

## 1 SENATE BILL NO. 100

2 INTRODUCED BY BECK

3 BY REQUEST OF THE DEPARTMENT OF REVENUE

4  
 5 A BILL FOR AN ACT ENTITLED: "AN ACT CLARIFYING THE CLASSIFICATION OF FOREST LAND FOR  
 6 PROPERTY TAX PURPOSES; CLARIFYING THE PROPERTY TAX RATE APPLIED TO FOREST LAND;  
 7 REVISING THE DEFINITIONS OF "FOREST LAND" AND "FOREST PRODUCTIVITY VALUE"; AMENDING  
 8 SECTIONS 15-6-143 AND 15-44-102, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A  
 9 RETROACTIVE APPLICABILITY DATE."

10  
 11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

12  
 13 **Section 1.** Section 15-6-143, MCA, is amended to read:

14 **"15-6-143. Class ten property -- description -- taxable percentage -- alternative classification. (1)**

15 Class ten property includes all forest lands as defined in 15-44-102.

16 (2) Class ten property is taxed at the percentage rate "P" 0.79% of its forest productivity value.

17 ~~(3) For taxable years beginning January 1, 1994, and thereafter, the taxable percentage rate "P"~~  
 18 ~~applicable to class ten property is 4%/B, where B is the certified statewide percentage increase to be~~  
 19 ~~determined by the department of revenue as provided in subsection (4). The taxable percentage rate "P"~~  
 20 ~~must be rounded downward to the nearest 0.01% and must be calculated by the department before July~~  
 21 ~~1, 1994.~~

22 ~~(4) (a) Prior to July 1, 1994, the department shall determine the certified statewide percentage~~  
 23 ~~increase for class ten property using the formula  $B = X/Y$ , where:~~

24 ~~(i) X is the appraised value, as of January 1, 1994, of all property in the state, excluding use~~  
 25 ~~changes occurring during the preceding year, classified under class ten as class ten is described in this~~  
 26 ~~section; and~~

27 ~~(ii) Y is the appraised value, as of January 1, 1993, of all property in the state that would be~~  
 28 ~~classified under class ten as class ten is described in this section as this section reads in 1993.~~

29 ~~(b) B must be rounded downward to the nearest 0.0001%."~~

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1           **Section 2.** Section 15-44-102, MCA, is amended to read:

2           **"15-44-102. Definitions.** For the purposes of this part, unless the context requires otherwise, the  
3 following definitions apply:

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

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

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

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

11          (5) "Forest land" means contiguous land of 15 acres or more in one ownership that is capable of  
12 producing timber that can be harvested in commercial quantity and is producing timber unless the trees  
13 have been removed by man through harvest, including clearcuts, or by natural disaster, including but not  
14 limited to fire. Forest land includes land:

15           (a) that has not been converted to another use; ~~or~~ and

16           (b) ~~that has a dedicated use that is evidenced by a statement of intent by the owner for the~~  
17 ~~eventual harvest of timber~~ on which the annual net wood production equals or exceeds 25 cubic feet an  
18 acre at the culmination of mean annual increment.

19          (6) "Forest productivity value" means the value of forest land for assessment purposes, which  
20 value is determined only on the basis of its ~~ability~~ potential to produce timber, other forest products, and  
21 associated agricultural products through an income approach provided for in 15-44-103.

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

24          (8) "Landowner" means an individual, corporation, association, company, firm, joint venture,  
25 syndicate, or trust.

26          (9) "Mean annual net wood production" means the average net usable volume of wood that 1 acre  
27 of forest land will grow in 1 year under average current and actual forest conditions and under current and  
28 reasonable management practices for each forest valuation zone established under 15-44-103.

29          (10) "Stumpage value" means the amount that timber would sell for under an arm's-length  
30 transaction made in the ordinary course of business, expressed in terms of dollars per unit of measure.

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

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5           NEW SECTION. **Section 3. Effective date -- retroactive applicability.** [This act] is effective on  
6 passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after  
7 December 31, 1996.

8

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0100, as introduced

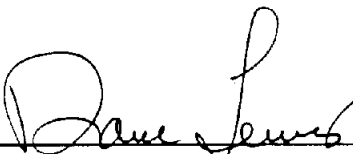
DESCRIPTION OF PROPOSED LEGISLATION:

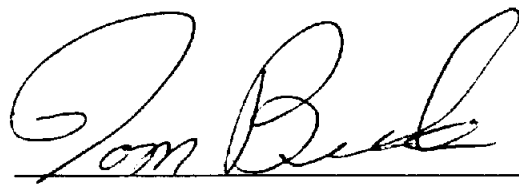
An act clarifying the classification of forest land for property tax purposes; clarifying the property tax rate applied to forest land; revising the definitions of "forest land" and "forest productivity value"; and providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:

FISCAL IMPACT:

This proposal has no impact on state or local government expenditures or revenues.

 1-7-97  
DAVE LEWIS, BUDGET DIRECTOR      DATE  
Office of Budget and Program Planning

  
TOM BECK, PRIMARY SPONSOR      DATE  
Tom  
Fiscal Note for SB0100, as introduced

SB 100

APPROVED BY COM  
ON TAXATION

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

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

**"15-6-143. Class ten property -- description -- taxable percentage -- alternative classification. (1)**

Class ten property includes all forest lands as defined in 15-44-102.

(2) Class ten property is taxed at the percentage rate "**P**" 0.79% of its forest productivity value.

~~(3) For taxable years beginning January 1, 1994, and thereafter, the taxable percentage rate "**P**" applicable to class ten 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 ten 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 ten as class ten 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 ten as class ten is described in this section as this section reads in 1993.~~

~~(b) **B** must be rounded downward to the nearest 0.0001%."~~

1           **Section 2.** Section 15-44-102, MCA, is amended to read:

2           "**15-44-102. Definitions.** For the purposes of this part, unless the context requires otherwise, the  
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9           (3) "Department" means the department of revenue.

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

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22          (7) "Harvest" means an activity related to the cutting or removal of timber for use or sale as a  
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29          (10) "Stumpage value" means the amount that timber would sell for under an arm's-length  
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1 (11) "Timber" means all wood growth on privately owned land, mature or immature, alive or dead,  
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5 **SECTION 3. SECTION 15-44-103, MCA, IS AMENDED TO READ:**

6 **"15-44-103. Legislative intent -- value of forest lands -- valuation zones.** (1) In order to encourage  
7 landowners of private forest lands to retain and improve their holdings of forest lands, to promote better  
8 forest practices, and to encourage the investment of capital in reforestation, forest lands must be classified  
9 and assessed under the provisions of this section.

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

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

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

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

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

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

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

24 (a)  $V$  is the per-acre forest productivity value of the forest land;

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

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

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

29 (iii)  $SV$  is the stumpage value;

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

- 1 (v) C is the per-unit cost of the forest product and agricultural product produced, if any; and  
2 (c) R is the capitalization rate determined by the department as provided in subsection (6).
- 3 (5) Net income must:
- 4 (a) be calculated for each year of a base period, which is the most recent 5-year period for which  
5 data is available;
- 6 (b) be based on a rolling average of stumpage value of timber harvested within the forest valuation  
7 zone and on the associated production cost data for the base period from sources considered appropriate  
8 by the department; and
- 9 (c) include agriculture-related net income for the same time period as the period used to determine  
10 average stumpage values.
- 11 (6) The capitalization rate must be calculated for each year of the base period and is the annual  
12 average interest rate on agricultural loans as reported by the ~~federal land bank~~ Northwest farm credit  
13 services, agricultural credit association of Spokane, Washington, plus the effective tax rate.
- 14 (7) The effective tax rate must be calculated for each year of the base period by dividing the total  
15 estimated tax due on forest lands subject to the provisions of this section by the total forest value of those  
16 lands.
- 17 (8) For the purposes of this section, if forest service sales are used in the determination of  
18 stumpage values, the department shall take into account purchaser road credits.
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20 valuation schedules, the department shall use information and data provided by the university of  
21 Montana-Missoula."

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23 **NEW SECTION. Section 4. Effective date -- retroactive applicability.** [This act] is effective on  
24 passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after  
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THIRD READING

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 20 productive capacity of the site to grow forest products and furnish other associated agricultural uses.

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

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

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

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

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

29 (iii) SV is the stumpage value;

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

- 1 (v) C is the per-unit cost of the forest product and agricultural product produced, if any; and  
2 (c) R is the capitalization rate determined by the department as provided in subsection (6).  
3 (5) Net income must:  
4 (a) be calculated for each year of a base period, which is the most recent 5-year period for which  
5 data is available;  
6 (b) be based on a rolling average of stumpage value of timber harvested within the forest valuation  
7 zone and on the associated production cost data for the base period from sources considered appropriate  
8 by the department; and  
9 (c) include agriculture-related net income for the same time period as the period used to determine  
10 average stumpage values.  
11 (6) The capitalization rate must be calculated for each year of the base period and is the annual  
12 average interest rate on agricultural loans as reported by the ~~federal land bank~~ Northwest farm credit  
13 services, agricultural credit association of Spokane, Washington, plus the effective tax rate.  
14 (7) The effective tax rate must be calculated for each year of the base period by dividing the total  
15 estimated tax due on forest lands subject to the provisions of this section by the total forest value of those  
16 lands.  
17 (8) For the purposes of this section, if forest service sales are used in the determination of  
18 stumpage values, the department shall take into account purchaser road credits.  
19 (9) In determining the forest productivity value of forest lands and in computing the forest land  
20 valuation schedules, the department shall use information and data provided by the university of  
21 Montana-Missoula.”

22

23 **NEW SECTION. Section 4. Effective date -- retroactive applicability.** [This act] is effective on  
24 passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after  
25 December 31, 1996.

26

-END-



## 1 SENATE BILL NO. 100

2 INTRODUCED BY BECK

3 BY REQUEST OF THE DEPARTMENT OF REVENUE

4  
5 A BILL FOR AN ACT ENTITLED: "AN ACT CLARIFYING THE CLASSIFICATION OF FOREST LAND FOR  
6 PROPERTY TAX PURPOSES; CLARIFYING THE PROPERTY TAX RATE APPLIED TO FOREST LAND;  
7 REVISING THE DEFINITIONS OF "FOREST LAND" AND "FOREST PRODUCTIVITY VALUE"; AMENDING  
8 SECTIONS 15-6-143 ~~AND~~, 15-44-102, AND 15-44-103, MCA; AND PROVIDING AN IMMEDIATE  
9 EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

10  
11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

12  
13 **Section 1.** Section 15-6-143, MCA, is amended to read:

14 **"15-6-143. Class ten property -- description -- taxable percentage -- alternative classification. (1)**

15 Class ten property includes all forest lands as defined in 15-44-102.

16 (2) Class ten property is taxed at ~~the percentage rate "P"~~ 0.79% of its forest productivity value.

17 ~~(3) For taxable years beginning January 1, 1994, and thereafter, the taxable percentage rate "P"~~  
18 ~~applicable to class ten property is 4%/B, where B is the certified statewide percentage increase to be~~  
19 ~~determined by the department of revenue as provided in subsection (4). The taxable percentage rate "P"~~  
20 ~~must be rounded downward to the nearest 0.01% and must be calculated by the department before July~~  
21 ~~1, 1994.~~

22 ~~(4) (a) Prior to July 1, 1994, the department shall determine the certified statewide percentage~~  
23 ~~increase for class ten property using the formula  $B = X/Y$ , where:~~

24 ~~(i) X is the appraised value, as of January 1, 1994, of all property in the state, excluding use~~  
25 ~~changes occurring during the preceding year, classified under class ten as class ten is described in this~~  
26 ~~section; and~~

27 ~~(ii) Y is the appraised value, as of January 1, 1993, of all property in the state that would be~~  
28 ~~classified under class ten as class ten is described in this section as this section reads in 1993.~~

29 ~~(b) B must be rounded downward to the nearest 0.0001%."~~

1           **Section 2.** Section 15-44-102, MCA, is amended to read:

2           **"15-44-102. Definitions.** For the purposes of this part, unless the context requires otherwise, the  
3 following definitions apply:

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

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

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

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

11          (5) "Forest land" means contiguous land of 15 acres or more in one ownership that is capable of  
12 producing timber that can be harvested in commercial quantity and is producing timber unless the trees  
13 have been removed by man through harvest, including clearcuts, or by natural disaster, including but not  
14 limited to fire. Forest land includes land:

15           (a) that has not been converted to another use; ~~or~~ and

16           (b) ~~that has a dedicated use that is evidenced by a statement of intent by the owner for the~~  
17 ~~eventual harvest of timber~~ on which the annual net wood production equals or exceeds 25 cubic feet an  
18 acre at the culmination of mean annual increment.

19          (6) "Forest productivity value" means the value of forest land for assessment purposes, which  
20 value is determined only on the basis of its ~~ability~~ potential to produce timber, other forest products, and  
21 associated agricultural products through an income approach provided for in 15-44-103.

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

24          (8) "Landowner" means an individual, corporation, association, company, firm, joint venture,  
25 syndicate, or trust.

26          (9) "Mean annual net wood production" means the average net usable volume of wood that 1 acre  
27 of forest land will grow in 1 year under average current and actual forest conditions and under current and  
28 reasonable management practices for each forest valuation zone established under 15-44-103.

29          (10) "Stumpage value" means the amount that timber would sell for under an arm's-length  
30 transaction made in the ordinary course of business, expressed in terms of dollars per unit of measure.

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

5 **SECTION 3. SECTION 15-44-103, MCA, IS AMENDED TO READ:**

6 **"15-44-103. Legislative intent -- value of forest lands -- valuation zones.** (1) In order to encourage  
7 landowners of private forest lands to retain and improve their holdings of forest lands, to promote better  
8 forest practices, and to encourage the investment of capital in reforestation, forest lands must be classified  
9 and assessed under the provisions of this section.

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

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

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

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

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

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

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

24 (a)  $V$  is the per-acre forest productivity value of the forest land;

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

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

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

29 (iii)  $SV$  is the stumpage value;

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

- 1 (v) C is the per-unit cost of the forest product and agricultural product produced, if any; and
- 2 (c) R is the capitalization rate determined by the department as provided in subsection (6).
- 3 (5) Net income must:
- 4 (a) be calculated for each year of a base period, which is the most recent 5-year period for which
- 5 data is available;
- 6 (b) be based on a rolling average of stumpage value of timber harvested within the forest valuation
- 7 zone and on the associated production cost data for the base period from sources considered appropriate
- 8 by the department; and
- 9 (c) include agriculture-related net income for the same time period as the period used to determine
- 10 average stumpage values.
- 11 (6) The capitalization rate must be calculated for each year of the base period and is the annual
- 12 average interest rate on agricultural loans as reported by the ~~federal land bank~~ Northwest farm credit
- 13 services, agricultural credit association of Spokane, Washington, plus the effective tax rate.
- 14 (7) The effective tax rate must be calculated for each year of the base period by dividing the total
- 15 estimated tax due on forest lands subject to the provisions of this section by the total forest value of those
- 16 lands.
- 17 (8) For the purposes of this section, if forest service sales are used in the determination of
- 18 stumpage values, the department shall take into account purchaser road credits.
- 19 (9) In determining the forest productivity value of forest lands and in computing the forest land
- 20 valuation schedules, the department shall use information and data provided by the university of
- 21 Montana-Missoula."

22

23 **NEW SECTION. Section 4. Effective date -- retroactive applicability.** [This act] is effective on

24 passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after

25 December 31, 1996.

26 -END-