this bill;

17 (5) the process by which a landowner may appeal the  
 18 valuation of the owner's forest land; and

19 (6) the definition of terms and establishment of  
 20 procedures as appropriate for the efficient administration  
 21 of the forest productivity method of taxation.

22 In determining forest productivity values and in  
 23 computing forest land valuation schedules, the department  
 24 shall use the assistance of the university of Montana. The  
 25 legislature also intends that, in implementing this bill,

1 the department seek the advice of the department of state  
 2 lands, landowners of private forest lands, the timber  
 3 industry, and local governments.

4

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

6 NEW SECTION. **Section 1.** Short title. [Sections 1  
 7 through 5] may be cited as the "Forest Lands Tax Act".

8 NEW SECTION. **Section 2.** Definitions. For the purposes  
 9 of [sections 1 through 5], unless the context requires  
 10 otherwise, the following definitions apply:

11 (1) "Culmination of mean annual increment" means the  
 12 point of optimum net wood production on an acre of forest  
 13 land.

14 (2) "Cultivated Christmas trees" means Christmas trees  
 15 that are grown on land prepared by intensive cultivation and  
 16 tilling, such as by plowing or turning over the soil, and on  
 17 which all unwanted plant growth is controlled for the  
 18 exclusive purpose of raising Christmas trees.

19 (3) "Department" means the department of revenue.

20 (4) "Forest" means forest land and the timber on the  
 21 land.

22 (5) "Forest land" means contiguous land of 5 15 acres  
 23 or more in one ownership that is capable of producing timber  
 24 that can be harvested in commercial quantity and is  
 25 producing timber unless the trees have been removed by man

1 through harvest, including clearcuts, or by natural  
2 disaster, including but not limited to fire. Forest land  
3 includes land:

4 (a) that has not been converted to another use; or  
5 (b) that has a dedicated use that is evidenced by a  
6 statement of intent by the owner for the eventual harvest of  
7 timber.

8 (6) "Forest productivity value" means the value of  
9 forest land for assessment purposes, which value is  
10 determined only on the basis of its ability to produce  
11 timber, other forest products, and associated agricultural  
12 products through an income approach provided for in [section  
13 3].

14 (7) "Harvest" means an activity related to the cutting  
15 or removal of timber for use or sale as a forest product.

16 (8) "Landowner" means an individual, corporation,  
17 association, company, firm, joint venture, syndicate, or  
18 trust.

19 (9) "Mean annual net wood production" means the average  
20 net usable volume of wood 1 acre of forest land will grow in  
21 1 year under average current and actual forest conditions  
22 and under current and reasonable management practices for  
23 each forest valuation zone established under [section 3].

24 (10) "Stumpage value" means the amount that timber would  
25 sell for under an arm's-length transaction made in the

1 ordinary course of business, expressed in terms of dollars  
2 per unit of measure.

3 (11) "Timber" means all wood growth on privately owned  
4 land, mature or immature, alive or dead, standing or down,  
5 that is capable of furnishing raw material used in the  
6 manufacture of lumber or other forest products. The term  
7 does not include cultivated Christmas trees.

8 NEW SECTION. **Section 3.** Legislative intent -- value of  
9 forest lands -- valuation zones. (1) In order to encourage  
10 landowners of private forest lands to retain and improve  
11 their holdings of forest lands, to promote better forest  
12 practices, and to encourage the investment of capital in  
13 reforestation, forest lands must be classified and assessed  
14 under the provisions of this section.

15 (2) The forest productivity value of forest land must  
16 be determined by:

17 (a) capitalizing the value of the mean annual net wood  
18 production at the culmination of mean annual increment plus  
19 other agriculture-related income, if any; less

20 (b) annualized expenses, including but not limited to  
21 the establishment, protection, maintenance, improvement, and  
22 management of the crop over the rotation period.

23 (3) To determine the forest productivity value of  
24 forest lands, the department shall:

25 (a) divide the state into appropriate forest valuation



1 zones, with each zone designated so as to recognize the  
 2 uniqueness of marketing areas, timber types, growth rates,  
 3 access, operability, and other pertinent factors of that  
 4 zone; and

5 (b) establish a uniform system of forest land  
 6 classification that takes into consideration the productive  
 7 capacity of the site to grow forest products and furnish  
 8 other associated agricultural uses.

9 (4) In computing the forest land valuation schedules  
 10 for each forest valuation zone to take effect on January 1,  
 11 1994, the department shall determine the productive capacity  
 12 value of all forest lands in each forest valuation zone  
 13 using the formula  $V = I/R$ , where:

14 (a) V is the per-acre forest productivity value of the  
 15 forest land;

16 (b) I is the per-acre net income of forest lands in  
 17 each valuation zone and is determined by the department  
 18 using the formula  $I = (M \times SV) + AI - C$ , where:

19 (i) I is the per-acre net income;

20 (ii) M is the mean annual net wood production;

21 (iii) SV is the stumpage value;

22 (iv) AI is the per-acre agriculture-related income; and

23 (v) C is the per-unit cost of the forest product and  
 24 agricultural product produced, if any; and

25 (c) R is the capitalization rate determined by the

1 department as provided in subsection (6).

2 (5) Net income must:

3 (a) be calculated for each year of a base period, which  
 4 is the most recent 5-year period for which data is  
 5 available;

6 (b) be based on a rolling average of stumpage value of  
 7 timber harvested within the forest valuation zone and on the  
 8 associated production cost data for the base period from  
 9 sources considered appropriate by the department; and

10 (c) include agriculture-related net income for the same  
 11 time period as the period used to determine average stumpage  
 12 values.

13 (6) The capitalization rate must be calculated for each  
 14 year of the base period and is the annual average interest  
 15 rate on agricultural loans as reported by the federal land  
 16 bank association of Spokane, Washington, plus the effective  
 17 tax rate.

18 (7) The effective tax rate must be calculated for each  
 19 year of the base period by dividing the total estimated tax  
 20 due on forest lands subject to the provisions of this  
 21 section by the total forest value of those lands.

22 (8) For the purposes of this section, if forest service  
 23 sales are used in the determination of stumpage values, the  
 24 department shall take into account purchaser road credits.

25 (9) In determining the forest productivity value of

1 forest lands and in computing the forest land valuation  
 2 schedules, the department shall use information and data  
 3 provided by the university of Montana.

4 NEW SECTION. Section 4. Reduction in valuation on  
 5 forest lands for trees destroyed by natural disaster. (1)  
 6 Forest lands upon which, at any time after December 31,  
 7 1993, trees are destroyed by fire, disease, insect  
 8 infestation, or other natural disaster so that the lands  
 9 affected will not meet minimum stocking requirements are  
 10 eligible for a reduction in value for the first 20 tax years  
 11 following the loss.

12 (2) If a landowner shows to the department's  
 13 satisfaction that the landowner's forest lands have been  
 14 destroyed as provided in subsection (1), the department  
 15 shall reduce the value of the forest land by 50% of the  
 16 original forest productivity value per year.

17 NEW SECTION. Section 5. Administration -- rules. The  
 18 department shall:

19 (1) administer and enforce the provisions of [sections  
 20 1 through 5];

21 (2) arrange for the preparation and distribution of  
 22 forms and information necessary to administer the provisions  
 23 of [section 1 through 5]; and

24 (3) promulgate rules necessary to administer and  
 25 enforce the provisions of [sections 1 through 5].

1 **Section 6.** Section 15-6-143, MCA, is amended to read:

2 "15-6-143. (Temporary) Class thirteen property --  
 3 description -- taxable percentage. (1) Class thirteen  
 4 property includes all timberland.

5 (2) Timberland is contiguous land exceeding 15 acres in  
 6 one ownership that is capable of producing timber that can  
 7 be harvested in commercial quantity.

8 (3) Class thirteen property is taxed at the--percentage  
 9 rate--"P" ~~3.84%~~ 4% of the combined appraised value of the  
 10 standing timber and grazing productivity of the property.

11 ~~(4) For taxable years beginning January 17, 1986, and~~  
 12 ~~thereafter, the taxable percentage rate "P" applicable to~~  
 13 ~~class thirteen property is 30%/B, where B is the certified~~  
 14 ~~statewide percentage increase to be determined by the~~  
 15 ~~department of revenue as provided in subsection (5). The~~  
 16 ~~taxable percentage rate "P" shall be rounded downward to the~~  
 17 ~~nearest 0.01% and shall be calculated by the department~~  
 18 ~~before July 17, 1986.~~

19 ~~(5) (a) Prior to July 17, 1986, the department shall~~  
 20 ~~determine the certified statewide percentage increase for~~  
 21 ~~class thirteen property using the formula B = X/Y, where~~

22 ~~(i) X is the appraised value, as of January 17, 1986, of~~  
 23 ~~all property in the state, excluding use changes occurring~~  
 24 ~~during the preceding year, classified under class thirteen~~  
 25 ~~as class thirteen is described in this section; and~~

{ii}-Y is the appraised value, as of January 1, 1985, of all property in the state that, as of January 1, 1986, would be classified under class thirteen as class thirteen is described in this section.

{b}-B shall be rounded downward to the nearest 0.0001%.

{6}-After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate "P" until a valuation has been made as provided in 15-7-111. (Terminates January 1, 1991 - sec. 10, Ch. 60, B, 1985.)"

Section 7. Section 15-6-143, MCA, is amended to read:

"15-6-143. (Temporary) Class thirteen property -- description -- taxable percentage -- alternative classification. (i)-Class thirteen property includes all timberland.

{2}-Timberland is contiguous land exceeding 15 acres in one ownership that is capable of producing timber that can be harvested in commercial quantity.

{3}-Class thirteen property is taxed at the percentage rate "P" of the combined appraised value of the standing timber and grazing productivity of the property.

{4}-For taxable years beginning January 1, 1986, and thereafter, the taxable percentage rate "P" applicable to class thirteen property is  $30\% / B$  where B is the certified statewide percentage increase to be determined by the department of revenue as provided in subsection (5). The

taxable percentage rate "P" shall be rounded downward to the nearest 0.01% and shall be calculated by the department before July 1, 1986.

{5}-{a)-Prior to July 1, 1986, the department shall determine the certified statewide percentage increase for class thirteen property using the formula  $B = X / Y$ , where:

{i)-X is the appraised value, as of January 1, 1986, of all property in the state, excluding use changes occurring during the preceding year, classified under class thirteen as class thirteen is described in this section, and

{ii)-Y is the appraised value, as of January 1, 1985, of all property in the state that, as of January 1, 1986, would be classified under class thirteen as class thirteen is described in this section.

{b)-B shall be rounded downward to the nearest 0.0001%.

{6}-After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate "P" until a valuation has been made as provided in 15-7-111. (Terminates January 1, 1991 - sec. 10, Ch. 60, B, 1985.)

(1) Except as provided in subsection (5), class thirteen property includes all forest lands as defined in [section 2].

(2) Class thirteen property is taxed at the percentage rate "P" of its forest productivity value.

(3) For taxable years beginning January 1, 1994, and

1 thereafter, the taxable percentage rate "P" applicable to  
 2 class thirteen property is  $3.84\%/B$   $4\%/B$ , where B is the  
 3 certified statewide percentage increase to be determined by  
 4 the department of revenue as provided in subsection (4). The  
 5 taxable percentage rate "P" must be rounded downward to the  
 6 nearest 0.01% and must be calculated by the department  
 7 before July 1, 1994.

8 (4) (a) Prior to July 1, 1994, the department shall  
 9 determine the certified statewide percentage increase for  
 10 class thirteen property using the formula  $B = X/Y$ , where:

11 (i) X is the appraised value, as of January 1, 1994, of  
 12 all property in the state, excluding use changes occurring  
 13 during the preceding year, classified under class thirteen  
 14 as class thirteen is described in this section; and

15 (ii) Y is the appraised value, as of January 1, 1993, of  
 16 all property in the state that would be classified under  
 17 class thirteen as class thirteen is described in this  
 18 section as this section reads in 1993.

19 (b) B must be rounded downward to the nearest 0.0001%.

20 ~~(5) If the department of revenue determines that the~~  
 21 ~~grazing value of a parcel of forest land is greater than the~~  
 22 ~~forest productivity value determined under {section 3}, the~~  
 23 ~~land must be classified as agricultural land under~~  
 24 ~~15-6-133."~~

25 **Section 8.** Section 15-1-101, MCA, is amended to read:

1 "15-1-101. Definitions. (1) Except as otherwise  
 2 specifically provided, when terms mentioned in this section  
 3 are used in connection with taxation, they are defined in  
 4 the following manner:

5 (a) The term "agricultural" refers to the raising of  
 6 livestock, poultry, bees, and other species of domestic  
 7 animals and wildlife in domestication or a captive  
 8 environment, and the raising of field crops, fruit, and  
 9 other animal and vegetable matter for food or fiber.

10 (b) The term "assessed value" means the value of  
 11 property as defined in 15-8-111.

12 (c) The term "average wholesale value" means the value  
 13 to a dealer prior to reconditioning and profit margin shown  
 14 in national appraisal guides and manuals or the valuation  
 15 schedules of the department of revenue.

16 (d) (i) The term "commercial", when used to describe  
 17 property, means any property used or owned by a business, a  
 18 trade, or a nonprofit corporation as defined in 35-2-102 or  
 19 used for the production of income, except that property  
 20 described in subsection (ii).

21 (ii) The following types of property are not commercial:

22 (A) agricultural lands;

23 (B) timberlands and, beginning January 1, 1994, forest  
 24 lands;

25 (C) single-family residences and ancillary improvements

1 and improvements necessary to the function of a bona fide  
2 farm, ranch, or stock operation;

3 (D) mobile homes used exclusively as a residence except  
4 when held by a distributor or dealer of trailers or mobile  
5 homes as his stock in trade;

6 (E) all property described in 15-6-135; and

7 (F) all property described in 15-6-136.

8 (e) The term "comparable property" means property that  
9 has similar use, function, and utility; that is influenced  
10 by the same set of economic trends and physical,  
11 governmental, and social factors; and that has the potential  
12 of a similar highest and best use.

13 (f) The term "credit" means solvent debts, secured or  
14 unsecured, owing to a person.

15 (g) The term "improvements" includes all buildings,  
16 structures, fences, and improvements situated upon, erected  
17 upon, or affixed to land. When the department of revenue or  
18 its agent determines that the permanency of location of a  
19 mobile home or housetrailer has been established, the mobile  
20 home or housetrailer is presumed to be an improvement to  
21 real property. A mobile home or housetrailer may be  
22 determined to be permanently located only when it is  
23 attached to a foundation which cannot feasibly be relocated  
24 and only when the wheels are removed.

25 (h) The term "leasehold improvements" means

1 improvements to mobile homes and mobile homes located on  
2 land owned by another person. This property is assessed  
3 under the appropriate classification and the taxes are due  
4 and payable in two payments as provided in 15-24-202.  
5 Delinquent taxes on such leasehold improvements are a lien  
6 only on such leasehold improvements.

7 (i) The term "livestock" means cattle, sheep, swine,  
8 goats, horses, mules, and asses.

9 (j) The term "mobile home" means forms of housing known  
10 as "trailers", "housetrainers", or "trailer coaches"  
11 exceeding 8 feet in width or 45 feet in length, designed to  
12 be moved from one place to another by an independent power  
13 connected to them, or any "trailer", "housetrailer", or  
14 "trailer coach" up to 8 feet in width or 45 feet in length  
15 used as a principal residence.

16 (k) The term "personal property" includes everything  
17 that is the subject of ownership but that is not included  
18 within the meaning of the terms "real estate" and  
19 "improvements".

20 (l) The term "poultry" includes all chickens, turkeys,  
21 geese, ducks, and other birds raised in domestication to  
22 produce food or feathers.

23 (m) The term "property" includes moneys, credits,  
24 bonds, stocks, franchises, and all other matters and things,  
25 real, personal, and mixed, capable of private ownership.

1 This definition must not be construed to authorize the  
2 taxation of the stocks of any company or corporation when  
3 the property of such company or corporation represented by  
4 the stocks is within the state and has been taxed.

5 (n) The term "real estate" includes:

6 (i) the possession of, claim to, ownership of, or right  
7 to the possession of land;

8 (ii) all mines, minerals, and quarries in and under the  
9 land subject to the provisions of 15-23-501 and Title 15,  
10 chapter 23, part 8; all timber belonging to individuals or  
11 corporations growing or being on the lands of the United  
12 States; and all rights and privileges appertaining thereto.

13 (o) "Research and development firm" means an entity  
14 incorporated under the laws of this state or a foreign  
15 corporation authorized to do business in this state whose  
16 principal purpose is to engage in theoretical analysis,  
17 exploration, and experimentation and the extension of  
18 investigative findings and theories of a scientific and  
19 technical nature into practical application for experimental  
20 and demonstration purposes, including the experimental  
21 production and testing of models, devices, equipment,  
22 materials, and processes.

23 (p) The term "taxable value" means the percentage of  
24 market or assessed value as provided for in Title 15,  
25 chapter 6, part 1.

1 (q) The term "weighted mean assessment ratio" means the  
2 total of the assessed values divided by the total of the  
3 selling prices of all area sales in the stratum.

4 (2) The phrase "municipal corporation" or  
5 "municipality" or "taxing unit" shall be deemed to include a  
6 county, city, incorporated town, township, school district,  
7 irrigation district, drainage district, or any person,  
8 persons, or organized body authorized by law to establish  
9 tax levies for the purpose of raising public revenue.

10 (3) The term "state board" or "board" when used without  
11 other qualification shall mean the state tax appeal board."

12 **Section 9.** Section 15-6-201, MCA, is amended to read:

13 **"15-6-201. Exempt categories.** (1) The following  
14 categories of property are exempt from taxation:

15 (a) the property of:

16 (i) the United States, the state, counties, cities,  
17 towns, school districts, except, if congress passes  
18 legislation that allows the state to tax property owned by  
19 an agency created by congress to transmit or distribute  
20 electrical energy, the property constructed, owned, or  
21 operated by a public agency created by the congress to  
22 transmit or distribute electric energy produced at privately  
23 owned generating facilities (not including rural electric  
24 cooperatives);

25 (ii) irrigation districts organized under the laws of

1 Montana and not operating for profit;  
 2 (iii) municipal corporations; and  
 3 (iv) public libraries;  
 4 (b) buildings, with land they occupy and furnishings  
 5 therein, owned by a church and used for actual religious  
 6 worship or for residences of the clergy, together with  
 7 adjacent land reasonably necessary for convenient use of the  
 8 buildings;  
 9 (c) property used exclusively for agricultural and  
 10 horticultural societies, for educational purposes, and for  
 11 nonprofit health care facilities, as defined in 50-5-101,  
 12 licensed by the department of health and environmental  
 13 sciences and organized under Title 35, chapter 2 or 3. A  
 14 health care facility that is not licensed by the department  
 15 of health and environmental sciences and organized under  
 16 Title 35, chapter 2 or 3, is not exempt.  
 17 (d) property that meets the following conditions:  
 18 (i) is owned and held by any association or corporation  
 19 organized under Title 35, chapter 2, 3, 20, or 21;  
 20 (ii) is devoted exclusively to use in connection with a  
 21 cemetery or cemeteries for which a permanent care and  
 22 improvement fund has been established as provided for in  
 23 Title 35, chapter 20, part 3; and  
 24 (iii) is not maintained and operated for private or  
 25 corporate profit;

1 (e) institutions of purely public charity;  
 2 (f) evidence of debt secured by mortgages of record  
 3 upon real or personal property in the state of Montana;  
 4 (g) public art galleries and public observatories not  
 5 used or held for private or corporate profit;  
 6 (h) all household goods and furniture, including but  
 7 not limited to clocks, musical instruments, sewing machines,  
 8 and wearing apparel of members of the family, used by the  
 9 owner for personal and domestic purposes or for furnishing  
 10 or equipping the family residence;  
 11 (i) a truck canopy cover or topper weighing less than  
 12 300 pounds and having no accommodations attached. This  
 13 property is also exempt from taxation under 61-3-504(2) and  
 14 61-3-537.  
 15 (j) a bicycle, as defined in 61-1-123, used by the  
 16 owner for personal transportation purposes;  
 17 (k) motor homes, travel trailers, and campers;  
 18 (l) all watercraft;  
 19 (m) land, fixtures, buildings, and improvements owned  
 20 by a cooperative association or nonprofit corporation  
 21 organized to furnish potable water to its members or  
 22 customers for uses other than the irrigation of agricultural  
 23 land;  
 24 (n) the right of entry that is a property right  
 25 reserved in land or received by mesne conveyance (exclusive

1 of leasehold interests), devise, or succession to enter land  
 2 whose surface title is held by another to explore, prospect,  
 3 or dig for oil, gas, coal, or minerals;

4 (o) property owned and used by a corporation or  
 5 association organized and operated exclusively for the care  
 6 of the developmentally disabled, mentally ill, or  
 7 vocationally handicapped as defined in 18-5-101, which is  
 8 not operated for gain or profit;

9 (p) all farm buildings with a market value of less than  
 10 \$500 and all agricultural implements and machinery with a  
 11 market value of less than \$100;

12 (q) property owned by a nonprofit corporation organized  
 13 to provide facilities primarily for training and practice  
 14 for or competition in international sports and athletic  
 15 events and not held or used for private or corporate gain or  
 16 profit. For purposes of this subsection (q), "nonprofit  
 17 corporation" means an organization exempt from taxation  
 18 under section 501(c) of the Internal Revenue Code and  
 19 incorporated and admitted under the Montana Nonprofit  
 20 Corporation Act.

21 (r) provided the tools are owned by the taxpayer, the  
 22 first \$15,000 or less of market value of tools that are  
 23 customarily hand-held and that are used to:

24 (i) construct, repair, and maintain improvements to  
 25 real property; or

1 (ii) repair and maintain machinery, equipment,  
 2 appliances, or other personal property;

3 (s) harness, saddlery, and other tack equipment; and

4 (t) a title plant owned by a title insurer or a title  
 5 insurance producer, as those terms are defined in 33-25-105;  
 6 and

7 (u) beginning January 1, 1990 1994, timber as defined  
 8 in [section 2].

9 (2) (a) The term "institutions of purely public  
 10 charity" includes organizations owning and operating  
 11 facilities for the care of the retired or aged or  
 12 chronically ill, which are not operated for gain or profit.

13 (b) The terms "public art galleries" and "public  
 14 observatories" include only those art galleries and  
 15 observatories, whether of public or private ownership, that  
 16 are open to the public without charge at all reasonable  
 17 hours and are used for the purpose of education only.

18 (3) The following portions of the appraised value of a  
 19 capital investment made after January 1, 1979, in a  
 20 recognized nonfossil form of energy generation, as defined  
 21 in 15-32-102, are exempt from taxation for a period of 10  
 22 years following installation of the property:

23 (a) \$20,000 in the case of a single-family residential  
 24 dwelling;

25 (b) \$100,000 in the case of a multifamily residential



1 dwelling or a nonresidential structure."

2 **Section 10.** Section 15-8-111, MCA, is amended to read:

3 "15-8-111. **Assessment -- market value standard --**  
4 **exceptions.** (1) All taxable property must be assessed at  
5 100% of its market value except as otherwise provided.

6 (2) (a) Market value is the value at which property  
7 would change hands between a willing buyer and a willing  
8 seller, neither being under any compulsion to buy or to sell  
9 and both having reasonable knowledge of relevant facts.

10 (b) If the department uses construction cost as one  
11 approximation of market value, the department shall fully  
12 consider reduction in value caused by depreciation, whether  
13 through physical depreciation, functional obsolescence, or  
14 economic obsolescence.

15 (c) Except as provided in subsection (3), the market  
16 value of all motor trucks; agricultural tools, implements,  
17 and machinery; and vehicles of all kinds, including but not  
18 limited to boats and all watercraft, is the average  
19 wholesale value shown in national appraisal guides and  
20 manuals or the value of the vehicle before reconditioning  
21 and profit margin. The department of revenue shall prepare  
22 valuation schedules showing the average wholesale value when  
23 no national appraisal guide exists.

24 (3) The department of revenue or its agents may not  
25 adopt a lower or different standard of value from market

1 value in making the official assessment and appraisal of the  
2 value of property, except:

3 (a) the wholesale value for agricultural implements and  
4 machinery is the loan value as shown in the Official Guide,  
5 Tractor and Farm Equipment, published by the national farm  
6 and power equipment dealers association, St. Louis,  
7 Missouri;

8 (b) for agricultural implements and machinery not  
9 listed in the official guide, the department shall prepare a  
10 supplemental manual where the values reflect the same  
11 depreciation as those found in the official guide; and

12 (c) as otherwise authorized in Title 15 and Title 61.

13 (4) For purposes of taxation, assessed value is the  
14 same as appraised value.

15 (5) The taxable value for all property is the  
16 percentage of market or assessed value established for each  
17 class of property.

18 (6) The assessed value of properties in 15-6-131  
19 through 15-6-133 is as follows:

20 (a) Properties in 15-6-131, under class one, are  
21 assessed at 100% of the annual net proceeds after deducting  
22 the expenses specified and allowed by 15-23-503 or, if  
23 applicable, as provided in 15-23-515.

24 (b) Properties in 15-6-132, under class two, are  
25 assessed at 100% of the annual gross proceeds.

1 (c) Properties in 15-6-133, under class three, are  
 2 assessed at 100% of the productive capacity of the lands  
 3 when valued for agricultural purposes. All lands that meet  
 4 the qualifications of 15-7-202 are valued as agricultural  
 5 lands for tax purposes.

6 (d) Properties Beginning January 1, 1990, and ending  
 7 December-31 JUNE 30, 1993, properties in 15-6-143, under  
 8 class thirteen, are assessed at 100% of the combined  
 9 appraised value of the standing timber and grazing  
 10 productivity of the land when valued as timberland.

11 (e) Beginning January 1, 1994, properties in 15-6-143,  
 12 under class thirteen, are assessed at 100% of the forest  
 13 productivity value of the land when valued as forest land.

14 (7) Land and the improvements thereon are separately  
 15 assessed when any of the following conditions occur:

16 (a) ownership of the improvements is different from  
 17 ownership of the land;

18 (b) the taxpayer makes a written request; or

19 (c) the land is outside an incorporated city or town."

20 **Section 11.** Section 10, Chapter 581, Laws of 1985, is  
 21 amended to read:

22 "Section 10. **Effective date -- termination date.** This  
 23 act is effective January 1, 1986, and, except for ~~section--3~~  
 24 sections 2 through 4, terminates January 1, 1991."

25 **NEW SECTION. Section 12. Appropriation.** (1) There is

1 appropriated from the general fund to the department of  
 2 revenue \$614,076 to fund the determination of the forest  
 3 productivity value of forest lands required by [section 3].

4 (2) There is appropriated from the general fund to the  
 5 department of revenue \$366,762 to administer the provisions  
 6 of [sections 1 through 5 and section 7].

7 (3) Notwithstanding the provisions of 17-7-302 through  
 8 17-7-304, the unexpended appropriation in subsection (1) may  
 9 be encumbered for payment in fiscal year 1994.

10 (4) Notwithstanding the provisions of 17-7-302 through  
 11 17-7-304, the unexpended appropriation in subsection (2) is  
 12 reappropriated for fiscal year 1994.

13 **NEW SECTION. Section 13. Codification instruction.**  
 14 [Sections 1 through 5] are intended to be codified as an  
 15 integral part of Title 15, and the provisions of Title 15  
 16 apply to [sections 1 through 5].

17 **NEW SECTION. Section 14. Saving clause.** [This act]  
 18 does not affect the rights and duties that matured,  
 19 penalties that were incurred, or proceedings that were begun  
 20 before [the effective date of this act].

21 **NEW SECTION. Section 15. Severability.** If a part of  
 22 [this act] is invalid, all valid parts that are severable  
 23 from the invalid part remain in effect. If a part of [this  
 24 act] is invalid in one or more of its applications, the part  
 25 remains in effect in all valid applications that are

1 severable from the invalid applications.

2 NEW SECTION. Section 16. Applicability -- retroactive  
3 applicability. (1) Except as provided in subsection (2),  
4 [this act] applies to taxable years beginning after December  
5 31, 1993.

6 (2) [Sections 6 and 11] apply retroactively, within the  
7 meaning of 1-2-109, to taxable years beginning after  
8 December 31, 1990.

9 NEW SECTION. Section 17. Effective dates. (1) Except  
10 as provided in subsections (2) and (3), [this act] is  
11 effective July 1, 1991.

12 (2) [Sections 6 and 11] and this section are effective  
13 on passage and approval.

14 (3) [Section 7] is effective January 1, 1994.

15 NEW SECTION. Section 18. Termination -- CONTINGENT  
16 TERMINATION. (1) UNLESS TERMINATED EARLIER PURSUANT TO  
17 SUBSECTION (2), [Section SECTION 6 and section 10(6)(d)]  
18 terminate January-17-1994 JULY 1, 1993.

19 (2) [SECTION 6 AND SECTION 10(6)(D)] TERMINATE ON APRIL  
20 1, 1992, UNLESS PRIOR TO THAT TIME, THE DIRECTOR OF REVENUE  
21 CERTIFIES TO THE REVENUE OVERSIGHT COMMITTEE THAT THE  
22 DEPARTMENT OF REVENUE HAS BEGUN THE FOREST LANDS VALUATION  
23 PROCESS SET FORTH IN [SECTION 3], INCLUDING HAVING ENTERED  
24 INTO A CONTRACT WITH THE UNIVERSITY OF MONTANA FOR THE  
25 PROVISION OF INFORMATION AND DATA. UPON RECEIPT OF THE

1 CERTIFICATION, THE CHAIRMAN OF THE REVENUE OVERSIGHT  
2 COMMITTEE SHALL PROVIDE A COPY OF THE DOCUMENT TO THE  
3 SECRETARY OF STATE.

-End-

RE-REFERRED AND  
APPROVED BY COMMITTEE  
ON APPROPRIATIONS  
AS AMENDED

HOUSE BILL NO. 340

INTRODUCED BY REAM, B. BROWN

BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE

A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE THE TAXATION OF PRIVATE FOREST LANDS; DEFINING FOREST LAND AND FOREST PRODUCTIVITY VALUE; REQUIRING THE DEPARTMENT OF REVENUE TO VALUE FOREST LANDS OF 5 15 ACRES OR MORE ON THE BASIS OF PRODUCTIVITY BY CAPITALIZING THE NET INCOME OF FOREST LAND; AUTHORIZING THE DEPARTMENT OF REVENUE TO ESTABLISH FOREST VALUATION ZONES; PROVIDING FOR A TRANSITION PERIOD IN THE TAXATION OF FOREST LANDS BY EXTENDING THE TERMINATION DATE OF CLASS THIRTEEN PROPERTY; PROVIDING THAT CLASS THIRTEEN WILL APPLY TO THE TAXATION OF FOREST LANDS BEGINNING JANUARY 1, 1994; ~~PROVIDING--THAT--LAND--MUST--BE CLASSIFIED--AS--AGRICULTURAL--LAND--IF--ITS--GRAZING--VALUE--IS GREATER--THAN--ITS--FOREST--PRODUCTIVITY--VALUE;~~ EXEMPTING TIMBER FROM AD VALOREM PROPERTY TAXATION; IMPOSING AN ASSESSMENT ON ALL PRIVATELY OWNED TIMBERLAND; PROVIDING AN APPROPRIATION; AMENDING SECTIONS 15-1-101, 15-6-143, 15-6-201, AND 15-8-111, MCA, AND SECTION 10, CHAPTER 681, LAWS OF 1985; AND PROVIDING EFFECTIVE DATES, APPLICABILITY DATES, AND A TERMINATION DATE."

WHEREAS, the Department of Revenue does not have

adequate resources to properly administer the existing standing inventory method of taxing forest lands; and

WHEREAS, the standing inventory method of taxing forest lands encourages landowners to harvest timber without regard to good forest management; and

WHEREAS, the valuation of forest lands in Montana is often based on outdated information; and

WHEREAS, the Forest Taxation Subcommittee of the Revenue Oversight Committee found that the forest productivity method of taxing forest lands encourages good forest management and is a more equitable method of taxing forest lands; and

WHEREAS, the forest productivity method of taxing forest lands is in the long run easier and less costly to administer than the standing inventory method; and

WHEREAS, the Forest Taxation Subcommittee of the Revenue Oversight Committee recommends that forest lands be taxed on the basis of productivity; and

WHEREAS, it is the intent of the Legislature to implement the recommendation of the Forest Taxation Subcommittee of the Revenue Oversight Committee.

THEREFORE, it is the purpose of this bill to implement the recommendation to change the method of taxing forest lands in the state.

1                   STATEMENT OF INTENT

2           A statement of intent is required for this bill because  
3 the department of revenue is granted authority to adopt  
4 rules for the administration and enforcement of the forest  
5 productivity method of taxing forest lands.

6           The legislature contemplates that rules adopted by the  
7 department should, at a minimum, address the following:

8           (1) guidelines for information that must be contained  
9 in the statement of intent submitted by the forest landowner  
10 as provided for in [section 2(5)(b)];

11          (2) the form to be used by the forest landowner for the  
12 statement of intent;

13          (3) the procedures for determining appropriate forest  
14 valuation zones and for computing forest land valuation  
15 schedules;

16          (4) the notification of landowners who may be eligible  
17 for forest land classification under this bill;

18          (5) the process by which a landowner may appeal the  
19 valuation of the owner's forest land; and

20          (6) the definition of terms and establishment of  
21 procedures as appropriate for the efficient administration  
22 of the forest productivity method of taxation.

23          In determining forest productivity values and in  
24 computing forest land valuation schedules, the department  
25 shall use the assistance of the university of Montana. The

1           legislature also intends that, in implementing this bill,  
2 the department seek the advice of the department of state  
3 lands, landowners of private forest lands, the timber  
4 industry, and local governments.

5  
6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

7           NEW SECTION. **Section 1.** Short title. [Sections 1  
8 through 5] may be cited as the "Forest Lands Tax Act".

9           NEW SECTION. **Section 2.** Definitions. For the purposes  
10 of [sections 1 through 5], unless the context requires  
11 otherwise, the following definitions apply:

12          (1) "Culmination of mean annual increment" means the  
13 point of optimum net wood production on an acre of forest  
14 land.

15          (2) "Cultivated Christmas trees" means Christmas trees  
16 that are grown on land prepared by intensive cultivation and  
17 tilling, such as by plowing or turning over the soil, and on  
18 which all unwanted plant growth is controlled for the  
19 exclusive purpose of raising Christmas trees.

20          (3) "Department" means the department of revenue.

21          (4) "Forest" means forest land and the timber on the  
22 land.

23          (5) "Forest land" means contiguous land of 5 15 acres  
24 or more in one ownership that is capable of producing timber  
25 that can be harvested in commercial quantity and is

1 producing timber unless the trees have been removed by man  
2 through harvest, including clearcuts, or by natural  
3 disaster, including but not limited to fire. Forest land  
4 includes land:

5 (a) that has not been converted to another use; or

6 (b) that has a dedicated use that is evidenced by a  
7 statement of intent by the owner for the eventual harvest of  
8 timber.

9 (6) "Forest productivity value" means the value of  
10 forest land for assessment purposes, which value is  
11 determined only on the basis of its ability to produce  
12 timber, other forest products, and associated agricultural  
13 products through an income approach provided for in [section  
14 3].

15 (7) "Harvest" means an activity related to the cutting  
16 or removal of timber for use or sale as a forest product.

17 (8) "Landowner" means an individual, corporation,  
18 association, company, firm, joint venture, syndicate, or  
19 trust.

20 (9) "Mean annual net wood production" means the average  
21 net usable volume of wood 1 acre of forest land will grow in  
22 1 year under average current and actual forest conditions  
23 and under current and reasonable management practices for  
24 each forest valuation zone established under [section 3].

25 (10) "Stumpage value" means the amount that timber would

1 sell for under an arm's-length transaction made in the  
2 ordinary course of business, expressed in terms of dollars  
3 per unit of measure.

4 (11) "Timber" means all wood growth on privately owned  
5 land, mature or immature, alive or dead, standing or down,  
6 that is capable of furnishing raw material used in the  
7 manufacture of lumber or other forest products. The term  
8 does not include cultivated Christmas trees.

9 NEW SECTION. **Section 3.** Legislative intent -- value of  
10 forest lands -- valuation zones. (1) In order to encourage  
11 landowners of private forest lands to retain and improve  
12 their holdings of forest lands, to promote better forest  
13 practices, and to encourage the investment of capital in  
14 reforestation, forest lands must be classified and assessed  
15 under the provisions of this section.

16 (2) The forest productivity value of forest land must  
17 be determined by:

18 (a) capitalizing the value of the mean annual net wood  
19 production at the culmination of mean annual increment plus  
20 other agriculture-related income, if any; less

21 (b) annualized expenses, including but not limited to  
22 the establishment, protection, maintenance, improvement, and  
23 management of the crop over the rotation period.

24 (3) To determine the forest productivity value of  
25 forest lands, the department shall:

1 (a) divide the state into appropriate forest valuation  
 2 zones, with each zone designated so as to recognize the  
 3 uniqueness of marketing areas, timber types, growth rates,  
 4 access, operability, and other pertinent factors of that  
 5 zone; and

6 (b) establish a uniform system of forest land  
 7 classification that takes into consideration the productive  
 8 capacity of the site to grow forest products and furnish  
 9 other associated agricultural uses.

10 (4) In computing the forest land valuation schedules  
 11 for each forest valuation zone to take effect on January 1,  
 12 1994, the department shall determine the productive capacity  
 13 value of all forest lands in each forest valuation zone  
 14 using the formula  $V = I/R$ , where:

15 (a) V is the per-acre forest productivity value of the  
 16 forest land;

17 (b) I is the per-acre net income of forest lands in  
 18 each valuation zone and is determined by the department  
 19 using the formula  $I = (M \times SV) + AI - C$ , where:

20 (i) I is the per-acre net income;

21 (ii) M is the mean annual net wood production;

22 (iii) SV is the stumpage value;

23 (iv) AI is the per-acre agriculture-related income; and

24 (v) C is the per-unit cost of the forest product and  
 25 agricultural product produced, if any; and

1 (c) R is the capitalization rate determined by the  
 2 department as provided in subsection (6).

3 (5) Net income must:

4 (a) be calculated for each year of a base period, which  
 5 is the most recent 5-year period for which data is  
 6 available;

7 (b) be based on a rolling average of stumpage value of  
 8 timber harvested within the forest valuation zone and on the  
 9 associated production cost data for the base period from  
 10 sources considered appropriate by the department; and

11 (c) include agriculture-related net income for the same  
 12 time period as the period used to determine average stumpage  
 13 values.

14 (6) The capitalization rate must be calculated for each  
 15 year of the base period and is the annual average interest  
 16 rate on agricultural loans as reported by the federal land  
 17 bank association of Spokane, Washington, plus the effective  
 18 tax rate.

19 (7) The effective tax rate must be calculated for each  
 20 year of the base period by dividing the total estimated tax  
 21 due on forest lands subject to the provisions of this  
 22 section by the total forest value of those lands.

23 (8) For the purposes of this section, if forest service  
 24 sales are used in the determination of stumpage values, the  
 25 department shall take into account purchaser road credits.

1 (9) In determining the forest productivity value of  
 2 forest lands and in computing the forest land valuation  
 3 schedules, the department shall use information and data  
 4 provided by the university of Montana.

5 NEW SECTION. **Section 4.** Reduction in valuation on  
 6 forest lands for trees destroyed by natural disaster. (1)  
 7 Forest lands upon which, at any time after December 31,  
 8 1993, trees are destroyed by fire, disease, insect  
 9 infestation, or other natural disaster so that the lands  
 10 affected will not meet minimum stocking requirements are  
 11 eligible for a reduction in value for the first 20 tax years  
 12 following the loss.

13 (2) If a landowner shows to the department's  
 14 satisfaction that the landowner's forest lands have been  
 15 destroyed as provided in subsection (1), the department  
 16 shall reduce the value of the forest land by 50% of the  
 17 original forest productivity value per year.

18 NEW SECTION. **Section 5.** Administration -- rules. The  
 19 department shall:

20 (1) administer and enforce the provisions of [sections  
 21 1 through 5];

22 (2) arrange for the preparation and distribution of  
 23 forms and information necessary to administer the provisions  
 24 of [section 1 through 5]; and

25 (3) promulgate rules necessary to administer and

1 enforce the provisions of [sections 1 through 5].

2 **Section 6.** Section 15-6-143, MCA, is amended to read:

3 "15-6-143. (Temporary) Class thirteen property --  
 4 description -- taxable percentage. (1) Class thirteen  
 5 property includes all timberland.

6 (2) Timberland is contiguous land exceeding 15 acres in  
 7 one ownership that is capable of producing timber that can  
 8 be harvested in commercial quantity.

9 (3) Class thirteen property is taxed at the percentage  
 10 rate-"P" ~~3.84%~~ 4% of the combined appraised value of the  
 11 standing timber and grazing productivity of the property.

12 ~~(4) For taxable years beginning January 1, 1987, and~~  
 13 ~~thereafter, the taxable percentage rate-"P"--applicable to~~  
 14 ~~class--thirteen--property is 30%/B, where B is the certified~~  
 15 ~~statewide--percentage--increase--to--be--determined--by--the~~  
 16 ~~department--of--revenue--as--provided--in--subsection--(5). The~~  
 17 ~~taxable--percentage--rate--"P"--shall--be--rounded--downward--to--the~~  
 18 ~~nearest--0.01%--and--shall--be--calculated--by--the--department~~  
 19 ~~before--July--1,--1986.~~

20 ~~(5) (a) Prior to July 1, 1986, the department shall~~  
 21 ~~determine--the--certified--statewide--percentage--increase--for~~  
 22 ~~class--thirteen--property--using--the--formula--B--=--X/Y, where:~~

23 ~~(i) X is the appraised value, as of January 1, 1986, of~~  
 24 ~~all--property--in--the--state,--excluding--use--changes--occurring~~  
 25 ~~during--the--preceding--year,--classified--under--class--thirteen~~



1 ~~as class thirteen is described in this section, and~~  
 2 ~~(ii) X is the appraised value, as of January 1, 1985, of~~  
 3 ~~all property in the state that, as of January 1, 1986, would~~  
 4 ~~be classified under class thirteen as class thirteen is~~  
 5 ~~described in this section.~~  
 6 ~~(b) B shall be rounded downward to the nearest 0.0001%~~  
 7 ~~(6) After July 1, 1986, no adjustment may be made by~~  
 8 ~~the department to the taxable percentage rate "P" until a~~  
 9 ~~valuation has been made as provided in 15-7-111. (Terminates~~  
 10 ~~January 1, 1991 -- sec. 10, Ch. 601, H. 1985.)"~~

11 **Section 7.** Section 15-6-143, MCA, is amended to read:  
 12 "15-6-143. ~~(Temporary)~~ Class thirteen property --  
 13 description -- taxable percentage -- alternative  
 14 classification. (1) ~~Class thirteen property includes all~~  
 15 ~~timberland.~~  
 16 ~~(2) Timberland is contiguous land exceeding 15 acres in~~  
 17 ~~one ownership that is capable of producing timber that can~~  
 18 ~~be harvested in commercial quantity.~~  
 19 ~~(3) Class thirteen property is taxed at the percentage~~  
 20 ~~rate "P" of the combined appraised value of the standing~~  
 21 ~~timber and grazing productivity of the property.~~  
 22 ~~(4) For taxable years beginning January 1, 1986, and~~  
 23 ~~thereafter, the taxable percentage rate "P" applicable to~~  
 24 ~~class thirteen property is 30%/B, where B is the certified~~  
 25 ~~statewide percentage increase to be determined by the~~

1 ~~department of revenue as provided in subsection (5). The~~  
 2 ~~taxable percentage rate "P" shall be rounded downward to the~~  
 3 ~~nearest 0.01% and shall be calculated by the department~~  
 4 ~~before July 1, 1986.~~  
 5 ~~(5) (a) Prior to July 1, 1986, the department shall~~  
 6 ~~determine the certified statewide percentage increase for~~  
 7 ~~class thirteen property using the formula B = X/Y, where:~~  
 8 ~~(i) X is the appraised value, as of January 1, 1986, of~~  
 9 ~~all property in the state, excluding use changes occurring~~  
 10 ~~during the preceding year, classified under class thirteen~~  
 11 ~~as class thirteen is described in this section, and~~  
 12 ~~(ii) Y is the appraised value, as of January 1, 1985, of~~  
 13 ~~all property in the state that, as of January 1, 1986, would~~  
 14 ~~be classified under class thirteen as class thirteen is~~  
 15 ~~described in this section.~~  
 16 ~~(b) B shall be rounded downward to the nearest 0.0001%~~  
 17 ~~(6) After July 1, 1986, no adjustment may be made by~~  
 18 ~~the department to the taxable percentage rate "P" until a~~  
 19 ~~valuation has been made as provided in 15-7-111. (Terminates~~  
 20 ~~January 1, 1991 -- sec. 10, Ch. 601, H. 1985.)~~  
 21 (1) Except as provided in subsection (5), class  
 22 thirteen property includes all forest lands as defined in  
 23 [section 2].  
 24 (2) Class thirteen property is taxed at the percentage  
 25 rate "P" of its forest productivity value.

1       (3) For taxable years beginning January 1, 1994, and  
 2 thereafter, the taxable percentage rate "P" applicable to  
 3 class thirteen property is  $3.84\%/B$   $4\%/B$ , where B is the  
 4 certified statewide percentage increase to be determined by  
 5 the department of revenue as provided in subsection (4). The  
 6 taxable percentage rate "P" must be rounded downward to the  
 7 nearest 0.01% and must be calculated by the department  
 8 before July 1, 1994.

9       (4) (a) Prior to July 1, 1994, the department shall  
 10 determine the certified statewide percentage increase for  
 11 class thirteen property using the formula  $B = X/Y$ , where:

12       (i) X is the appraised value, as of January 1, 1994, of  
 13 all property in the state, excluding use changes occurring  
 14 during the preceding year, classified under class thirteen  
 15 as class thirteen is described in this section; and

16       (ii) Y is the appraised value, as of January 1, 1993, of  
 17 all property in the state that would be classified under  
 18 class thirteen as class thirteen is described in this  
 19 section as this section reads in 1993.

20       (b) B must be rounded downward to the nearest 0.0001%.

21       ~~(5) If the department of revenue determines that the~~  
 22 ~~grazing value of a parcel of forest land is greater than the~~  
 23 ~~forest productivity value determined under (section 3), the~~  
 24 ~~land must be classified as agricultural land under~~  
 25 ~~15-6-133.~~

1       **Section 8.** Section 15-1-101, MCA, is amended to read:

2       "15-1-101. Definitions. (1) Except as otherwise  
 3 specifically provided, when terms mentioned in this section  
 4 are used in connection with taxation, they are defined in  
 5 the following manner:

6       (a) The term "agricultural" refers to the raising of  
 7 livestock, poultry, bees, and other species of domestic  
 8 animals and wildlife in domestication or a captive  
 9 environment, and the raising of field crops, fruit, and  
 10 other animal and vegetable matter for food or fiber.

11       (b) The term "assessed value" means the value of  
 12 property as defined in 15-8-111.

13       (c) The term "average wholesale value" means the value  
 14 to a dealer prior to reconditioning and profit margin shown  
 15 in national appraisal guides and manuals or the valuation  
 16 schedules of the department of revenue.

17       (d) (i) The term "commercial", when used to describe  
 18 property, means any property used or owned by a business, a  
 19 trade, or a nonprofit corporation as defined in 35-2-102 or  
 20 used for the production of income, except that property  
 21 described in subsection (ii).

22       (ii) The following types of property are not commercial:

- 23       (A) agricultural lands;
- 24       (B) timberlands and, beginning January 1, 1994, forest  
 25 lands;

1 (C) single-family residences and ancillary improvements  
2 and improvements necessary to the function of a bona fide  
3 farm, ranch, or stock operation;

4 (D) mobile homes used exclusively as a residence except  
5 when held by a distributor or dealer of trailers or mobile  
6 homes as his stock in trade;

7 (E) all property described in 15-6-135; and

8 (F) all property described in 15-6-136.

9 (e) The term "comparable property" means property that  
10 has similar use, function, and utility; that is influenced  
11 by the same set of economic trends and physical,  
12 governmental, and social factors; and that has the potential  
13 of a similar highest and best use.

14 (f) The term "credit" means solvent debts, secured or  
15 unsecured, owing to a person.

16 (g) The term "improvements" includes all buildings,  
17 structures, fences, and improvements situated upon, erected  
18 upon, or affixed to land. When the department of revenue or  
19 its agent determines that the permanency of location of a  
20 mobile home or housetrailer has been established, the mobile  
21 home or housetrailer is presumed to be an improvement to  
22 real property. A mobile home or housetrailer may be  
23 determined to be permanently located only when it is  
24 attached to a foundation which cannot feasibly be relocated  
25 and only when the wheels are removed.

1 (h) The term "leasehold improvements" means  
2 improvements to mobile homes and mobile homes located on  
3 land owned by another person. This property is assessed  
4 under the appropriate classification and the taxes are due  
5 and payable in two payments as provided in 15-24-202.  
6 Delinquent taxes on such leasehold improvements are a lien  
7 only on such leasehold improvements.

8 (i) The term "livestock" means cattle, sheep, swine,  
9 goats, horses, mules, and asses.

10 (j) The term "mobile home" means forms of housing known  
11 as "trailers", "housetrainers", or "trailer coaches"  
12 exceeding 8 feet in width or 45 feet in length, designed to  
13 be moved from one place to another by an independent power  
14 connected to them, or any "trailer", "housetrailer", or  
15 "trailer coach" up to 8 feet in width or 45 feet in length  
16 used as a principal residence.

17 (k) The term "personal property" includes everything  
18 that is the subject of ownership but that is not included  
19 within the meaning of the terms "real estate" and  
20 "improvements".

21 (l) The term "poultry" includes all chickens, turkeys,  
22 geese, ducks, and other birds raised in domestication to  
23 produce food or feathers.

24 (m) The term "property" includes moneys, credits,  
25 bonds, stocks, franchises, and all other matters and things,

1 real, personal, and mixed, capable of private ownership.  
 2 This definition must not be construed to authorize the  
 3 taxation of the stocks of any company or corporation when  
 4 the property of such company or corporation represented by  
 5 the stocks is within the state and has been taxed.

6 (n) The term "real estate" includes:

7 (i) the possession of, claim to, ownership of, or right  
 8 to the possession of land;

9 (ii) all mines, minerals, and quarries in and under the  
 10 land subject to the provisions of 15-23-501 and Title 15,  
 11 chapter 23, part 8; all timber belonging to individuals or  
 12 corporations growing or being on the lands of the United  
 13 States; and all rights and privileges appertaining thereto.

14 (o) "Research and development firm" means an entity  
 15 incorporated under the laws of this state or a foreign  
 16 corporation authorized to do business in this state whose  
 17 principal purpose is to engage in theoretical analysis,  
 18 exploration, and experimentation and the extension of  
 19 investigative findings and theories of a scientific and  
 20 technical nature into practical application for experimental  
 21 and demonstration purposes, including the experimental  
 22 production and testing of models, devices, equipment,  
 23 materials, and processes.

24 (p) The term "taxable value" means the percentage of  
 25 market or assessed value as provided for in Title 15,

1 chapter 6, part 1.

2 (q) The term "weighted mean assessment ratio" means the  
 3 total of the assessed values divided by the total of the  
 4 selling prices of all area sales in the stratum.

5 (2) The phrase "municipal corporation" or  
 6 "municipality" or "taxing unit" shall be deemed to include a  
 7 county, city, incorporated town, township, school district,  
 8 irrigation district, drainage district, or any person,  
 9 persons, or organized body authorized by law to establish  
 10 tax levies for the purpose of raising public revenue.

11 (3) The term "state board" or "board" when used without  
 12 other qualification shall mean the state tax appeal board."

13 **Section 9.** Section 15-6-201, MCA, is amended to read:

14 **"15-6-201. Exempt categories.** (1) The following  
 15 categories of property are exempt from taxation:

16 (a) the property of:

17 (i) the United States, the state, counties, cities,  
 18 towns, school districts, except, if congress passes  
 19 legislation that allows the state to tax property owned by  
 20 an agency created by congress to transmit or distribute  
 21 electrical energy, the property constructed, owned, or  
 22 operated by a public agency created by the congress to  
 23 transmit or distribute electric energy produced at privately  
 24 owned generating facilities (not including rural electric  
 25 cooperatives);

1 (ii) irrigation districts organized under the laws of  
 2 Montana and not operating for profit;  
 3 (iii) municipal corporations; and  
 4 (iv) public libraries;  
 5 (b) buildings, with land they occupy and furnishings  
 6 therein, owned by a church and used for actual religious  
 7 worship or for residences of the clergy, together with  
 8 adjacent land reasonably necessary for convenient use of the  
 9 buildings;  
 10 (c) property used exclusively for agricultural and  
 11 horticultural societies, for educational purposes, and for  
 12 nonprofit health care facilities, as defined in 50-5-101,  
 13 licensed by the department of health and environmental  
 14 sciences and organized under Title 35, chapter 2 or 3. A  
 15 health care facility that is not licensed by the department  
 16 of health and environmental sciences and organized under  
 17 Title 35, chapter 2 or 3, is not exempt.  
 18 (d) property that meets the following conditions:  
 19 (i) is owned and held by any association or corporation  
 20 organized under Title 35, chapter 2, 3, 20, or 21;  
 21 (ii) is devoted exclusively to use in connection with a  
 22 cemetery or cemeteries for which a permanent care and  
 23 improvement fund has been established as provided for in  
 24 Title 35, chapter 20, part 3; and  
 25 (iii) is not maintained and operated for private or

1 corporate profit;  
 2 (e) institutions of purely public charity;  
 3 (f) evidence of debt secured by mortgages of record  
 4 upon real or personal property in the state of Montana;  
 5 (g) public art galleries and public observatories not  
 6 used or held for private or corporate profit;  
 7 (h) all household goods and furniture, including but  
 8 not limited to clocks, musical instruments, sewing machines,  
 9 and wearing apparel of members of the family, used by the  
 10 owner for personal and domestic purposes or for furnishing  
 11 or equipping the family residence;  
 12 (i) a truck canopy cover or topper weighing less than  
 13 300 pounds and having no accommodations attached. This  
 14 property is also exempt from taxation under 61-3-504(2) and  
 15 61-3-537.  
 16 (j) a bicycle, as defined in 61-1-123, used by the  
 17 owner for personal transportation purposes;  
 18 (k) motor homes, travel trailers, and campers;  
 19 (l) all watercraft;  
 20 (m) land, fixtures, buildings, and improvements owned  
 21 by a cooperative association or nonprofit corporation  
 22 organized to furnish potable water to its members or  
 23 customers for uses other than the irrigation of agricultural  
 24 land;  
 25 (n) the right of entry that is a property right

1 reserved in land or received by mesne conveyance (exclusive  
2 of leasehold interests), devise, or succession to enter land  
3 whose surface title is held by another to explore, prospect,  
4 or dig for oil, gas, coal, or minerals;

5 (o) property owned and used by a corporation or  
6 association organized and operated exclusively for the care  
7 of the developmentally disabled, mentally ill, or  
8 vocationally handicapped as defined in 18-5-101, which is  
9 not operated for gain or profit;

10 (p) all farm buildings with a market value of less than  
11 \$500 and all agricultural implements and machinery with a  
12 market value of less than \$100;

13 (q) property owned by a nonprofit corporation organized  
14 to provide facilities primarily for training and practice  
15 for or competition in international sports and athletic  
16 events and not held or used for private or corporate gain or  
17 profit. For purposes of this subsection (q), "nonprofit  
18 corporation" means an organization exempt from taxation  
19 under section 501(c) of the Internal Revenue Code and  
20 incorporated and admitted under the Montana Nonprofit  
21 Corporation Act.

22 (r) provided the tools are owned by the taxpayer, the  
23 first \$15,000 or less of market value of tools that are  
24 customarily hand-held and that are used to:

25 (i) construct, repair, and maintain improvements to

1 real property; or

2 (ii) repair and maintain machinery, equipment,  
3 appliances, or other personal property;

4 (s) harness, saddlery, and other tack equipment; and

5 (t) a title plant owned by a title insurer or a title  
6 insurance producer, as those terms are defined in 33-25-105;  
7 and

8 (u) beginning January 1, 1990 1994, timber as defined  
9 in [section 2].

10 (2) (a) The term "institutions of purely public  
11 charity" includes organizations owning and operating  
12 facilities for the care of the retired or aged or  
13 chronically ill, which are not operated for gain or profit.

14 (b) The terms "public art galleries" and "public  
15 observatories" include only those art galleries and  
16 observatories, whether of public or private ownership, that  
17 are open to the public without charge at all reasonable  
18 hours and are used for the purpose of education only.

19 (3) The following portions of the appraised value of a  
20 capital investment made after January 1, 1979, in a  
21 recognized nonfossil form of energy generation, as defined  
22 in 15-32-102, are exempt from taxation for a period of 10  
23 years following installation of the property:

24 (a) \$20,000 in the case of a single-family residential  
25 dwelling;

1 (b) \$100,000 in the case of a multifamily residential  
 2 dwelling or a nonresidential structure."

3 **Section 10.** Section 15-8-111, MCA, is amended to read:

4 "15-8-111. **Assessment -- market value standard --**  
 5 **exceptions.** (1) All taxable property must be assessed at  
 6 100% of its market value except as otherwise provided.

7 (2) (a) Market value is the value at which property  
 8 would change hands between a willing buyer and a willing  
 9 seller, neither being under any compulsion to buy or to sell  
 10 and both having reasonable knowledge of relevant facts.

11 (b) If the department uses construction cost as one  
 12 approximation of market value, the department shall fully  
 13 consider reduction in value caused by depreciation, whether  
 14 through physical depreciation, functional obsolescence, or  
 15 economic obsolescence.

16 (c) Except as provided in subsection (3), the market  
 17 value of all motor trucks; agricultural tools, implements,  
 18 and machinery; and vehicles of all kinds, including but not  
 19 limited to boats and all watercraft, is the average  
 20 wholesale value shown in national appraisal guides and  
 21 manuals or the value of the vehicle before reconditioning  
 22 and profit margin. The department of revenue shall prepare  
 23 valuation schedules showing the average wholesale value when  
 24 no national appraisal guide exists.

25 (3) The department of revenue or its agents may not

1 adopt a lower or different standard of value from market  
 2 value in making the official assessment and appraisal of the  
 3 value of property, except:

4 (a) the wholesale value for agricultural implements and  
 5 machinery is the loan value as shown in the Official Guide,  
 6 Tractor and Farm Equipment, published by the national farm  
 7 and power equipment dealers association, St. Louis,  
 8 Missouri;

9 (b) for agricultural implements and machinery not  
 10 listed in the official guide, the department shall prepare a  
 11 supplemental manual where the values reflect the same  
 12 depreciation as those found in the official guide; and

13 (c) as otherwise authorized in Title 15 and Title 61.

14 (4) For purposes of taxation, assessed value is the  
 15 same as appraised value.

16 (5) The taxable value for all property is the  
 17 percentage of market or assessed value established for each  
 18 class of property.

19 (6) The assessed value of properties in 15-6-131  
 20 through 15-6-133 is as follows:

21 (a) Properties in 15-6-131, under class one, are  
 22 assessed at 100% of the annual net proceeds after deducting  
 23 the expenses specified and allowed by 15-23-503 or, if  
 24 applicable, as provided in 15-23-515.

25 (b) Properties in 15-6-132, under class two, are

1 assessed at 100% of the annual gross proceeds.

2 (c) Properties in 15-6-133, under class three, are  
3 assessed at 100% of the productive capacity of the lands  
4 when valued for agricultural purposes. All lands that meet  
5 the qualifications of 15-7-202 are valued as agricultural  
6 lands for tax purposes.

7 (d) Properties Beginning January 1, 1990, and ending  
8 December--31 JUNE 30, 1993, properties in 15-6-143, under  
9 class thirteen, are assessed at 100% of the combined  
10 appraised value of the standing timber and grazing  
11 productivity of the land when valued as timberland.

12 (e) Beginning January 1, 1994, properties in 15-6-143,  
13 under class thirteen, are assessed at 100% of the forest  
14 productivity value of the land when valued as forest land.

15 (7) Land and the improvements thereon are separately  
16 assessed when any of the following conditions occur:

- 17 (a) ownership of the improvements is different from
- 18 ownership of the land;
- 19 (b) the taxpayer makes a written request; or
- 20 (c) the land is outside an incorporated city or town."

21 **Section 11.** Section 10, Chapter 681, Laws of 1985, is  
22 amended to read:

23 "Section 10. **Effective date -- termination date.** This  
24 act is effective January 1, 1986, and, except for ~~section-3~~  
25 sections 2 through 4, terminates January 1, 1991."

1 NEW SECTION. Section 12. Appropriation. (1) There is  
2 appropriated from the general fund to the department of  
3 revenue \$614,076 to fund the determination of the forest  
4 productivity value of forest lands required by [section 3].

5 (2) There is appropriated from the general fund to the  
6 department of revenue \$366,762 to administer the provisions  
7 of [sections 1 through 5 and section 7].

8 (3) Notwithstanding the provisions of 17-7-302 through  
9 17-7-304, the unexpended appropriation in subsection (1) may  
10 be encumbered for payment in fiscal year 1994.

11 (4) Notwithstanding the provisions of 17-7-302 through  
12 17-7-304, the unexpended appropriation in subsection (2) is  
13 reappropriated for fiscal year 1994.

14 NEW SECTION. SECTION 13. ASSESSMENT ON PRIVATELY OWNED  
15 TIMBERLAND -- COLLECTION -- DISPOSITION. (1) AN ASSESSMENT  
16 OF 10 CENTS PER ACRE OR PORTION OF AN ACRE IS IMPOSED ON ALL  
17 PRIVATELY OWNED TIMBERLAND FOR TAX YEARS 1991 THROUGH 1993.  
18 THE ASSESSMENT IS IMPOSED ON THE OWNER OF THE LAND AS OF  
19 JANUARY 1 OF EACH YEAR.

20 (2) THIS ASSESSMENT IS DONE ON NOVEMBER 30 OF EACH YEAR  
21 AND MUST BE PAID WITH THE PROPERTY TAX DUE AS PROVIDED IN  
22 15-16-101.

23 (3) (A) BY SEPTEMBER 1 OF EACH YEAR, THE DEPARTMENT OF  
24 REVENUE SHALL PROVIDE COUNTY TREASURERS WITH A LIST SHOWING:

25 (I) ALL OWNERS OF PRIVATE TIMBERLAND IN THE COUNTY AS



1 OF JANUARY 1 OF THAT YEAR; AND

2 (II) THE NUMBER OF ACRES OF TIMBERLAND OWNED BY EACH AS  
 3 OF JANUARY 1 OF THAT YEAR.

4 (B) THE COUNTY TREASURER SHALL SEND EACH LISTED OWNER A  
 5 BILL FOR THE ASSESSMENT IMPOSED IN SUBSECTION (1) WITH THE  
 6 PROPERTY TAX NOTICE REQUIRED IN 15-16-101.

7 (4) THE COUNTY TREASURER SHALL COLLECT THE ASSESSMENT  
 8 IMPOSED IN SUBSECTION (1) AND REMIT COLLECTIONS TO THE STATE  
 9 TREASURER BY DECEMBER 20 OF EACH YEAR.

10 (5) THE STATE TREASURER SHALL DEPOSIT ALL COLLECTIONS  
 11 FROM THE ASSESSMENT IMPOSED IN SUBSECTION (1) IN THE GENERAL  
 12 FUND.

13 NEW SECTION. Section 14. Codification instruction.  
 14 [Sections 1 through 5] are intended to be codified as an  
 15 integral part of Title 15, and the provisions of Title 15  
 16 apply to [sections 1 through 5].

17 NEW SECTION. Section 15. Saving clause. [This act]  
 18 does not affect the rights and duties that matured,  
 19 penalties that were incurred, or proceedings that were begun  
 20 before [the effective date of this act].

21 NEW SECTION. Section 16. Severability. If a part of  
 22 [this act] is invalid, all valid parts that are severable  
 23 from the invalid part remain in effect. If a part of [this  
 24 act] is invalid in one or more of its applications, the part  
 25 remains in effect in all valid applications that are

1 severable from the invalid applications.

2 NEW SECTION. Section 17. Applicability -- retroactive  
 3 applicability. (1) Except as provided in subsection (2),  
 4 [this act] applies to taxable years beginning after December  
 5 31, 1993.

6 (2) [Sections 6 and---~~11~~, 11, AND 13] apply  
 7 retroactively, within the meaning of 1-2-109, to taxable  
 8 years beginning after December 31, 1990.

9 NEW SECTION. Section 18. Effective dates. (1) Except  
 10 as provided in subsections (2) and (3), [this act] is  
 11 effective July 1, 1991.

12 (2) [Sections 6 and---~~11~~, 11, AND 13] and this section  
 13 are effective on passage and approval.

14 (3) [Section 7] is effective January 1, 1994.

15 NEW SECTION. Section 19. Termination -- CONTINGENT  
 16 TERMINATION. (1) UNLESS TERMINATED EARLIER PURSUANT TO  
 17 SUBSECTION (2), [Section SECTION 6 and section 10(6)(d)]  
 18 terminate ~~January 17, 1994~~ JULY 1, 1993.

19 (2) [SECTION 6 AND SECTION 10(6)(D)] TERMINATE ON APRIL  
 20 1, 1992, UNLESS PRIOR TO THAT TIME, THE DIRECTOR OF REVENUE  
 21 CERTIFIES TO THE REVENUE OVERSIGHT COMMITTEE THAT THE  
 22 DEPARTMENT OF REVENUE HAS BEGUN THE FOREST LANDS VALUATION  
 23 PROCESS SET FORTH IN [SECTION 3], INCLUDING HAVING ENTERED  
 24 INTO A CONTRACT WITH THE UNIVERSITY OF MONTANA FOR THE  
 25 PROVISION OF INFORMATION AND DATA. UPON RECEIPT OF THE

HB 0340/03

1 CERTIFICATION, THE CHAIRMAN OF THE REVENUE OVERSIGHT  
2 COMMITTEE SHALL PROVIDE A COPY OF THE DOCUMENT TO THE  
3 SECRETARY OF STATE.  
4 (3) [SECTION 13] TERMINATES JANUARY 1, 1994.

-End-

HOUSE BILL NO. 340

INTRODUCED BY REAM, B. BROWN

BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE

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A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE THE TAXATION OF PRIVATE FOREST LANDS; DEFINING FOREST LAND AND FOREST PRODUCTIVITY VALUE; REQUIRING THE DEPARTMENT OF REVENUE TO VALUE FOREST LANDS OF 5 15 ACRES OR MORE ON THE BASIS OF PRODUCTIVITY BY CAPITALIZING THE NET INCOME OF FOREST LAND; AUTHORIZING THE DEPARTMENT OF REVENUE TO ESTABLISH FOREST VALUATION ZONES; PROVIDING FOR A TRANSITION PERIOD IN THE TAXATION OF FOREST LANDS BY EXTENDING THE TERMINATION DATE OF CLASS THIRTEEN PROPERTY; PROVIDING THAT CLASS THIRTEEN WILL APPLY TO THE TAXATION OF FOREST LANDS BEGINNING JANUARY 1, 1994; PROVIDING--THAT--LAND--MUST--BE CLASSIFIED--AS--AGRICULTURAL--LAND--IF--ITS--GRAZING--VALUE--IS GREATER--THAN--ITS--FOREST--PRODUCTIVITY--VALUE; EXEMPTING TIMBER FROM AD VALOREM PROPERTY TAXATION; IMPOSING AN ASSESSMENT ON ALL PRIVATELY OWNED TIMBERLAND; PROVIDING AN APPROPRIATION; AMENDING SECTIONS 15-1-101, 15-6-143, 15-6-201, AND 15-8-111, MCA, AND SECTION 10, CHAPTER 681, LAWS OF 1985; AND PROVIDING EFFECTIVE DATES, APPLICABILITY DATES, AND A TERMINATION DATE."

WHEREAS, the Department of Revenue does not have

THERE ARE NO CHANGES ON THIS BILL. PLEASE REFER TO YELLOW SECOND READING, SECOND PRINTING FOR COMPLETE TEXT. (HB 340/03)



HOUSE BILL NO. 340

INTRODUCED BY REAM, B. BROWN

BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE

A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE THE TAXATION OF PRIVATE FOREST LANDS; DEFINING FOREST LAND AND FOREST PRODUCTIVITY VALUE; REQUIRING THE DEPARTMENT OF REVENUE TO VALUE FOREST LANDS OF 5 15 ACRES OR MORE ON THE BASIS OF PRODUCTIVITY BY CAPITALIZING THE NET INCOME OF FOREST LAND; AUTHORIZING THE DEPARTMENT OF REVENUE TO ESTABLISH FOREST VALUATION ZONES; PROVIDING FOR A TRANSITION PERIOD IN THE TAXATION OF FOREST LANDS BY EXTENDING THE TERMINATION DATE OF CLASS THIRTEEN PROPERTY; PROVIDING THAT CLASS THIRTEEN WILL APPLY TO THE TAXATION OF FOREST LANDS BEGINNING JANUARY 1, 1994; ~~PROVIDING--THAT--LAND--MUST--BE CLASSIFIED--AS--AGRICULTURAL--LAND--IF--ITS--GRAZING--VALUE--IS GREATER--THAN--ITS--FOREST--PRODUCTIVITY--VALUE;~~ EXEMPTING TIMBER FROM AD VALOREM PROPERTY TAXATION; IMPOSING AN ASSESSMENT ON ALL PRIVATELY OWNED TIMBERLAND; PROVIDING AN APPROPRIATION; AMENDING SECTIONS 15-1-101, 15-6-143, 15-6-201, AND 15-8-111, MCA, AND SECTION 10, CHAPTER 681, LAWS OF 1985; AND PROVIDING EFFECTIVE DATES, APPLICABILITY DATES, AND A TERMINATION DATE."

WHEREAS, the Department of Revenue does not have

adequate resources to properly administer the existing standing inventory method of taxing forest lands; and

WHEREAS, the standing inventory method of taxing forest lands encourages landowners to harvest timber without regard to good forest management; and

WHEREAS, the valuation of forest lands in Montana is often based on outdated information; and

WHEREAS, the Forest Taxation Subcommittee of the Revenue Oversight Committee found that the forest productivity method of taxing forest lands encourages good forest management and is a more equitable method of taxing forest lands; and

WHEREAS, the forest productivity method of taxing forest lands is in the long run easier and less costly to administer than the standing inventory method; and

WHEREAS, the Forest Taxation Subcommittee of the Revenue Oversight Committee recommends that forest lands be taxed on the basis of productivity; and

WHEREAS, it is the intent of the Legislature to implement the recommendation of the Forest Taxation Subcommittee of the Revenue Oversight Committee.

THEREFORE, it is the purpose of this bill to implement the recommendation to change the method of taxing forest lands in the state.



## 1 STATEMENT OF INTENT

2 A statement of intent is required for this bill because  
3 the department of revenue is granted authority to adopt  
4 rules for the administration and enforcement of the forest  
5 productivity method of taxing forest lands.

6 The legislature contemplates that rules adopted by the  
7 department should, at a minimum, address the following:

8 (1) guidelines for information that must be contained  
9 in the statement of intent submitted by the forest landowner  
10 as provided for in (section 2(5)(b));

11 (2) the form to be used by the forest landowner for the  
12 statement of intent;

13 (3) the procedures for determining appropriate forest  
14 valuation zones and for computing forest land valuation  
15 schedules;

16 (4) the notification of landowners who may be eligible  
17 for forest land classification under this bill;

18 (5) the process by which a landowner may appeal the  
19 valuation of the owner's forest land; and

20 (6) the definition of terms and establishment of  
21 procedures as appropriate for the efficient administration  
22 of the forest productivity method of taxation.

23 In determining forest productivity values and in  
24 computing forest land valuation schedules, the department  
25 shall use the assistance of the university of Montana. The

1 legislature also intends that, in implementing this bill,  
2 the department seek the advice of the department of state  
3 lands, landowners of private forest lands, the timber  
4 industry, and local governments.

5  
6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

7 NEW SECTION. **Section 1.** Short title. [Sections 1  
8 through 5] may be cited as the "Forest Lands Tax Act".

9 NEW SECTION. **Section 2.** Definitions. For the purposes  
10 of [sections 1 through 5], unless the context requires  
11 otherwise, the following definitions apply:

12 (1) "Culmination of mean annual increment" means the  
13 point of optimum net wood production on an acre of forest  
14 land.

15 (2) "Cultivated Christmas trees" means Christmas trees  
16 that are grown on land prepared by intensive cultivation and  
17 tilling, such as by plowing or turning over the soil, and on  
18 which all unwanted plant growth is controlled for the  
19 exclusive purpose of raising Christmas trees.

20 (3) "Department" means the department of revenue.

21 (4) "Forest" means forest land and the timber on the  
22 land.

23 (5) "Forest land" means contiguous land of 5 15 acres  
24 or more in one ownership that is capable of producing timber  
25 that can be harvested in commercial quantity and is

1 producing timber unless the trees have been removed by man  
2 through harvest, including clearcuts, or by natural  
3 disaster, including but not limited to fire. Forest land  
4 includes land:

5 (a) that has not been converted to another use; or  
6 (b) that has a dedicated use that is evidenced by a  
7 statement of intent by the owner for the eventual harvest of  
8 timber.

9 (6) "Forest productivity value" means the value of  
10 forest land for assessment purposes, which value is  
11 determined only on the basis of its ability to produce  
12 timber, other forest products, and associated agricultural  
13 products through an income approach provided for in [section  
14 3].

15 (7) "Harvest" means an activity related to the cutting  
16 or removal of timber for use or sale as a forest product.

17 (8) "Landowner" means an individual, corporation,  
18 association, company, firm, joint venture, syndicate, or  
19 trust.

20 (9) "Mean annual net wood production" means the average  
21 net usable volume of wood 1 acre of forest land will grow in  
22 1 year under average current and actual forest conditions  
23 and under current and reasonable management practices for  
24 each forest valuation zone established under [section 3].

25 (10) "Stumpage value" means the amount that timber would

1 sell for under an arm's-length transaction made in the  
2 ordinary course of business, expressed in terms of dollars  
3 per unit of measure.

4 (11) "Timber" means all wood growth on privately owned  
5 land, mature or immature, alive or dead, standing or down,  
6 that is capable of furnishing raw material used in the  
7 manufacture of lumber or other forest products. The term  
8 does not include cultivated Christmas trees.

9 NEW SECTION. **Section 3. Legislative intent -- value of**  
10 **forest lands -- valuation zones.** (1) In order to encourage  
11 landowners of private forest lands to retain and improve  
12 their holdings of forest lands, to promote better forest  
13 practices, and to encourage the investment of capital in  
14 reforestation, forest lands must be classified and assessed  
15 under the provisions of this section.

16 (2) The forest productivity value of forest land must  
17 be determined by:

18 (a) capitalizing the value of the mean annual net wood  
19 production at the culmination of mean annual increment plus  
20 other agriculture-related income, if any; less

21 (b) annualized expenses, including but not limited to  
22 the establishment, protection, maintenance, improvement, and  
23 management of the crop over the rotation period.

24 (3) To determine the forest productivity value of  
25 forest lands, the department shall:

1 (a) divide the state into appropriate forest valuation  
 2 zones, with each zone designated so as to recognize the  
 3 uniqueness of marketing areas, timber types, growth rates,  
 4 access, operability, and other pertinent factors of that  
 5 zone; and

6 (b) establish a uniform system of forest land  
 7 classification that takes into consideration the productive  
 8 capacity of the site to grow forest products and furnish  
 9 other associated agricultural uses.

10 (4) In computing the forest land valuation schedules  
 11 for each forest valuation zone to take effect on January 1,  
 12 1994, the department shall determine the productive capacity  
 13 value of all forest lands in each forest valuation zone  
 14 using the formula  $V = I/R$ , where:

15 (a) V is the per-acre forest productivity value of the  
 16 forest land;

17 (b) I is the per-acre net income of forest lands in  
 18 each valuation zone and is determined by the department  
 19 using the formula  $I = (M \times SV) + AI - C$ , where:

20 (i) I is the per-acre net income;

21 (ii) M is the mean annual net wood production;

22 (iii) SV is the stumpage value;

23 (iv) AI is the per-acre agriculture-related income; and

24 (v) C is the per-unit cost of the forest product and  
 25 agricultural product produced, if any; and

1 (c) R is the capitalization rate determined by the  
 2 department as provided in subsection (6).

3 (5) Net income must:

4 (a) be calculated for each year of a base period, which  
 5 is the most recent 5-year period for which data is  
 6 available;

7 (b) be based on a rolling average of stumpage value of  
 8 timber harvested within the forest valuation zone and on the  
 9 associated production cost data for the base period from  
 10 sources considered appropriate by the department; and

11 (c) include agriculture-related net income for the same  
 12 time period as the period used to determine average stumpage  
 13 values.

14 (6) The capitalization rate must be calculated for each  
 15 year of the base period and is the annual average interest  
 16 rate on agricultural loans as reported by the federal land  
 17 bank association of Spokane, Washington, plus the effective  
 18 tax rate.

19 (7) The effective tax rate must be calculated for each  
 20 year of the base period by dividing the total estimated tax  
 21 due on forest lands subject to the provisions of this  
 22 section by the total forest value of those lands.

23 (8) For the purposes of this section, if forest service  
 24 sales are used in the determination of stumpage values, the  
 25 department shall take into account purchaser road credits.

1 (9) In determining the forest productivity value of  
 2 forest lands and in computing the forest land valuation  
 3 schedules, the department shall use information and data  
 4 provided by the university of Montana.

5 NEW SECTION. **Section 4.** Reduction in valuation on  
 6 forest lands for trees destroyed by natural disaster. (1)  
 7 Forest lands upon which, at any time after December 31,  
 8 1993, trees are destroyed by fire, disease, insect  
 9 infestation, or other natural disaster so that the lands  
 10 affected will not meet minimum stocking requirements are  
 11 eligible for a reduction in value for the first 20 tax years  
 12 following the loss.

13 (2) If a landowner shows to the department's  
 14 satisfaction that the landowner's forest lands have been  
 15 destroyed as provided in subsection (1), the department  
 16 shall reduce the value of the forest land by 50% of the  
 17 original forest productivity value per year.

18 NEW SECTION. **Section 5.** Administration -- rules. The  
 19 department shall:

20 (1) administer and enforce the provisions of [sections  
 21 1 through 5];

22 (2) arrange for the preparation and distribution of  
 23 forms and information necessary to administer the provisions  
 24 of [section 1 through 5]; and

25 (3) promulgate rules necessary to administer and

1 enforce the provisions of [sections 1 through 5].

2 **Section 6.** Section 15-6-143, MCA, is amended to read:

3 \*15-6-143. (Temporary) Class thirteen property --  
 4 description -- taxable percentage. (1) Class thirteen  
 5 property includes all timberland.

6 (2) Timberland is contiguous land exceeding 15 acres in  
 7 one ownership that is capable of producing timber that can  
 8 be harvested in commercial quantity.

9 (3) Class thirteen property is taxed at the percentage  
 10 rate ~~3.04%~~ 4% of the combined appraised value of the  
 11 standing timber and grazing productivity of the property.

12 ~~(4) For taxable years beginning January 1, 1986, and~~  
 13 ~~thereafter, the taxable percentage rate "P" applicable to~~  
 14 ~~class thirteen property is 30%/B, where B is the certified~~  
 15 ~~statewide percentage increase to be determined by the~~  
 16 ~~department of revenue as provided in subsection (5). The~~  
 17 ~~taxable percentage rate "P" shall be rounded downward to the~~  
 18 ~~nearest 0.01% and shall be calculated by the department~~  
 19 ~~before July 1, 1986.~~

20 ~~(5) (a) Prior to July 1, 1986, the department shall~~  
 21 ~~determine the certified statewide percentage increase for~~  
 22 ~~class thirteen property using the formula B = X/Y where:~~

23 ~~(i) X is the appraised value, as of January 1, 1986, of~~  
 24 ~~all property in the state, excluding use changes occurring~~  
 25 ~~during the preceding year, classified under class thirteen~~



1 as class thirteen is described in this section, and  
 2 (ii) V is the appraised value, as of January 1, 1985, of  
 3 all property in the state that, as of January 1, 1986, would  
 4 be classified under class thirteen as class thirteen is  
 5 described in this section;

6 (b) B shall be rounded downward to the nearest 0.0001%;  
 7 (6) After July 1, 1986, no adjustment may be made by  
 8 the department to the taxable percentage rate "P" until a  
 9 valuation has been made as provided in 15-7-111. (Terminates  
 10 January 1, 1991--sec 107-Ch 6817-b-1985.)"

11 **Section 7.** Section 15-6-143, MCA, is amended to read:

12 "15-6-143. (Temporary) Class thirteen property --  
 13 description -- taxable percentage -- alternative  
 14 classification. (i) Class thirteen property includes all  
 15 timberland;

16 (2) Timberland is contiguous land exceeding 15 acres in  
 17 one ownership that is capable of producing timber that can  
 18 be harvested in commercial quantity;

19 (3) Class thirteen property is taxed at the percentage  
 20 rate "P" of the combined appraised value of the standing  
 21 timber and grazing productivity of the property;

22 (4) For taxable years beginning January 1, 1986, and  
 23 thereafter, the taxable percentage rate "P" applicable to  
 24 class thirteen property is  $30\%/B$ , where B is the certified  
 25 statewide percentage increase to be determined by the

1 department of revenue as provided in subsection (5). The  
 2 taxable percentage rate "P" shall be rounded downward to the  
 3 nearest 0.01% and shall be calculated by the department  
 4 before July 1, 1986.

5 (5) (a) Prior to July 1, 1986, the department shall  
 6 determine the certified statewide percentage increase for  
 7 class thirteen property using the formula  $B = X/Y$ , where:

8 (i) X is the appraised value, as of January 1, 1986, of  
 9 all property in the state, excluding use changes occurring  
 10 during the preceding year, classified under class thirteen  
 11 as class thirteen is described in this section, and

12 (ii) Y is the appraised value, as of January 1, 1985, of  
 13 all property in the state that, as of January 1, 1986, would  
 14 be classified under class thirteen as class thirteen is  
 15 described in this section;

16 (b) B shall be rounded downward to the nearest 0.0001%.

17 (6) After July 1, 1986, no adjustment may be made by  
 18 the department to the taxable percentage rate "P" until a  
 19 valuation has been made as provided in 15-7-111. (Terminates  
 20 January 1, 1991--sec 107-Ch 6817-b-1985.)

21 (1) Except as provided in subsection (5), class  
 22 thirteen property includes all forest lands as defined in  
 23 [section 2].

24 (2) Class thirteen property is taxed at the percentage  
 25 rate "P" of its forest productivity value.

1 (3) For taxable years beginning January 1, 1994, and  
 2 thereafter, the taxable percentage rate "P" applicable to  
 3 class thirteen property is  $\frac{3.84\%}{B}$   $\frac{4\%}{B}$ , where B is the  
 4 certified statewide percentage increase to be determined by  
 5 the department of revenue as provided in subsection (4). The  
 6 taxable percentage rate "P" must be rounded downward to the  
 7 nearest 0.01% and must be calculated by the department  
 8 before July 1, 1994.

9 (4) (a) Prior to July 1, 1994, the department shall  
 10 determine the certified statewide percentage increase for  
 11 class thirteen property using the formula  $B = X/Y$ , where:

12 (i) X is the appraised value, as of January 1, 1994, of  
 13 all property in the state, excluding use changes occurring  
 14 during the preceding year, classified under class thirteen  
 15 as class thirteen is described in this section; and

16 (ii) Y is the appraised value, as of January 1, 1993, of  
 17 all property in the state that would be classified under  
 18 class thirteen as class thirteen is described in this  
 19 section as this section reads in 1993.

20 (b) B must be rounded downward to the nearest 0.0001%.

21 ~~(5) If the department of revenue determines that the~~  
 22 ~~grazing value of a parcel of forest land is greater than the~~  
 23 ~~forest productivity value determined under (section 3), the~~  
 24 ~~land must be classified as agricultural land under~~  
 25 ~~15-6-133.~~

1 **Section 8.** Section 15-1-101, MCA, is amended to read:

2 "15-1-101. **Definitions.** (1) Except as otherwise  
 3 specifically provided, when terms mentioned in this section  
 4 are used in connection with taxation, they are defined in  
 5 the following manner:

6 (a) The term "agricultural" refers to the raising of  
 7 livestock, poultry, bees, and other species of domestic  
 8 animals and wildlife in domestication or a captive  
 9 environment, and the raising of field crops, fruit, and  
 10 other animal and vegetable matter for food or fiber.

11 (b) The term "assessed value" means the value of  
 12 property as defined in 15-8-111.

13 (c) The term "average wholesale value" means the value  
 14 to a dealer prior to reconditioning and profit margin shown  
 15 in national appraisal guides and manuals or the valuation  
 16 schedules of the department of revenue.

17 (d) (i) The term "commercial", when used to describe  
 18 property, means any property used or owned by a business, a  
 19 trade, or a nonprofit corporation as defined in 35-2-102 or  
 20 used for the production of income, except that property  
 21 described in subsection (ii).

22 (ii) The following types of property are not commercial:

23 (A) agricultural lands;

24 (B) timberlands and, beginning January 1, 1994, forest  
 25 lands;

1 (C) single-family residences and ancillary improvements  
2 and improvements necessary to the function of a bona fide  
3 farm, ranch, or stock operation;

4 (D) mobile homes used exclusively as a residence except  
5 when held by a distributor or dealer of trailers or mobile  
6 homes as his stock in trade;

7 (E) all property described in 15-6-135; and

8 (F) all property described in 15-6-136.

9 (e) The term "comparable property" means property that  
10 has similar use, function, and utility; that is influenced  
11 by the same set of economic trends and physical,  
12 governmental, and social factors; and that has the potential  
13 of a similar highest and best use.

14 (f) The term "credit" means solvent debts, secured or  
15 unsecured, owing to a person.

16 (g) The term "improvements" includes all buildings,  
17 structures, fences, and improvements situated upon, erected  
18 upon, or affixed to land. When the department of revenue or  
19 its agent determines that the permanency of location of a  
20 mobile home or housetrailer has been established, the mobile  
21 home or housetrailer is presumed to be an improvement to  
22 real property. A mobile home or housetrailer may be  
23 determined to be permanently located only when it is  
24 attached to a foundation which cannot feasibly be relocated  
25 and only when the wheels are removed.

1 (h) The term "leasehold improvements" means  
2 improvements to mobile homes and mobile homes located on  
3 land owned by another person. This property is assessed  
4 under the appropriate classification and the taxes are due  
5 and payable in two payments as provided in 15-24-202.  
6 Delinquent taxes on such leasehold improvements are a lien  
7 only on such leasehold improvements.

8 (i) The term "livestock" means cattle, sheep, swine,  
9 goats, horses, mules, and asses.

10 (j) The term "mobile home" means forms of housing known  
11 as "trailers", "housetrailers", or "trailer coaches"  
12 exceeding 8 feet in width or 45 feet in length, designed to  
13 be moved from one place to another by an independent power  
14 connected to them, or any "trailer", "housetrailer", or  
15 "trailer coach" up to 8 feet in width or 45 feet in length  
16 used as a principal residence.

17 (k) The term "personal property" includes everything  
18 that is the subject of ownership but that is not included  
19 within the meaning of the terms "real estate" and  
20 "improvements".

21 (l) The term "poultry" includes all chickens, turkeys,  
22 geese, ducks, and other birds raised in domestication to  
23 produce food or feathers.

24 (m) The term "property" includes moneys, credits,  
25 bonds, stocks, franchises, and all other matters and things,

1 real, personal, and mixed, capable of private ownership.  
 2 This definition must not be construed to authorize the  
 3 taxation of the stocks of any company or corporation when  
 4 the property of such company or corporation represented by  
 5 the stocks is within the state and has been taxed.

6 (n) The term "real estate" includes:

7 (i) the possession of, claim to, ownership of, or right  
 8 to the possession of land;

9 (ii) all mines, minerals, and quarries in and under the  
 10 land subject to the provisions of 15-23-501 and Title 15,  
 11 chapter 23, part 8; all timber belonging to individuals or  
 12 corporations growing or being on the lands of the United  
 13 States; and all rights and privileges appertaining thereto.

14 (o) "Research and development firm" means an entity  
 15 incorporated under the laws of this state or a foreign  
 16 corporation authorized to do business in this state whose  
 17 principal purpose is to engage in theoretical analysis,  
 18 exploration, and experimentation and the extension of  
 19 investigative findings and theories of a scientific and  
 20 technical nature into practical application for experimental  
 21 and demonstration purposes, including the experimental  
 22 production and testing of models, devices, equipment,  
 23 materials, and processes.

24 (p) The term "taxable value" means the percentage of  
 25 market or assessed value as provided for in Title 15,

1 chapter 6, part 1.

2 (q) The term "weighted mean assessment ratio" means the  
 3 total of the assessed values divided by the total of the  
 4 selling prices of all area sales in the stratum.

5 (2) The phrase "municipal corporation" or  
 6 "municipality" or "taxing unit" shall be deemed to include a  
 7 county, city, incorporated town, township, school district,  
 8 irrigation district, drainage district, or any person,  
 9 persons, or organized body authorized by law to establish  
 10 tax levies for the purpose of raising public revenue.

11 (3) The term "state board" or "board" when used without  
 12 other qualification shall mean the state tax appeal board."

13 **Section 9.** Section 15-6-201, MCA, is amended to read:

14 "15-6-201. **Exempt categories.** (1) The following  
 15 categories of property are exempt from taxation:

16 (a) the property of:

17 (i) the United States, the state, counties, cities,  
 18 towns, school districts, except, if congress passes  
 19 legislation that allows the state to tax property owned by  
 20 an agency created by congress to transmit or distribute  
 21 electrical energy, the property constructed, owned, or  
 22 operated by a public agency created by the congress to  
 23 transmit or distribute electric energy produced at privately  
 24 owned generating facilities (not including rural electric  
 25 cooperatives);

1 (ii) irrigation districts organized under the laws of  
 2 Montana and not operating for profit;  
 3 (iii) municipal corporations; and  
 4 (iv) public libraries;  
 5 (b) buildings, with land they occupy and furnishings  
 6 therein, owned by a church and used for actual religious  
 7 worship or for residences of the clergy, together with  
 8 adjacent land reasonably necessary for convenient use of the  
 9 buildings;  
 10 (c) property used exclusively for agricultural and  
 11 horticultural societies, for educational purposes, and for  
 12 nonprofit health care facilities, as defined in 50-5-101,  
 13 licensed by the department of health and environmental  
 14 sciences and organized under Title 35, chapter 2 or 3. A  
 15 health care facility that is not licensed by the department  
 16 of health and environmental sciences and organized under  
 17 Title 35, chapter 2 or 3, is not exempt.  
 18 (d) property that meets the following conditions:  
 19 (i) is owned and held by any association or corporation  
 20 organized under Title 35, chapter 2, 3, 20, or 21;  
 21 (ii) is devoted exclusively to use in connection with a  
 22 cemetery or cemeteries for which a permanent care and  
 23 improvement fund has been established as provided for in  
 24 Title 35, chapter 20, part 3; and  
 25 (iii) is not maintained and operated for private or

1 corporate profit;  
 2 (e) institutions of purely public charity;  
 3 (f) evidence of debt secured by mortgages of record  
 4 upon real or personal property in the state of Montana;  
 5 (g) public art galleries and public observatories not  
 6 used or held for private or corporate profit;  
 7 (h) all household goods and furniture, including but  
 8 not limited to clocks, musical instruments, sewing machines,  
 9 and wearing apparel of members of the family, used by the  
 10 owner for personal and domestic purposes or for furnishing  
 11 or equipping the family residence;  
 12 (i) a truck canopy cover or topper weighing less than  
 13 300 pounds and having no accommodations attached. This  
 14 property is also exempt from taxation under 61-3-504(2) and  
 15 61-3-537.  
 16 (j) a bicycle, as defined in 61-1-123, used by the  
 17 owner for personal transportation purposes;  
 18 (k) motor homes, travel trailers, and campers;  
 19 (l) all watercraft;  
 20 (m) land, fixtures, buildings, and improvements owned  
 21 by a cooperative association or nonprofit corporation  
 22 organized to furnish potable water to its members or  
 23 customers for uses other than the irrigation of agricultural  
 24 land;  
 25 (n) the right of entry that is a property right

1 reserved in land or received by mesne conveyance (exclusive  
2 of leasehold interests), devise, or succession to enter land  
3 whose surface title is held by another to explore, prospect,  
4 or dig for oil, gas, coal, or minerals;

5 (o) property owned and used by a corporation or  
6 association organized and operated exclusively for the care  
7 of the developmentally disabled, mentally ill, or  
8 vocationally handicapped as defined in 18-5-101, which is  
9 not operated for gain or profit;

10 (p) all farm buildings with a market value of less than  
11 \$500 and all agricultural implements and machinery with a  
12 market value of less than \$100;

13 (q) property owned by a nonprofit corporation organized  
14 to provide facilities primarily for training and practice  
15 for or competition in international sports and athletic  
16 events and not held or used for private or corporate gain or  
17 profit. For purposes of this subsection (q), "nonprofit  
18 corporation" means an organization exempt from taxation  
19 under section 501(c) of the Internal Revenue Code and  
20 incorporated and admitted under the Montana Nonprofit  
21 Corporation Act.

22 (r) provided the tools are owned by the taxpayer, the  
23 first \$15,000 or less of market value of tools that are  
24 customarily hand-held and that are used to:

25 (i) construct, repair, and maintain improvements to

1 real property; or

2 (ii) repair and maintain machinery, equipment,  
3 appliances, or other personal property;

4 (s) harness, saddlery, and other tack equipment; and

5 (t) a title plant owned by a title insurer or a title  
6 insurance producer, as those terms are defined in 33-25-105;  
7 and

8 (u) beginning January 1, 1990 1994, timber as defined  
9 in [section 2].

10 (2) (a) The term "institutions of purely public  
11 charity" includes organizations owning and operating  
12 facilities for the care of the retired or aged or  
13 chronically ill, which are not operated for gain or profit.

14 (b) The terms "public art galleries" and "public  
15 observatories" include only those art galleries and  
16 observatories, whether of public or private ownership, that  
17 are open to the public without charge at all reasonable  
18 hours and are used for the purpose of education only.

19 (3) The following portions of the appraised value of a  
20 capital investment made after January 1, 1979, in a  
21 recognized nonfossil form of energy generation, as defined  
22 in 15-32-102, are exempt from taxation for a period of 10  
23 years following installation of the property:

24 (a) \$20,000 in the case of a single-family residential  
25 dwelling;

1 (b) \$100,000 in the case of a multifamily residential  
2 dwelling or a nonresidential structure."

3 **Section 10.** Section 15-8-111, MCA, is amended to read:

4 "15-8-111. **Assessment -- market value standard --**  
5 **exceptions.** (1) All taxable property must be assessed at  
6 100% of its market value except as otherwise provided.

7 (2) (a) Market value is the value at which property  
8 would change hands between a willing buyer and a willing  
9 seller, neither being under any compulsion to buy or to sell  
10 and both having reasonable knowledge of relevant facts.

11 (b) If the department uses construction cost as one  
12 approximation of market value, the department shall fully  
13 consider reduction in value caused by depreciation, whether  
14 through physical depreciation, functional obsolescence, or  
15 economic obsolescence.

16 (c) Except as provided in subsection (3), the market  
17 value of all motor trucks; agricultural tools, implements,  
18 and machinery; and vehicles of all kinds, including but not  
19 limited to boats and all watercraft, is the average  
20 wholesale value shown in national appraisal guides and  
21 manuals or the value of the vehicle before reconditioning  
22 and profit margin. The department of revenue shall prepare  
23 valuation schedules showing the average wholesale value when  
24 no national appraisal guide exists.

25 (3) The department of revenue or its agents may not

1 adopt a lower or different standard of value from market  
2 value in making the official assessment and appraisal of the  
3 value of property, except:

4 (a) the wholesale value for agricultural implements and  
5 machinery is the loan value as shown in the Official Guide,  
6 Tractor and Farm Equipment, published by the national farm  
7 and power equipment dealers association, St. Louis,  
8 Missouri;

9 (b) for agricultural implements and machinery not  
10 listed in the official guide, the department shall prepare a  
11 supplemental manual where the values reflect the same  
12 depreciation as those found in the official guide; and

13 (c) as otherwise authorized in Title 15 and Title 61.

14 (4) For purposes of taxation, assessed value is the  
15 same as appraised value.

16 (5) The taxable value for all property is the  
17 percentage of market or assessed value established for each  
18 class of property.

19 (6) The assessed value of properties in 15-6-131  
20 through 15-6-133 is as follows:

21 (a) Properties in 15-6-131, under class one, are  
22 assessed at 100% of the annual net proceeds after deducting  
23 the expenses specified and allowed by 15-23-503 or, if  
24 applicable, as provided in 15-23-515.

25 (b) Properties in 15-6-132, under class two, are

1 assessed at 100% of the annual gross proceeds.

2 (c) Properties in 15-6-133, under class three, are  
3 assessed at 100% of the productive capacity of the lands  
4 when valued for agricultural purposes. All lands that meet  
5 the qualifications of 15-7-202 are valued as agricultural  
6 lands for tax purposes.

7 (d) Properties Beginning January 1, 1990, and ending  
8 December--31 JUNE 30, 1993, properties in 15-6-143, under  
9 class thirteen, are assessed at 100% of the combined  
10 appraised value of the standing timber and grazing  
11 productivity of the land when valued as timberland.

12 (e) Beginning January 1, 1994, properties in 15-6-143,  
13 under class thirteen, are assessed at 100% of the forest  
14 productivity value of the land when valued as forest land.

15 (7) Land and the improvements thereon are separately  
16 assessed when any of the following conditions occur:

17 (a) ownership of the improvements is different from  
18 ownership of the land;

19 (b) the taxpayer makes a written request; or

20 (c) the land is outside an incorporated city or town."

21 **Section 11.** Section 10, Chapter 681, Laws of 1985, is  
22 amended to read:

23 "Section 10. **Effective date -- termination date.** This  
24 act is effective January 1, 1986, and, except for section-3  
25 sections 2 through 4, terminates January 1, 1991."

1 **NEW SECTION. Section 12. Appropriation.** (1) There is  
2 appropriated from the general fund to the department of  
3 revenue \$614,076 to fund the determination of the forest  
4 productivity value of forest lands required by [section 3].

5 (2) There is appropriated from the general fund to the  
6 department of revenue \$366,762 to administer the provisions  
7 of [sections 1 through 5 and section 7].

8 (3) Notwithstanding the provisions of 17-7-302 through  
9 17-7-304, the unexpended appropriation in subsection (1) may  
10 be encumbered for payment in fiscal year 1994.

11 (4) Notwithstanding the provisions of 17-7-302 through  
12 17-7-304, the unexpended appropriation in subsection (2) is  
13 reappropriated for fiscal year 1994.

14 **NEW SECTION. SECTION 13. ASSESSMENT ON PRIVATELY OWNED**  
15 **TIMBERLAND -- COLLECTION -- DISPOSITION.** (1) AN ASSESSMENT  
16 OF 10 CENTS PER ACRE OR PORTION OF AN ACRE IS IMPOSED ON ALL  
17 PRIVATELY OWNED TIMBERLAND FOR TAX YEARS 1991 THROUGH 1993.  
18 THE ASSESSMENT IS IMPOSED ON THE OWNER OF THE LAND AS OF  
19 JANUARY 1 OF EACH YEAR.

20 (2) THIS ASSESSMENT IS DONE ON NOVEMBER 30 OF EACH YEAR  
21 AND MUST BE PAID WITH THE PROPERTY TAX DUE AS PROVIDED IN  
22 15-16-101.

23 (3) (A) BY SEPTEMBER 1 OF EACH YEAR, THE DEPARTMENT OF  
24 REVENUE SHALL PROVIDE COUNTY TREASURERS WITH A LIST SHOWING:

25 (I) ALL OWNERS OF PRIVATE TIMBERLAND IN THE COUNTY AS



1 OF JANUARY 1 OF THAT YEAR; AND

2 (1) THE NUMBER OF ACRES OF TIMBERLAND OWNED BY EACH AS  
3 OF JANUARY 1 OF THAT YEAR.

4 (B) THE COUNTY TREASURER SHALL SEND EACH LISTED OWNER A  
5 BILL FOR THE ASSESSMENT IMPOSED IN SUBSECTION (1) WITH THE  
6 PROPERTY TAX NOTICE REQUIRED IN 15-16-101.

7 (4) THE COUNTY TREASURER SHALL COLLECT THE ASSESSMENT  
8 IMPOSED IN SUBSECTION (1) AND REMIT COLLECTIONS TO THE STATE  
9 TREASURER BY DECEMBER 20 OF EACH YEAR.

10 (5) THE STATE TREASURER SHALL DEPOSIT ALL COLLECTIONS  
11 FROM THE ASSESSMENT IMPOSED IN SUBSECTION (1) IN THE GENERAL  
12 FUND.

13 NEW SECTION. Section 14. Codification instruction.  
14 [Sections 1 through 5] are intended to be codified as an  
15 integral part of Title 15, and the provisions of Title 15  
16 apply to [sections 1 through 5].

17 NEW SECTION. Section 15. Saving clause. [This act]  
18 does not affect the rights and duties that matured,  
19 penalties that were incurred, or proceedings that were begun  
20 before [the effective date of this act].

21 NEW SECTION. Section 16. Severability. If a part of  
22 [this act] is invalid, all valid parts that are severable  
23 from the invalid part remain in effect. If a part of [this  
24 act] is invalid in one or more of its applications, the part  
25 remains in effect in all valid applications that are

1 severable from the invalid applications.

2 NEW SECTION. Section 17. Applicability -- retroactive  
3 applicability. (1) Except as provided in subsection (2),  
4 [this act] applies to taxable years beginning after December  
5 31, 1993.

6 (2) [Sections 6 and ~~11~~, 11, AND 13] apply  
7 retroactively, within the meaning of 1-2-109, to taxable  
8 years beginning after December 31, 1990.

9 NEW SECTION. Section 18. Effective dates. (1) Except  
10 as provided in subsections (2) and (3), [this act] is  
11 effective July 1, 1991.

12 (2) [Sections 6 and ~~11~~, 11, AND 13] and this section  
13 are effective on passage and approval.

14 (3) [Section 7] is effective January 1, 1994.

15 NEW SECTION. Section 19. Termination -- CONTINGENT  
16 TERMINATION. (1) UNLESS TERMINATED EARLIER PURSUANT TO  
17 SUBSECTION (2), [Section SECTION 6 and section 10(6)(d)]  
18 terminate January-17-1994 JULY 1, 1993.

19 (2) [SECTION 6 AND SECTION 10(6)(D)] TERMINATE ON APRIL  
20 1, 1992, UNLESS PRIOR TO THAT TIME, THE DIRECTOR OF REVENUE  
21 CERTIFIES TO THE REVENUE OVERSIGHT COMMITTEE THAT THE  
22 DEPARTMENT OF REVENUE HAS BEGUN THE FOREST LANDS VALUATION  
23 PROCESS SET FORTH IN [SECTION 3], INCLUDING HAVING ENTERED  
24 INTO A CONTRACT WITH THE UNIVERSITY OF MONTANA FOR THE  
25 PROVISION OF INFORMATION AND DATA. UPON RECEIPT OF THE

HB 0340/03

1 CERTIFICATION, THE CHAIRMAN OF THE REVENUE OVERSIGHT  
2 COMMITTEE SHALL PROVIDE A COPY OF THE DOCUMENT TO THE  
3 SECRETARY OF STATE.

4 (3) [SECTION 13] TERMINATES JANUARY 1, 1994.

-End-

1 HOUSE BILL NO. 340  
 2 INTRODUCED BY REAM, B. BROWN  
 3 BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE  
 4  
 5 A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE THE  
 6 TAXATION OF PRIVATE FOREST LANDS; DEFINING FOREST LAND AND  
 7 FOREST PRODUCTIVITY VALUE; REQUIRING THE DEPARTMENT OF  
 8 REVENUE TO VALUE FOREST LANDS OF 5 15 ACRES OR MORE ON THE  
 9 BASIS OF PRODUCTIVITY BY CAPITALIZING THE NET INCOME OF  
 10 FOREST LAND; AUTHORIZING THE DEPARTMENT OF REVENUE TO  
 11 ESTABLISH FOREST VALUATION ZONES; PROVIDING FOR A TRANSITION  
 12 PERIOD IN THE TAXATION OF FOREST LANDS BY EXTENDING THE  
 13 TERMINATION DATE OF CLASS THIRTEEN PROPERTY; PROVIDING THAT  
 14 CLASS THIRTEEN WILL APPLY TO THE TAXATION OF FOREST LANDS  
 15 BEGINNING JANUARY 1, 1994; ~~PROVIDING--THAT--LAND--MUST--BE~~  
 16 ~~CLASSIFIED--AS--AGRICULTURAL--LAND--IF--ITS--GRASSING--VALUE--IS~~  
 17 ~~GREATER--THAN--ITS--FOREST--PRODUCTIVITY--VALUE;~~ EXEMPTING TIMBER  
 18 FROM AD VALOREM PROPERTY TAXATION; IMPOSING AN ASSESSMENT ON  
 19 ALL PRIVATELY OWNED TIMBERLAND; PROVIDING AN APPROPRIATION;  
 20 AMENDING SECTIONS 15-1-101, 15-6-143, 15-6-201, AND  
 21 15-8-111, MCA, AND SECTION 10, CHAPTER 681, LAWS OF 1985;  
 22 AND PROVIDING EFFECTIVE DATES, APPLICABILITY DATES, AND A  
 23 TERMINATION DATE."  
 24  
 25 WHEREAS, the Department of Revenue does not have

1 adequate resources to properly administer the existing  
 2 standing inventory method of taxing forest lands; and  
 3 WHEREAS, the standing inventory method of taxing forest  
 4 lands encourages landowners to harvest timber without regard  
 5 to good forest management; and  
 6 WHEREAS, the valuation of forest lands in Montana is  
 7 often based on outdated information; and  
 8 WHEREAS, the Forest Taxation Subcommittee of the Revenue  
 9 Oversight Committee found that the forest productivity  
 10 method of taxing forest lands encourages good forest  
 11 management and is a more equitable method of taxing forest  
 12 lands; and  
 13 WHEREAS, the forest productivity method of taxing forest  
 14 lands is in the long run easier and less costly to  
 15 administer than the standing inventory method; and  
 16 WHEREAS, the Forest Taxation Subcommittee of the Revenue  
 17 Oversight Committee recommends that forest lands be taxed on  
 18 the basis of productivity; and  
 19 WHEREAS, it is the intent of the Legislature to  
 20 implement the recommendation of the Forest Taxation  
 21 Subcommittee of the Revenue Oversight Committee.  
 22 THEREFORE, it is the purpose of this bill to implement  
 23 the recommendation to change the method of taxing forest  
 24 lands in the state.  
 25



1                   **STATEMENT OF INTENT**

2           A statement of intent is required for this bill because  
3 the department of revenue is granted authority to adopt  
4 rules for the administration and enforcement of the forest  
5 productivity method of taxing forest lands.

6           The legislature contemplates that rules adopted by the  
7 department should, at a minimum, address the following:

8           (1) guidelines for information that must be contained  
9 in the statement of intent submitted by the forest landowner  
10 as provided for in [section 2(5)(b)];

11           (2) the form to be used by the forest landowner for the  
12 statement of intent;

13           (3) the procedures for determining appropriate forest  
14 valuation zones and for computing forest land valuation  
15 schedules;

16           (4) the notification of landowners who may be eligible  
17 for forest land classification under this bill;

18           (5) the process by which a landowner may appeal the  
19 valuation of the owner's forest land; and

20           (6) the definition of terms and establishment of  
21 procedures as appropriate for the efficient administration  
22 of the forest productivity method of taxation.

23           In determining forest productivity values and in  
24 computing forest land valuation schedules, the department  
25 shall use the assistance of the university of Montana. The

1 legislature also intends that, in implementing this bill,  
2 the department seek the advice of the department of state  
3 lands, landowners of private forest lands, the timber  
4 industry, and local governments.  
5

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:**

7           NEW SECTION. **Section 1. Short title.** [Sections 1  
8 through 5] may be cited as the "Forest Lands Tax Act".

9           NEW SECTION. **Section 2. Definitions.** For the purposes  
10 of [sections 1 through 5], unless the context requires  
11 otherwise, the following definitions apply:

12           (1) "Culmination of mean annual increment" means the  
13 point of optimum net wood production on an acre of forest  
14 land.

15           (2) "Cultivated Christmas trees" means Christmas trees  
16 that are grown on land prepared by intensive cultivation and  
17 tilling, such as by plowing or turning over the soil, and on  
18 which all unwanted plant growth is controlled for the  
19 exclusive purpose of raising Christmas trees.

20           (3) "Department" means the department of revenue.

21           (4) "Forest" means forest land and the timber on the  
22 land.

23           (5) "Forest land" means contiguous land of 5 15 acres  
24 or more in one ownership that is capable of producing timber  
25 that can be harvested in commercial quantity and is

1 producing timber unless the trees have been removed by man  
2 through harvest, including clearcuts, or by natural  
3 disaster, including but not limited to fire. Forest land  
4 includes land:

5 (a) that has not been converted to another use; or

6 (b) that has a dedicated use that is evidenced by a  
7 statement of intent by the owner for the eventual harvest of  
8 timber.

9 (6) "Forest productivity value" means the value of  
10 forest land for assessment purposes, which value is  
11 determined only on the basis of its ability to produce  
12 timber, other forest products, and associated agricultural  
13 products through an income approach provided for in [section  
14 3].

15 (7) "Harvest" means an activity related to the cutting  
16 or removal of timber for use or sale as a forest product.

17 (8) "Landowner" means an individual, corporation,  
18 association, company, firm, joint venture, syndicate, or  
19 trust.

20 (9) "Mean annual net wood production" means the average  
21 net usable volume of wood 1 acre of forest land will grow in  
22 1 year under average current and actual forest conditions  
23 and under current and reasonable management practices for  
24 each forest valuation zone established under [section 3].

25 (10) "Stumpage value" means the amount that timber would

1 sell for under an arm's-length transaction made in the  
2 ordinary course of business, expressed in terms of dollars  
3 per unit of measure.

4 (11) "Timber" means all wood growth on privately owned  
5 land, mature or immature, alive or dead, standing or down,  
6 that is capable of furnishing raw material used in the  
7 manufacture of lumber or other forest products. The term  
8 does not include cultivated Christmas trees.

9 NEW SECTION. **Section 3. Legislative intent -- value of**  
10 **forest lands -- valuation zones.** (1) In order to encourage  
11 landowners of private forest lands to retain and improve  
12 their holdings of forest lands, to promote better forest  
13 practices, and to encourage the investment of capital in  
14 reforestation, forest lands must be classified and assessed  
15 under the provisions of this section.

16 (2) The forest productivity value of forest land must  
17 be determined by:

18 (a) capitalizing the value of the mean annual net wood  
19 production at the culmination of mean annual increment plus  
20 other agriculture-related income, if any; less

21 (b) annualized expenses, including but not limited to  
22 the establishment, protection, maintenance, improvement, and  
23 management of the crop over the rotation period.

24 (3) To determine the forest productivity value of  
25 forest lands, the department shall:

1 (a) divide the state into appropriate forest valuation  
 2 zones, with each zone designated so as to recognize the  
 3 uniqueness of marketing areas, timber types, growth rates,  
 4 access, operability, and other pertinent factors of that  
 5 zone; and

6 (b) establish a uniform system of forest land  
 7 classification that takes into consideration the productive  
 8 capacity of the site to grow forest products and furnish  
 9 other associated agricultural uses.

10 (4) In computing the forest land valuation schedules  
 11 for each forest valuation zone to take effect on January 1,  
 12 1994, the department shall determine the productive capacity  
 13 value of all forest lands in each forest valuation zone  
 14 using the formula  $V = I/R$ , where:

15 (a) V is the per-acre forest productivity value of the  
 16 forest land;

17 (b) I is the per-acre net income of forest lands in  
 18 each valuation zone and is determined by the department  
 19 using the formula  $I = (M \times SV) + AI - C$ , where:

20 (i) I is the per-acre net income;

21 (ii) M is the mean annual net wood production;

22 (iii) SV is the stumpage value;

23 (iv) AI is the per-acre agriculture-related income; and

24 (v) C is the per-unit cost of the forest product and  
 25 agricultural product produced, if any; and

1 (c) R is the capitalization rate determined by the  
 2 department as provided in subsection (6).

3 (5) Net income must:

4 (a) be calculated for each year of a base period, which  
 5 is the most recent 5-year period for which data is  
 6 available;

7 (b) be based on a rolling average of stumpage value of  
 8 timber harvested within the forest valuation zone and on the  
 9 associated production cost data for the base period from  
 10 sources considered appropriate by the department; and

11 (c) include agriculture-related net income for the same  
 12 time period as the period used to determine average stumpage  
 13 values.

14 (6) The capitalization rate must be calculated for each  
 15 year of the base period and is the annual average interest  
 16 rate on agricultural loans as reported by the federal land  
 17 bank association of Spokane, Washington, plus the effective  
 18 tax rate.

19 (7) The effective tax rate must be calculated for each  
 20 year of the base period by dividing the total estimated tax  
 21 due on forest lands subject to the provisions of this  
 22 section by the total forest value of those lands.

23 (8) For the purposes of this section, if forest service  
 24 sales are used in the determination of stumpage values, the  
 25 department shall take into account purchaser road credits.

1 (9) In determining the forest productivity value of  
 2 forest lands and in computing the forest land valuation  
 3 schedules, the department shall use information and data  
 4 provided by the university of Montana.

5 NEW SECTION. **Section 4.** Reduction in valuation on  
 6 forest lands for trees destroyed by natural disaster. (1)  
 7 Forest lands upon which, at any time after December 31,  
 8 1993, trees are destroyed by fire, disease, insect  
 9 infestation, or other natural disaster so that the lands  
 10 affected will not meet minimum stocking requirements are  
 11 eligible for a reduction in value for the first 20 tax years  
 12 following the loss.

13 (2) If a landowner shows to the department's  
 14 satisfaction that the landowner's forest lands have been  
 15 destroyed as provided in subsection (1), the department  
 16 shall reduce the value of the forest land by 50% of the  
 17 original forest productivity value per year.

18 NEW SECTION. **Section 5.** Administration -- rules. The  
 19 department shall:

20 (1) administer and enforce the provisions of [sections  
 21 1 through 5];

22 (2) arrange for the preparation and distribution of  
 23 forms and information necessary to administer the provisions  
 24 of [section 1 through 5]; and

25 (3) promulgate rules necessary to administer and

1 enforce the provisions of [sections 1 through 5].

2 **Section 6.** Section 15-6-143, MCA, is amended to read:

3 **\*15-6-143. (Temporary) Class thirteen property --**  
 4 **description -- taxable percentage.** (1) Class thirteen  
 5 property includes all timberland.

6 (2) Timberland is contiguous land exceeding 15 acres in  
 7 one ownership that is capable of producing timber that can  
 8 be harvested in commercial quantity.

9 (3) Class thirteen property is taxed at the percentage  
 10 rate ~~3.04%~~ 4% of the combined appraised value of the  
 11 standing timber and grazing productivity of the property.

12 ~~(4) For taxable years beginning January 1, 1987, and~~  
 13 ~~thereafter, the taxable percentage rate "P" applicable to~~  
 14 ~~class thirteen property is 30%/B, where B is the certified~~  
 15 ~~statewide percentage increase to be determined by the~~  
 16 ~~department of revenue as provided in subsection (5). The~~  
 17 ~~taxable percentage rate "P" shall be rounded downward to the~~  
 18 ~~nearest 0.01% and shall be calculated by the department~~  
 19 ~~before July 1, 1987.~~

20 ~~(5) (a) Prior to July 1, 1987, the department shall~~  
 21 ~~determine the certified statewide percentage increase for~~  
 22 ~~class thirteen property using the formula B = X/Y where:~~

23 ~~(i) X is the appraised value, as of January 1, 1987, of~~  
 24 ~~all property in the state, excluding use changes occurring~~  
 25 ~~during the preceding year, classified under class thirteen~~

1 as class thirteen is described in this section; and  
 2 (ii) X is the appraised value, as of January 17, 1985, of  
 3 all property in the state that, as of January 17, 1986, would  
 4 be classified under class thirteen as class thirteen is  
 5 described in this section;

6 (b) B shall be rounded downward to the nearest 0.0001%.  
 7 (6) After July 17, 1986, no adjustment may be made by  
 8 the department to the taxable percentage rate "P" until a  
 9 valuation has been made as provided in 15-7-111. (Terminates  
 10 January 17, 1991--sec: 107-Ch: 6817-B: 1985.)"

11 **Section 7.** Section 15-6-143, MCA, is amended to read:

12 "15-6-143. {Temporary} Class thirteen property --  
 13 description -- taxable percentage -- alternative  
 14 classification. (1) Class thirteen property includes all  
 15 timberland;

16 (2) Timberland is contiguous land exceeding 15 acres in  
 17 one ownership that is capable of producing timber that can  
 18 be harvested in commercial quantity;

19 (3) Class thirteen property is taxed at the percentage  
 20 rate "P" of the combined appraised value of the standing  
 21 timber and grazing productivity of the property;

22 (4) For taxable years beginning January 17, 1986, and  
 23 thereafter, the taxable percentage rate "P" applicable to  
 24 class thirteen property is  $30\% / B$ , where B is the certified  
 25 statewide percentage increase to be determined by the

1 department of revenue as provided in subsection (5). The  
 2 taxable percentage rate "P" shall be rounded downward to the  
 3 nearest 0.01% and shall be calculated by the department  
 4 before July 17, 1986.

5 (5) (a) Prior to July 17, 1986, the department shall  
 6 determine the certified statewide percentage increase for  
 7 class thirteen property using the formula  $B = X/Y$ , where:

8 (i) X is the appraised value, as of January 17, 1986, of  
 9 all property in the state, excluding use changes occurring  
 10 during the preceding year, classified under class thirteen  
 11 as class thirteen is described in this section; and

12 (ii) Y is the appraised value, as of January 17, 1985, of  
 13 all property in the state that, as of January 17, 1986, would  
 14 be classified under class thirteen as class thirteen is  
 15 described in this section;

16 (b) B shall be rounded downward to the nearest 0.0001%.  
 17 (6) After July 17, 1986, no adjustment may be made by  
 18 the department to the taxable percentage rate "P" until a  
 19 valuation has been made as provided in 15-7-111. (Terminates  
 20 January 17, 1991--sec: 107-Ch: 6817-B: 1985.)

21 (1) Except as provided in subsection (5), class  
 22 thirteen property includes all forest lands as defined in  
 23 [section 2].

24 (2) Class thirteen property is taxed at the percentage  
 25 rate "P" of its forest productivity value.



1 (3) For taxable years beginning January 1, 1994, and  
 2 thereafter, the taxable percentage rate "P" applicable to  
 3 class thirteen property is  $3.84\% / B$   $4\% / B$ , where B is the  
 4 certified statewide percentage increase to be determined by  
 5 the department of revenue as provided in subsection (4). The  
 6 taxable percentage rate "P" must be rounded downward to the  
 7 nearest 0.01% and must be calculated by the department  
 8 before July 1, 1994.

9 (4) (a) Prior to July 1, 1994, the department shall  
 10 determine the certified statewide percentage increase for  
 11 class thirteen property using the formula  $B = X/Y$ , where:

12 (i) X is the appraised value, as of January 1, 1994, of  
 13 all property in the state, excluding use changes occurring  
 14 during the preceding year, classified under class thirteen  
 15 as class thirteen is described in this section; and

16 (ii) Y is the appraised value, as of January 1, 1993, of  
 17 all property in the state that would be classified under  
 18 class thirteen as class thirteen is described in this  
 19 section as this section reads in 1993.

20 (b) B must be rounded downward to the nearest 0.0001%.

21 ~~(5) If the department of revenue determines that the~~  
 22 ~~grazing value of a parcel of forest land is greater than the~~  
 23 ~~forest productivity value determined under {section 3}, the~~  
 24 ~~land must be classified as agricultural land under~~  
 25 ~~§5-6-133.~~

1 **Section 8.** Section 15-1-101, MCA, is amended to read:

2 "15-1-101. Definitions. (1) Except as otherwise  
 3 specifically provided, when terms mentioned in this section  
 4 are used in connection with taxation, they are defined in  
 5 the following manner:

6 (a) The term "agricultural" refers to the raising of  
 7 livestock, poultry, bees, and other species of domestic  
 8 animals and wildlife in domestication or a captive  
 9 environment, and the raising of field crops, fruit, and  
 10 other animal and vegetable matter for food or fiber.

11 (b) The term "assessed value" means the value of  
 12 property as defined in 15-8-111.

13 (c) The term "average wholesale value" means the value  
 14 to a dealer prior to reconditioning and profit margin shown  
 15 in national appraisal guides and manuals or the valuation  
 16 schedules of the department of revenue.

17 (d) (i) The term "commercial", when used to describe  
 18 property, means any property used or owned by a business, a  
 19 trade, or a nonprofit corporation as defined in 35-2-102 or  
 20 used for the production of income, except that property  
 21 described in subsection (ii).

22 (ii) The following types of property are not commercial:

23 (A) agricultural lands;

24 (B) timberlands and, beginning January 1, 1994, forest  
 25 lands;

1 (C) single-family residences and ancillary improvements  
 2 and improvements necessary to the function of a bona fide  
 3 farm, ranch, or stock operation;

4 (D) mobile homes used exclusively as a residence except  
 5 when held by a distributor or dealer of trailers or mobile  
 6 homes as his stock in trade;

7 (E) all property described in 15-6-135; and

8 (F) all property described in 15-6-136.

9 (e) The term "comparable property" means property that  
 10 has similar use, function, and utility; that is influenced  
 11 by the same set of economic trends and physical,  
 12 governmental, and social factors; and that has the potential  
 13 of a similar highest and best use.

14 (f) The term "credit" means solvent debts, secured or  
 15 unsecured, owing to a person.

16 (g) The term "improvements" includes all buildings,  
 17 structures, fences, and improvements situated upon, erected  
 18 upon, or affixed to land. When the department of revenue or  
 19 its agent determines that the permanency of location of a  
 20 mobile home or housetrailer has been established, the mobile  
 21 home or housetrailer is presumed to be an improvement to  
 22 real property. A mobile home or housetrailer may be  
 23 determined to be permanently located only when it is  
 24 attached to a foundation which cannot feasibly be relocated  
 25 and only when the wheels are removed.

1 (h) The term "leasehold improvements" means  
 2 improvements to mobile homes and mobile homes located on  
 3 land owned by another person. This property is assessed  
 4 under the appropriate classification and the taxes are due  
 5 and payable in two payments as provided in 15-24-202.  
 6 Delinquent taxes on such leasehold improvements are a lien  
 7 only on such leasehold improvements.

8 (i) The term "livestock" means cattle, sheep, swine,  
 9 goats, horses, mules, and asses.

10 (j) The term "mobile home" means forms of housing known  
 11 as "trailers", "housetrainers", or "trailer coaches"  
 12 exceeding 8 feet in width or 45 feet in length, designed to  
 13 be moved from one place to another by an independent power  
 14 connected to them, or any "trailer", "housetrailer", or  
 15 "trailer coach" up to 8 feet in width or 45 feet in length  
 16 used as a principal residence.

17 (k) The term "personal property" includes everything  
 18 that is the subject of ownership but that is not included  
 19 within the meaning of the terms "real estate" and  
 20 "improvements".

21 (l) The term "poultry" includes all chickens, turkeys,  
 22 geese, ducks, and other birds raised in domestication to  
 23 produce food or feathers.

24 (m) The term "property" includes moneys, credits,  
 25 bonds, stocks, franchises, and all other matters and things,

1 real, personal, and mixed, capable of private ownership.  
 2 This definition must not be construed to authorize the  
 3 taxation of the stocks of any company or corporation when  
 4 the property of such company or corporation represented by  
 5 the stocks is within the state and has been taxed.

6 (n) The term "real estate" includes:

7 (i) the possession of, claim to, ownership of, or right  
 8 to the possession of land;

9 (ii) all mines, minerals, and quarries in and under the  
 10 land subject to the provisions of 15-23-501 and Title 15,  
 11 chapter 23, part 8; all timber belonging to individuals or  
 12 corporations growing or being on the lands of the United  
 13 States; and all rights and privileges appertaining thereto.

14 (o) "Research and development firm" means an entity  
 15 incorporated under the laws of this state or a foreign  
 16 corporation authorized to do business in this state whose  
 17 principal purpose is to engage in theoretical analysis,  
 18 exploration, and experimentation and the extension of  
 19 investigative findings and theories of a scientific and  
 20 technical nature into practical application for experimental  
 21 and demonstration purposes, including the experimental  
 22 production and testing of models, devices, equipment,  
 23 materials, and processes.

24 (p) The term "taxable value" means the percentage of  
 25 market or assessed value as provided for in Title 15,

1 chapter 6, part 1.

2 (q) The term "weighted mean assessment ratio" means the  
 3 total of the assessed values divided by the total of the  
 4 selling prices of all area sales in the stratum.

5 (2) The phrase "municipal corporation" or  
 6 "municipality" or "taxing unit" shall be deemed to include a  
 7 county, city, incorporated town, township, school district,  
 8 irrigation district, drainage district, or any person,  
 9 persons, or organized body authorized by law to establish  
 10 tax levies for the purpose of raising public revenue.

11 (3) The term "state board" or "board" when used without  
 12 other qualification shall mean the state tax appeal board."

13 **Section 9.** Section 15-6-201, MCA, is amended to read:

14 "15-6-201. **Exempt categories.** (1) The following  
 15 categories of property are exempt from taxation:

16 (a) the property of:

17 (i) the United States, the state, counties, cities,  
 18 towns, school districts, except, if congress passes  
 19 legislation that allows the state to tax property owned by  
 20 an agency created by congress to transmit or distribute  
 21 electrical energy, the property constructed, owned, or  
 22 operated by a public agency created by the congress to  
 23 transmit or distribute electric energy produced at privately  
 24 owned generating facilities (not including rural electric  
 25 cooperatives);

1 (ii) irrigation districts organized under the laws of  
 2 Montana and not operating for profit;  
 3 (iii) municipal corporations; and  
 4 (iv) public libraries;  
 5 (b) buildings, with land they occupy and furnishings  
 6 therein, owned by a church and used for actual religious  
 7 worship or for residences of the clergy, together with  
 8 adjacent land reasonably necessary for convenient use of the  
 9 buildings;  
 10 (c) property used exclusively for agricultural and  
 11 horticultural societies, for educational purposes, and for  
 12 nonprofit health care facilities, as defined in 50-5-101,  
 13 licensed by the department of health and environmental  
 14 sciences and organized under Title 35, chapter 2 or 3. A  
 15 health care facility that is not licensed by the department  
 16 of health and environmental sciences and organized under  
 17 Title 35, chapter 2 or 3, is not exempt.  
 18 (d) property that meets the following conditions:  
 19 (i) is owned and held by any association or corporation  
 20 organized under Title 35, chapter 2, 3, 20, or 21;  
 21 (ii) is devoted exclusively to use in connection with a  
 22 cemetery or cemeteries for which a permanent care and  
 23 improvement fund has been established as provided for in  
 24 Title 35, chapter 20, part 3; and  
 25 (iii) is not maintained and operated for private or

1 corporate profit;  
 2 (e) institutions of purely public charity;  
 3 (f) evidence of debt secured by mortgages of record  
 4 upon real or personal property in the state of Montana;  
 5 (g) public art galleries and public observatories not  
 6 used or held for private or corporate profit;  
 7 (h) all household goods and furniture, including but  
 8 not limited to clocks, musical instruments, sewing machines,  
 9 and wearing apparel of members of the family, used by the  
 10 owner for personal and domestic purposes or for furnishing  
 11 or equipping the family residence;  
 12 (i) a truck canopy cover or topper weighing less than  
 13 300 pounds and having no accommodations attached. This  
 14 property is also exempt from taxation under 61-3-504(2) and  
 15 61-3-537.  
 16 (j) a bicycle, as defined in 61-1-123, used by the  
 17 owner for personal transportation purposes;  
 18 (k) motor homes, travel trailers, and campers;  
 19 (l) all watercraft;  
 20 (m) land, fixtures, buildings, and improvements owned  
 21 by a cooperative association or nonprofit corporation  
 22 organized to furnish potable water to its members or  
 23 customers for uses other than the irrigation of agricultural  
 24 land;  
 25 (n) the right of entry that is a property right

1 reserved in land or received by mesne conveyance (exclusive  
 2 of leasehold interests), devise, or succession to enter land  
 3 whose surface title is held by another to explore, prospect,  
 4 or dig for oil, gas, coal, or minerals;

5 (o) property owned and used by a corporation or  
 6 association organized and operated exclusively for the care  
 7 of the developmentally disabled, mentally ill, or  
 8 vocationally handicapped as defined in 18-5-101, which is  
 9 not operated for gain or profit;

10 (p) all farm buildings with a market value of less than  
 11 \$500 and all agricultural implements and machinery with a  
 12 market value of less than \$100;

13 (q) property owned by a nonprofit corporation organized  
 14 to provide facilities primarily for training and practice  
 15 for or competition in international sports and athletic  
 16 events and not held or used for private or corporate gain or  
 17 profit. For purposes of this subsection (q), "nonprofit  
 18 corporation" means an organization exempt from taxation  
 19 under section 501(c) of the Internal Revenue Code and  
 20 incorporated and admitted under the Montana Nonprofit  
 21 Corporation Act.

22 (r) provided the tools are owned by the taxpayer, the  
 23 first \$15,000 or less of market value of tools that are  
 24 customarily hand-held and that are used to:

25 (i) construct, repair, and maintain improvements to

1 real property; or

2 (ii) repair and maintain machinery, equipment,  
 3 appliances, or other personal property;

4 (s) harness, saddlery, and other tack equipment; and

5 (t) a title plant owned by a title insurer or a title  
 6 insurance producer, as those terms are defined in 33-25-105;  
 7 and

8 (u) beginning January 1, 1998 1994, timber as defined  
 9 in [section 2].

10 (2) (a) The term "institutions of purely public  
 11 charity" includes organizations owning and operating  
 12 facilities for the care of the retired or aged or  
 13 chronically ill, which are not operated for gain or profit.

14 (b) The terms "public art galleries" and "public  
 15 observatories" include only those art galleries and  
 16 observatories, whether of public or private ownership, that  
 17 are open to the public without charge at all reasonable  
 18 hours and are used for the purpose of education only.

19 (3) The following portions of the appraised value of a  
 20 capital investment made after January 1, 1979, in a  
 21 recognized nonfossil form of energy generation, as defined  
 22 in 15-32-102, are exempt from taxation for a period of 10  
 23 years following installation of the property:

24 (a) \$20,000 in the case of a single-family residential  
 25 dwelling;

1 (b) \$100,000 in the case of a multifamily residential  
2 dwelling or a nonresidential structure."

3 **Section 10.** Section 15-8-111, MCA, is amended to read:

4 "15-8-111. **Assessment -- market value standard --**  
5 **exceptions.** (1) All taxable property must be assessed at  
6 100% of its market value except as otherwise provided.

7 (2) (a) Market value is the value at which property  
8 would change hands between a willing buyer and a willing  
9 seller, neither being under any compulsion to buy or to sell  
10 and both having reasonable knowledge of relevant facts.

11 (b) If the department uses construction cost as one  
12 approximation of market value, the department shall fully  
13 consider reduction in value caused by depreciation, whether  
14 through physical depreciation, functional obsolescence, or  
15 economic obsolescence.

16 (c) Except as provided in subsection (3), the market  
17 value of all motor trucks; agricultural tools, implements,  
18 and machinery; and vehicles of all kinds, including but not  
19 limited to boats and all watercraft, is the average  
20 wholesale value shown in national appraisal guides and  
21 manuals or the value of the vehicle before reconditioning  
22 and profit margin. The department of revenue shall prepare  
23 valuation schedules showing the average wholesale value when  
24 no national appraisal guide exists.

25 (3) The department of revenue or its agents may not

1 adopt a lower or different standard of value from market  
2 value in making the official assessment and appraisal of the  
3 value of property, except:

4 (a) the wholesale value for agricultural implements and  
5 machinery is the loan value as shown in the Official Guide,  
6 Tractor and Farm Equipment, published by the national farm  
7 and power equipment dealers association, St. Louis,  
8 Missouri;

9 (b) for agricultural implements and machinery not  
10 listed in the official guide, the department shall prepare a  
11 supplemental manual where the values reflect the same  
12 depreciation as those found in the official guide; and

13 (c) as otherwise authorized in Title 15 and Title 61.

14 (4) For purposes of taxation, assessed value is the  
15 same as appraised value.

16 (5) The taxable value for all property is the  
17 percentage of market or assessed value established for each  
18 class of property.

19 (6) The assessed value of properties in 15-6-131  
20 through 15-6-133 is as follows:

21 (a) Properties in 15-6-131, under class one, are  
22 assessed at 100% of the annual net proceeds after deducting  
23 the expenses specified and allowed by 15-23-503 or, if  
24 applicable, as provided in 15-23-515.

25 (b) Properties in 15-6-132, under class two, are

1 assessed at 100% of the annual gross proceeds.

2 (c) Properties in 15-6-133, under class three, are  
3 assessed at 100% of the productive capacity of the lands  
4 when valued for agricultural purposes. All lands that meet  
5 the qualifications of 15-7-202 are valued as agricultural  
6 lands for tax purposes.

7 (d) Properties Beginning January 1, 1990, and ending  
8 December--31 JUNE 30, 1993, properties in 15-6-143, under  
9 class thirteen, are assessed at 100% of the combined  
10 appraised value of the standing timber and grazing  
11 productivity of the land when valued as timberland.

12 (e) Beginning January 1, 1994, properties in 15-6-143,  
13 under class thirteen, are assessed at 100% of the forest  
14 productivity value of the land when valued as forest land.

15 (7) Land and the improvements thereon are separately  
16 assessed when any of the following conditions occur:

17 (a) ownership of the improvements is different from  
18 ownership of the land;

19 (b) the taxpayer makes a written request; or

20 (c) the land is outside an incorporated city or town."

21 **Section 11.** Section 10, Chapter 681, Laws of 1985, is  
22 amended to read:

23 "Section 10. **Effective date -- termination date.** This  
24 act is effective January 1, 1986, and, except for ~~section-3~~  
25 sections 2 through 4, terminates January 1, 1991."

1 **NEW SECTION. Section 12. Appropriation.** (1) There is  
2 appropriated from the general fund to the department of  
3 revenue \$614,076 to fund the determination of the forest  
4 productivity value of forest lands required by [section 3].

5 (2) There is appropriated from the general fund to the  
6 department of revenue \$366,762 to administer the provisions  
7 of [sections 1 through 5 and section 7].

8 (3) Notwithstanding the provisions of 17-7-302 through  
9 17-7-304, the unexpended appropriation in subsection (1) may  
10 be encumbered for payment in fiscal year 1994.

11 (4) Notwithstanding the provisions of 17-7-302 through  
12 17-7-304, the unexpended appropriation in subsection (2) is  
13 reappropriated for fiscal year 1994.

14 **NEW SECTION. SECTION 13. ASSESSMENT ON PRIVATELY OWNED**  
15 **TIMBERLAND -- COLLECTION -- DISPOSITION.** (1) AN ASSESSMENT  
16 OF 10 CENTS PER ACRE OR PORTION OF AN ACRE IS IMPOSED ON ALL  
17 PRIVATELY OWNED TIMBERLAND FOR TAX YEARS 1991 THROUGH 1993.  
18 THE ASSESSMENT IS IMPOSED ON THE OWNER OF THE LAND AS OF  
19 JANUARY 1 OF EACH YEAR.

20 (2) THIS ASSESSMENT IS DONE ON NOVEMBER 30 OF EACH YEAR  
21 AND MUST BE PAID WITH THE PROPERTY TAX DUE AS PROVIDED IN  
22 15-16-101.

23 (3) (A) BY SEPTEMBER 1 OF EACH YEAR, THE DEPARTMENT OF  
24 REVENUE SHALL PROVIDE COUNTY TREASURERS WITH A LIST SHOWING:

25 (1) ALL OWNERS OF PRIVATE TIMBERLAND IN THE COUNTY AS

1 OF JANUARY 1 OF THAT YEAR; AND

2 (II) THE NUMBER OF ACRES OF TIMBERLAND OWNED BY EACH AS  
 3 OF JANUARY 1 OF THAT YEAR.

4 (B) THE COUNTY TREASURER SHALL SEND EACH LISTED OWNER A  
 5 BILL FOR THE ASSESSMENT IMPOSED IN SUBSECTION (1) WITH THE  
 6 PROPERTY TAX NOTICE REQUIRED IN 15-16-101.

7 (4) THE COUNTY TREASURER SHALL COLLECT THE ASSESSMENT  
 8 IMPOSED IN SUBSECTION (1) AND REMIT COLLECTIONS TO THE STATE  
 9 TREASURER BY DECEMBER 20 OF EACH YEAR.

10 (5) THE STATE TREASURER SHALL DEPOSIT ALL COLLECTIONS  
 11 FROM THE ASSESSMENT IMPOSED IN SUBSECTION (1) IN THE GENERAL  
 12 FUND.

13 NEW SECTION. Section 14. Codification instruction.  
 14 [Sections 1 through 5] are intended to be codified as an  
 15 integral part of Title 15, and the provisions of Title 15  
 16 apply to [sections 1 through 5].

17 NEW SECTION. Section 15. Saving clause. [This act]  
 18 does not affect the rights and duties that matured,  
 19 penalties that were incurred, or proceedings that were begun  
 20 before [the effective date of this act].

21 NEW SECTION. Section 16. Severability. If a part of  
 22 [this act] is invalid, all valid parts that are severable  
 23 from the invalid part remain in effect. If a part of [this  
 24 act] is invalid in one or more of its applications, the part  
 25 remains in effect in all valid applications that are

1 severable from the invalid applications.

2 NEW SECTION. Section 17. Applicability — retroactive  
 3 applicability. (1) Except as provided in subsection (2),  
 4 [this act] applies to taxable years beginning after December  
 5 31, 1993.

6 (2) [Sections 6 and ~~11~~, 11, AND 13] apply  
 7 retroactively, within the meaning of 1-2-109, to taxable  
 8 years beginning after December 31, 1990.

9 NEW SECTION. Section 18. Effective dates. (1) Except  
 10 as provided in subsections (2) and (3), [this act] is  
 11 effective July 1, 1991.

12 (2) [Sections 6 and ~~11~~, 11, AND 13] and this section  
 13 are effective on passage and approval.

14 (3) [Section 7] is effective January 1, 1994.

15 NEW SECTION. Section 19. Termination -- CONTINGENT  
 16 TERMINATION. (1) UNLESS TERMINATED EARLIER PURSUANT TO  
 17 SUBSECTION (2), [section SECTION 6 and section 10(6)(d)]  
 18 terminate January-17-1994 JULY 1, 1993.

19 (2) [SECTION 6 AND SECTION 10(6)(D)] TERMINATE ON APRIL  
 20 1, 1992, UNLESS PRIOR TO THAT TIME, THE DIRECTOR OF REVENUE  
 21 CERTIFIES TO THE REVENUE OVERSIGHT COMMITTEE THAT THE  
 22 DEPARTMENT OF REVENUE HAS BEGUN THE FOREST LANDS VALUATION  
 23 PROCESS SET FORTH IN [SECTION 3], INCLUDING HAVING ENTERED  
 24 INTO A CONTRACT WITH THE UNIVERSITY OF MONTANA FOR THE  
 25 PROVISION OF INFORMATION AND DATA. UPON RECEIPT OF THE



1 CERTIFICATION, THE CHAIRMAN OF THE REVENUE OVERSIGHT  
2 COMMITTEE SHALL PROVIDE A COPY OF THE DOCUMENT TO THE  
3 SECRETARY OF STATE.

4 (3) [SECTION 13] TERMINATES JANUARY 1, 1994.

-End-

GOVERNOR'S AMENDMENTS TO  
HOUSE BILL 340  
(REFERENCE COPY, AS AMENDED)  
April 23, 1991

1. Page 25, line 8.

Strike: "JUNE 30"

Insert: "December 31"

1. Page 28, lines 16 and 17.

Following: "." on line 16

Strike: remainder of line 16 through "SECTION" on line 17

Insert: "[Sections"

Following: "6"

Insert: ", "

Strike: "and section"

Following: "(d)"

Insert: ", and 13"

3. Page 28, lines 15 and 16.

Strike: "-- CONTINGENT TERMINATION"

4. Page 28, line 18.

Strike: "JULY 1, 1993"

Insert: "January 1, 1994"

5. Page 28, line 19 through page 29, line 4.

Strike: subsections (2) and (3) in their entirety

Gov. Amend  
HB 340



AN ACT TO GENERALLY REVISE THE TAXATION OF PRIVATE FOREST LANDS; DEFINING FOREST LAND AND FOREST PRODUCTIVITY VALUE; REQUIRING THE DEPARTMENT OF REVENUE TO VALUE FOREST LANDS OF 15 ACRES OR MORE ON THE BASIS OF PRODUCTIVITY BY CAPITALIZING THE NET INCOME OF FOREST LAND; AUTHORIZING THE DEPARTMENT OF REVENUE TO ESTABLISH FOREST VALUATION ZONES; PROVIDING FOR A TRANSITION PERIOD IN THE TAXATION OF FOREST LANDS BY EXTENDING THE TERMINATION DATE OF CLASS THIRTEEN PROPERTY; PROVIDING THAT CLASS THIRTEEN WILL APPLY TO THE TAXATION OF FOREST LANDS BEGINNING JANUARY 1, 1994; EXEMPTING TIMBER FROM AD VALOREM PROPERTY TAXATION; IMPOSING AN ASSESSMENT ON ALL PRIVATELY OWNED TIMBERLAND; PROVIDING AN APPROPRIATION; AMENDING SECTIONS 15-1-101, 15-6-143, 15-6-201, AND 15-8-111, MCA, AND SECTION 10, CHAPTER 681, LAWS OF 1985; AND PROVIDING EFFECTIVE DATES, APPLICABILITY DATES, AND A TERMINATION DATE.

WHEREAS, the Department of Revenue does not have adequate resources to properly administer the existing standing inventory method of taxing forest lands; and

WHEREAS, the standing inventory method of taxing forest lands encourages landowners to harvest timber without regard to good forest management; and

WHEREAS, the valuation of forest lands in Montana is often based on outdated information; and

WHEREAS, the Forest Taxation Subcommittee of the Revenue Oversight Committee found that the forest productivity method of

taxing forest lands encourages good forest management and is a more equitable method of taxing forest lands; and

WHEREAS, the forest productivity method of taxing forest lands is in the long run easier and less costly to administer than the standing inventory method; and

WHEREAS, the Forest Taxation Subcommittee of the Revenue Oversight Committee recommends that forest lands be taxed on the basis of productivity; and

WHEREAS, it is the intent of the Legislature to implement the recommendation of the Forest Taxation Subcommittee of the Revenue Oversight Committee.

THEREFORE, it is the purpose of this bill to implement the recommendation to change the method of taxing forest lands in the state.

#### STATEMENT OF INTENT

A statement of intent is required for this bill because the department of revenue is granted authority to adopt rules for the administration and enforcement of the forest productivity method of taxing forest lands.

The legislature contemplates that rules adopted by the department should, at a minimum, address the following:

(1) guidelines for information that must be contained in the statement of intent submitted by the forest landowner as provided for in [section 2(5)(b)];

(2) the form to be used by the forest landowner for the statement of intent;

(3) the procedures for determining appropriate forest valuation zones and for computing forest land valuation schedules;

(4) the notification of landowners who may be eligible for forest land classification under this bill;

(5) the process by which a landowner may appeal the valuation of the owner's forest land; and

(6) the definition of terms and establishment of procedures as appropriate for the efficient administration of the forest productivity method of taxation.

In determining forest productivity values and in computing forest land valuation schedules, the department shall use the assistance of the university of Montana. The legislature also intends that, in implementing this bill, the department seek the advice of the department of state lands, landowners of private forest lands, the timber industry, and local governments.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Short title. [Sections 1 through 5] may be cited as the "Forest Lands Tax Act".

Section 2. Definitions. For the purposes of [sections 1 through 5], unless the context requires otherwise, the following definitions apply:

(1) "Culmination of mean annual increment" means the point of

optimum net wood production on an acre of forest land.

(2) "Cultivated Christmas trees" means Christmas trees that are grown on land prepared by intensive cultivation and tilling, such as by plowing or turning over the soil, and on which all unwanted plant growth is controlled for the exclusive purpose of raising Christmas trees.

(3) "Department" means the department of revenue.

(4) "Forest" means forest land and the timber on the land.

(5) "Forest land" means contiguous land of 15 acres or more in one ownership that is capable of producing timber that can be harvested in commercial quantity and is producing timber unless the trees have been removed by man through harvest, including clearcuts, or by natural disaster, including but not limited to fire. Forest land includes land:

(a) that has not been converted to another use; or

(b) that has a dedicated use that is evidenced by a statement of intent by the owner for the eventual harvest of timber.

(6) "Forest productivity value" means the value of forest land for assessment purposes, which value is determined only on the basis of its ability to produce timber, other forest products, and associated agricultural products through an income approach provided for in [section 3].

(7) "Harvest" means an activity related to the cutting or removal of timber for use or sale as a forest product.

(8) "Landowner" means an individual, corporation,

association, company, firm, joint venture, syndicate, or trust.

(9) "Mean annual net wood production" means the average net usable volume of wood 1 acre of forest land will grow in 1 year under average current and actual forest conditions and under current and reasonable management practices for each forest valuation zone established under [section 3].

(10) "Stumpage value" means the amount that timber would sell for under an arm's-length transaction made in the ordinary course of business, expressed in terms of dollars per unit of measure.

(11) "Timber" means all wood growth on privately owned land, mature or immature, alive or dead, standing or down, that is capable of furnishing raw material used in the manufacture of lumber or other forest products. The term does not include cultivated Christmas trees.

Section 3. Legislative intent -- value of forest lands -- valuation zones. (1) In order to encourage landowners of private forest lands to retain and improve their holdings of forest lands, to promote better forest practices, and to encourage the investment of capital in reforestation, forest lands must be classified and assessed under the provisions of this section.

(2) The forest productivity value of forest land must be determined by:

(a) capitalizing the value of the mean annual net wood production at the culmination of mean annual increment plus other agriculture-related income, if any; less

(b) annualized expenses, including but not limited to the establishment, protection, maintenance, improvement, and management of the crop over the rotation period.

(3) To determine the forest productivity value of forest lands, the department shall:

(a) divide the state into appropriate forest valuation zones, with each zone designated so as to recognize the uniqueness of marketing areas, timber types, growth rates, access, operability, and other pertinent factors of that zone; and

(b) establish a uniform system of forest land classification that takes into consideration the productive capacity of the site to grow forest products and furnish other associated agricultural uses.

(4) In computing the forest land valuation schedules for each forest valuation zone to take effect on January 1, 1994, the department shall determine the productive capacity value of all forest lands in each forest valuation zone using the formula  $V = I/R$ , where:

(a) V is the per-acre forest productivity value of the forest land;

(b) I is the per-acre net income of forest lands in each valuation zone and is determined by the department using the formula  $I = (M \times SV) + AI - C$ , where:

(i) I is the per-acre net income;

(ii) M is the mean annual net wood production;

(iii) SV is the stumpage value;

(iv) AI is the per-acre agriculture-related income; and

(v) C is the per-unit cost of the forest product and agricultural product produced, if any; and

(c) R is the capitalization rate determined by the department as provided in subsection (6).

(5) Net income must:

(a) be calculated for each year of a base period, which is the most recent 5-year period for which data is available;

(b) be based on a rolling average of stumpage value of timber harvested within the forest valuation zone and on the associated production cost data for the base period from sources considered appropriate by the department; and

(c) include agriculture-related net income for the same time period as the period used to determine average stumpage values.

(6) The capitalization rate must be calculated for each year of the base period and is the annual average interest rate on agricultural loans as reported by the federal land bank association of Spokane, Washington, plus the effective tax rate.

(7) The effective tax rate must be calculated for each year of the base period by dividing the total estimated tax due on forest lands subject to the provisions of this section by the total forest value of those lands.

(8) For the purposes of this section, if forest service sales are used in the determination of stumpage values, the department

shall take into account purchaser road credits.

(9) In determining the forest productivity value of forest lands and in computing the forest land valuation schedules, the department shall use information and data provided by the university of Montana.

**Section 4. Reduction in valuation on forest lands for trees destroyed by natural disaster.** (1) Forest lands upon which, at any time after December 31, 1993, trees are destroyed by fire, disease, insect infestation, or other natural disaster so that the lands affected will not meet minimum stocking requirements are eligible for a reduction in value for the first 20 tax years following the loss.

(2) If a landowner shows to the department's satisfaction that the landowner's forest lands have been destroyed as provided in subsection (1), the department shall reduce the value of the forest land by 50% of the original forest productivity value per year.

**Section 5. Administration -- rules.** The department shall:

(1) administer and enforce the provisions of [sections 1 through 5];

(2) arrange for the preparation and distribution of forms and information necessary to administer the provisions of [sections 1 through 5]; and

(3) promulgate rules necessary to administer and enforce the provisions of [sections 1 through 5].

Section 6. Section 15-6-143, MCA, is amended to read:

"15-6-143. (Temporary) Class thirteen property -- description -- taxable percentage. (1) Class thirteen property includes all timberland.

(2) Timberland is contiguous land exceeding 15 acres in one ownership that is capable of producing timber that can be harvested in commercial quantity.

(3) Class thirteen property is taxed at the percentage rate <sup>"P"</sup>  $\frac{4}{100}$  of the combined appraised value of the standing timber and grazing productivity of the property.

(4) For taxable years beginning January 1, 1986, and thereafter, the taxable percentage rate <sup>"P"</sup> applicable to class thirteen property is  $\frac{30}{100} \times B$ , where B is the certified statewide percentage increase to be determined by the department of revenue as provided in subsection (5). The taxable percentage rate <sup>"P"</sup> shall be rounded downward to the nearest 0.01% and shall be calculated by the department before July 1, 1986.

(5) (a) Prior to July 1, 1986, the department shall determine the certified statewide percentage increase for class thirteen property using the formula  $B = \frac{X}{Y}$ , where:

(i) X is the appraised value, as of January 1, 1986, of all property in the state, excluding use changes occurring during the preceding year, classified under class thirteen as class thirteen is described in this section, and

(ii) Y is the appraised value, as of January 1, 1985, of all

property in the state that, as of January 1, 1986, would be classified under class thirteen as class thirteen is described in this section:

(b) B shall be rounded downward to the nearest 0.0001%.

(6) After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate <sup>"P"</sup> until a valuation has been made as provided in 15-7-111 (Terminates January 1, 1991; sec. 107 Ch. 681, S. 1985.)"

Section 7. Section 15-6-143, MCA, is amended to read:

"15-6-143. (Temporary) Class thirteen property -- description -- taxable percentage -- alternative classification. (1) Class thirteen property includes all timberland:

(2) Timberland is contiguous land exceeding 15 acres in one ownership that is capable of producing timber that can be harvested in commercial quantity.

(3) Class thirteen property is taxed at the percentage rate <sup>"P"</sup> of the combined appraised value of the standing timber and grazing productivity of the property.

(4) For taxable years beginning January 1, 1986, and thereafter, the taxable percentage rate <sup>"P"</sup> applicable to class thirteen property is  $\frac{30}{100} \times B$ , where B is the certified statewide percentage increase to be determined by the department of revenue as provided in subsection (5). The taxable percentage rate <sup>"P"</sup> shall be rounded downward to the nearest 0.01% and shall be calculated by the department before July 1, 1986.

~~{5}--(a)--Prior to July 1, 1986, the department shall determine the certified statewide percentage increase for class thirteen property using the formula  $B = X/Y$ , where:~~

~~{i}--X is the appraised value, as of January 1, 1986, of all property in the state, excluding use changes occurring during the preceding year, classified under class thirteen as class thirteen is described in this section; and~~

~~{ii}--Y is the appraised value, as of January 1, 1985, of all property in the state that, as of January 1, 1986, would be classified under class thirteen as class thirteen is described in this section;~~

~~{b}--B shall be rounded downward to the nearest 0.0001%.~~

~~{6}--After July 1, 1986, no adjustment may be made by the department to the taxable percentage rate "P" until a valuation has been made as provided in 15-1-111, (Terminates January 1, 1991--sec--107--Ch--681, b--1985.)~~

(1) Class thirteen property includes all forest lands as defined in [section 2].

(2) Class thirteen property is taxed at the percentage rate "P" of its forest productivity value.

(3) For taxable years beginning January 1, 1994, and thereafter, the taxable percentage rate "P" applicable to class thirteen property is  $4\%/B$ , where B is the certified statewide percentage increase to be determined by the department of Revenue as provided in subsection (4). The taxable percentage rate "P"

must be rounded downward to the nearest 0.01% and must be calculated by the department before July 1, 1994.

(4) (a) Prior to July 1, 1994, the department shall determine the certified statewide percentage increase for class thirteen property using the formula  $B = X/Y$ , where:

(i) X is the appraised value, as of January 1, 1994, of all property in the state, excluding use changes occurring during the preceding year, classified under class thirteen as class thirteen is described in this section; and

(ii) Y is the appraised value, as of January 1, 1993, of all property in the state that would be classified under class thirteen as class thirteen is described in this section as this section reads in 1993.

(b) B must be rounded downward to the nearest 0.0001%."

Section 8. Section 15-1-101, MCA, is amended to read:

"15-1-101. Definitions. (1) Except as otherwise specifically provided, when terms mentioned in this section are used in connection with taxation, they are defined in the following manner:

(a) The term "agricultural" refers to the raising of livestock, poultry, bees, and other species of domestic animals and wildlife in domestication or a captive environment, and the raising of field crops, fruit, and other animal and vegetable matter for food or fiber.

(b) The term "assessed value" means the value of property as



defined in 15-8-111.

(c) The term "average wholesale value" means the value to a dealer prior to reconditioning and profit margin shown in national appraisal guides and manuals or the valuation schedules of the department of revenue.

(d) (i) The term "commercial", when used to describe property, means any property used or owned by a business, a trade, or a nonprofit corporation as defined in 35-2-102 or used for the production of income, except that property described in subsection (ii).

(ii) The following types of property are not commercial:

(A) agricultural lands;

(B) timberlands and, beginning January 1, 1994, forest lands;

(C) single-family residences and ancillary improvements and improvements necessary to the function of a bona fide farm, ranch, or stock operation;

(D) mobile homes used exclusively as a residence except when held by a distributor or dealer of trailers or mobile homes as his stock in trade;

(E) all property described in 15-6-135; and

(F) all property described in 15-6-136.

(e) The term "comparable property" means property that has similar use, function, and utility; that is influenced by the same set of economic trends and physical, governmental, and social factors; and that has the potential of a similar highest and best

use.

(f) The term "credit" means solvent debts, secured or unsecured, owing to a person.

(g) The term "improvements" includes all buildings, structures, fences, and improvements situated upon, erected upon, or affixed to land. When the department of revenue or its agent determines that the permanency of location of a mobile home or housetrailer has been established, the mobile home or housetrailer is presumed to be an improvement to real property. A mobile home or housetrailer may be determined to be permanently located only when it is attached to a foundation which cannot feasibly be relocated and only when the wheels are removed.

(h) The term "leasehold improvements" means improvements to mobile homes and mobile homes located on land owned by another person. This property is assessed under the appropriate classification and the taxes are due and payable in two payments as provided in 15-24-202. Delinquent taxes on such leasehold improvements are a lien only on such leasehold improvements.

(i) The term "livestock" means cattle, sheep, swine, goats, horses, mules, and asses.

(j) The term "mobile home" means forms of housing known as "trailers", "housetrailer", or "trailer coaches" exceeding 8 feet in width or 45 feet in length, designed to be moved from one place to another by an independent power connected to them, or any "trailer", "housetrailer", or "trailer coach" up to 8 feet in

width or 45 feet in length used as a principal residence.

(k) The term "personal property" includes everything that is the subject of ownership but that is not included within the meaning of the terms "real estate" and "improvements".

(l) The term "poultry" includes all chickens, turkeys, geese, ducks, and other birds raised in domestication to produce food or feathers.

(m) The term "property" includes moneys, credits, bonds, stocks, franchises, and all other matters and things, real, personal, and mixed, capable of private ownership. This definition must not be construed to authorize the taxation of the stocks of any company or corporation when the property of such company or corporation represented by the stocks is within the state and has been taxed.

(n) The term "real estate" includes:

(i) the possession of, claim to, ownership of, or right to the possession of land;

(ii) all mines, minerals, and quarries in and under the land subject to the provisions of 15-23-501 and Title 15, chapter 23, part 8; all timber belonging to individuals or corporations growing or being on the lands of the United States; and all rights and privileges appertaining thereto.

(o) "Research and development firm" means an entity incorporated under the laws of this state or a foreign corporation authorized to do business in this state whose principal purpose is

to engage in theoretical analysis, exploration, and experimentation and the extension of investigative findings and theories of a scientific and technical nature into practical application for experimental and demonstration purposes, including the experimental production and testing of models, devices, equipment, materials, and processes.

(p) The term "taxable value" means the percentage of market or assessed value as provided for in Title 15, chapter 6, part 1.

(q) The term "weighted mean assessment ratio" means the total of the assessed values divided by the total of the selling prices of all area sales in the stratum.

(2) The phrase "municipal corporation" or "municipality" or "taxing unit" shall be deemed to include a county, city, incorporated town, township, school district, irrigation district, drainage district, or any person, persons, or organized body authorized by law to establish tax levies for the purpose of raising public revenue.

(3) The term "state board" or "board" when used without other qualification shall mean the state tax appeal board."

Section 9. Section 15-6-201, MCA, is amended to read:

"15-6-201. Exempt categories. (1) The following categories of property are exempt from taxation:

(a) the property of:

(i) the United States, the state, counties, cities, towns, school districts, except, if congress passes legislation that

allows the state to tax property owned by an agency created by congress to transmit or distribute electrical energy, the property constructed, owned, or operated by a public agency created by the congress to transmit or distribute electric energy produced at privately owned generating facilities (not including rural electric cooperatives);

(ii) irrigation districts organized under the laws of Montana and not operating for profit;

(iii) municipal corporations; and

(iv) public libraries;

(b) buildings, with land they occupy and furnishings therein, owned by a church and used for actual religious worship or for residences of the clergy, together with adjacent land reasonably necessary for convenient use of the buildings;

(c) property used exclusively for agricultural and horticultural societies, for educational purposes, and for nonprofit health care facilities, as defined in 50-5-101, licensed by the department of health and environmental sciences and organized under Title 35, chapter 2 or 3. A health care facility that is not licensed by the department of health and environmental sciences and organized under Title 35, chapter 2 or 3, is not exempt.

(d) property that meets the following conditions:

(i) is owned and held by any association or corporation organized under Title 35, chapter 2, 3, 20, or 21;

(ii) is devoted exclusively to use in connection with a cemetery or cemeteries for which a permanent care and improvement fund has been established as provided for in Title 35, chapter 20, part 3; and

(iii) is not maintained and operated for private or corporate profit;

(e) institutions of purely public charity;

(f) evidence of debt secured by mortgages of record upon real or personal property in the state of Montana;

(g) public art galleries and public observatories not used or held for private or corporate profit;

(h) all household goods and furniture, including but not limited to clocks, musical instruments, sewing machines, and wearing apparel of members of the family, used by the owner for personal and domestic purposes or for furnishing or equipping the family residence;

(i) a truck canopy cover or topper weighing less than 300 pounds and having no accommodations attached. This property is also exempt from taxation under 61-3-504(2) and 61-3-537.

(j) a bicycle, as defined in 61-1-123, used by the owner for personal transportation purposes;

(k) motor homes, travel trailers, and campers;

(l) all watercraft;

(m) land, fixtures, buildings, and improvements owned by a cooperative association or nonprofit corporation organized to

furnish potable water to its members or customers for uses other than the irrigation of agricultural land;

(n) the right of entry that is a property right reserved in land or received by mesne conveyance (exclusive of leasehold interests), devise, or succession to enter land whose surface title is held by another to explore, prospect, or dig for oil, gas, coal, or minerals;

(o) property owned and used by a corporation or association organized and operated exclusively for the care of the developmentally disabled, mentally ill, or vocationally handicapped as defined in 18-5-101, which is not operated for gain or profit;

(p) all farm buildings with a market value of less than \$500 and all agricultural implements and machinery with a market value of less than \$100;

(q) property owned by a nonprofit corporation organized to provide facilities primarily for training and practice for or competition in international sports and athletic events and not held or used for private or corporate gain or profit. For purposes of this subsection (q), "nonprofit corporation" means an organization exempt from taxation under section 501(c) of the Internal Revenue Code and incorporated and admitted under the Montana Nonprofit Corporation Act.

(r) provided the tools are owned by the taxpayer, the first \$15,000 or less of market value of tools that are customarily

hand-held and that are used to:

(i) construct, repair, and maintain improvements to real property; or

(ii) repair and maintain machinery, equipment, appliances, or other personal property;

(s) harness, saddlery, and other tack equipment; and

(t) a title plant owned by a title insurer or a title insurance producer, as those terms are defined in 33-25-105; and

(u) beginning January 1, 1994, timber as defined in [section 2].

(2) (a) The term "institutions of purely public charity" includes organizations owning and operating facilities for the care of the retired or aged or chronically ill, which are not operated for gain or profit.

(b) The terms "public art galleries" and "public observatories" include only those art galleries and observatories, whether of public or private ownership, that are open to the public without charge at all reasonable hours and are used for the purpose of education only.

(3) The following portions of the appraised value of a capital investment made after January 1, 1979, in a recognized nonfossil form of energy generation, as defined in 15-32-102, are exempt from taxation for a period of 10 years following installation of the property:

(a) \$20,000 in the case of a single-family residential

dwelling;

(b) \$100,000 in the case of a multifamily residential dwelling or a nonresidential structure."

Section 10. Section 15-8-111, MCA, is amended to read:

"15-8-111. Assessment -- market value standard -- exceptions.

(1) All taxable property must be assessed at 100% of its market value except as otherwise provided.

(2) (a) Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

(b) If the department uses construction cost as one approximation of market value, the department shall fully consider reduction in value caused by depreciation, whether through physical depreciation, functional obsolescence, or economic obsolescence.

(c) Except as provided in subsection (3), the market value of all motor trucks; agricultural tools, implements, and machinery; and vehicles of all kinds, including but not limited to boats and all watercraft, is the average wholesale value shown in national appraisal guides and manuals or the value of the vehicle before reconditioning and profit margin. The department of revenue shall prepare valuation schedules showing the average wholesale value when no national appraisal guide exists.

(3) The department of revenue or its agents may not adopt a

lower or different standard of value from market value in making the official assessment and appraisal of the value of property, except:

(a) the wholesale value for agricultural implements and machinery is the loan value as shown in the Official Guide, Tractor and Farm Equipment, published by the national farm and power equipment dealers association, St. Louis, Missouri;

(b) for agricultural implements and machinery not listed in the official guide, the department shall prepare a supplemental manual where the values reflect the same depreciation as those found in the official guide; and

(c) as otherwise authorized in Title 15 and Title 61.

(4) For purposes of taxation, assessed value is the same as appraised value.

(5) The taxable value for all property is the percentage of market or assessed value established for each class of property.

(6) The assessed value of properties in 15-6-131 through 15-6-133 is as follows:

(a) Properties in 15-6-131, under class one, are assessed at 100% of the annual net proceeds after deducting the expenses specified and allowed by 15-23-503 or, if applicable, as provided in 15-23-515.

(b) Properties in 15-6-132, under class two, are assessed at 100% of the annual gross proceeds.

(c) Properties in 15-6-133, under class three, are assessed

at 100% of the productive capacity of the lands when valued for agricultural purposes. All lands that meet the qualifications of 15-7-202 are valued as agricultural lands for tax purposes.

(d) Properties Beginning January 1, 1990, and ending December 31, 1993, properties in 15-6-143, under class thirteen, are assessed at 100% of the combined appraised value of the standing timber and grazing productivity of the land when valued as timberland.

(e) Beginning January 1, 1994, properties in 15-6-143, under class thirteen, are assessed at 100% of the forest productivity value of the land when valued as forest land.

(7) Land and the improvements thereon are separately assessed when any of the following conditions occur:

- (a) ownership of the improvements is different from ownership of the land;
- (b) the taxpayer makes a written request; or
- (c) the land is outside an incorporated city or town."

Section 11. Section 10, Chapter 681, Laws of 1985, is amended to read:

"Section 10. Effective date -- termination date. This act is effective January 1, 1986, and, except for section-3 sections 2 through 4, terminates January 1, 1991."

Section 12. Appropriation. (1) There is appropriated from the general fund to the department of revenue \$614,076 to fund the determination of the forest productivity value of forest lands

required by [section 3].

(2) There is appropriated from the general fund to the department of revenue \$366,762 to administer the provisions of [sections 1 through 5 and section 7].

(3) Notwithstanding the provisions of 17-7-302 through 17-7-304, the unexpended appropriation in subsection (1) may be encumbered for payment in fiscal year 1994.

(4) Notwithstanding the provisions of 17-7-302 through 17-7-304, the unexpended appropriation in subsection (2) is reappropriated for fiscal year 1994.

Section 13. Assessment on privately owned timberland -- collection -- disposition. (1) An assessment of 10 cents per acre or portion of an acre is imposed on all privately owned timberland for tax years 1991 through 1993. The assessment is imposed on the owner of the land as of January 1 of each year.

(2) This assessment is done on November 30 of each year and must be paid with the property tax due as provided in 15-16-101.

(3) (a) By September 1 of each year, the department of revenue shall provide county treasurers with a list showing:

- (i) all owners of private timberland in the county as of January 1 of that year; and
- (ii) the number of acres of timberland owned by each as of January 1 of that year.

(b) The county treasurer shall send each listed owner a bill for the assessment imposed in subsection (1) with the property tax

notice required in 15-16-101.

(4) The county treasurer shall collect the assessment imposed in subsection (1) and remit collections to the state treasurer by December 20 of each year.

(5) The state treasurer shall deposit all collections from the assessment imposed in subsection (1) in the general fund.

Section 14. Codification instruction. [Sections 1 through 5] are intended to be codified as an integral part of Title 15, and the provisions of Title 15 apply to [sections 1 through 5].

Section 15. Saving clause. [This act] does not affect the rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act].

Section 16. Severability. If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

Section 17. Applicability -- retroactive applicability. (1) Except as provided in subsection (2), [this act] applies to taxable years beginning after December 31, 1993.

(2) [Sections 6, 11, and 13] apply retroactively, within the meaning of 1-2-109, to taxable years beginning after December 31, 1990.

Section 18. Effective dates. (1) Except as provided in

subsections (2) and (3), [this act] is effective July 1, 1991.

(2) [Sections 6, 11, and 13] and this section are effective on passage and approval.

(3) [Section 7] is effective January 1, 1994.

Section 19. Termination. [Sections 6, 10(6)(d), and 13] terminate January 1, 1994.