

TIMBER EXCISE TAX  
Chapter 84.33 RCW

Tax Base      Stumpage value of timber harvested for sale or commercial/industrial use. There are three methods of determining stumpage values for certain types of harvests:

Small harvesters (persons who cut less than 2,000,000 board feet in a calendar year) - the tax is based on the actual amount paid for stumpage or the amount received from the sale of logs less the costs of harvesting and delivering to the buyer. Small harvesters have the option of utilizing the Department of Revenue stumpage value tables.

Public timber sales - tax is based on the contract purchase price for stumpage, including cash and other considerations (e.g., value of logging roads constructed).

Standard harvesters - tax is based on the values of stumpage determined semi-annually by the Department. Values reflect various timber species and different timber marketing areas throughout the state.

Tax Rate      5 percent, split between the state and counties as indicated below.

<u>Timber Harvested From</u>	<u>State Tax Rate*</u>	<u>County Tax Rate</u>
Privately owned lands	1.0%	4.0%
Public lands (incl. federal):		
Harvests in 2006	3.5	1.5
Harvests in 2007	3.2	1.8
Harvests in 2008	2.9	2.1
Harvests in 2009	2.6	2.4
Harvests in 2010	2.3	2.7
Harvests in 2011	1.9	3.1
Harvests in 2012	1.6	3.4
Harvests in 2013	1.3	3.7
Harvests after 2013	1.0	4.0

\*A tax credit of 0.8 percent is allowed for harvesters impacted by enhanced aquatic resource requirements (EARR credit), designed to protect salmon habitat. This credit, if approved by the Department of Natural Resources (DNR), effectively reduces the total timber excise tax rate from 5 percent to 4.2 percent for harvests on public and private lands. The credit comes out of the state's share of the timber excise tax, thus making the effective state tax rate 0.2 percent for eligible timber harvests on private lands (and on public lands starting in 2014).

Levied by

State: RCW 84.33.041 and .046  
Counties: RCW 84.33.051

Administration

Department of Revenue. The tax is reported on a quarterly basis by harvesters. The tax is due from the person who owns the timber at the time it is harvested. The return is due by the end of the month following the close of the quarter in which the timber was harvested. Persons who harvest timber on private lands must either obtain a Forest Practices Application (harvest permit) from DNR or a county authority; this serves as a registration document for purposes of reporting the timber excise tax. A copy of the Forest Practices or county permit is sent to the Department of Revenue which then mails the tax return to the harvester. A similar system applies to public land harvests, except that the timber sale contract is utilized rather than the Forest Practices Application.

Recent Distributions (\$000)

<u>Fiscal Year</u>	<u>Distribution to Counties</u>	<u>Distribution to the State</u>	<u>% of All State Taxes*</u>
2009	\$22,620	\$4,630	0.0%
2008	34,948	6,515	0.0
2007	38,581	7,627	0.0
2006	36,486	9,282	0.1
2005	30,511	10,112	0.1
2004	26,713	7,855	0.1
2003	27,891	8,327	0.1
2002	30,978	10,027	0.1
2001	37,485	15,161	0.1
2000	38,958	20,154	0.2

\*State tax only; excludes distribution of county tax.

Distribution of Receipts

Receipts of both the state and county taxes are deposited in the timber tax distribution account within the state treasury. At the end of February, May, August, and November, the Department notifies the State Treasurer to distribute the tax receipts, less the Department's collection costs, to counties and the state general fund. The county receipts are further distributed to local taxing districts by the county treasurers according to a formula in RCW 84.33.081 which reflects the assessed value of forest land in the respective districts. Funds go first to districts that have approved special property tax levies for capital purposes. Next, school districts receive funds in relation to their special levy rates. Finally, all local taxing districts share in the distribution of any remaining funds in the county timber tax account.

## Exemptions, Deductions and Credits

- nonprofit youth organizations which are exempt from property tax;
- harvesters who incur less than \$50 of tax liability per quarter;
- Christmas trees cultivated using agricultural methods;
- short-rotation hardwoods, e.g., cottonwoods, with growing cycle of 15 years or less;
- credit for harvesters impacted by aquatic resource requirements (e.g., salmon habitat) as determined by DNR;
- blanket property tax exemption for all timber effective in 2005 (previously timber on state-owned lands was subject to property tax);
- credit for Quinault tribal timber harvest tax per RCW 84.33.0776.

## History

The first legislation directed toward the taxation of timber was the 1931 Reforestation Act, which provided an alternative to property taxation for lands that had been harvested or were otherwise producing less than their potential (e.g., burned lands). This allowed exemption from property tax for growing trees. The land was subject to annual property tax based on assessed values of \$1 per acre for western Washington lands and 50 cents per acre for the eastern part of the state. The timber was subject to a yield tax of 12.5 percent upon harvest. The program did not attract a large number of applicants.

Under the property tax system which continued to apply to privately owned timber and forest land, there was substantial nonuniformity throughout the state. Following a comprehensive study by the Legislature, the 1971 Forest Tax Act was enacted. This established a three-year phase-out of property taxes upon timber growing on privately owned lands and a concurrent phase-in of a yield tax based upon the harvest value. The eventual rate of 6.5 percent was fully effective in 1975. The tax rate is applied to the stumpage values determined by the Department. The value of bare forest lands (parcels of at least 20 acres) continued to be subject to property taxes, but the 1971 statute provided that the state would determine the appropriate values for various classes of land.

Several major changes have subsequently occurred. Changes were made in the formulas for distributing revenues to local governments. The yield tax was subject to a series of sunset dates, but each time it was reenacted until the tax became permanent in 1984. In 1981 forest land values were established directly by statute, with the Department being required to adjust them annually, based on the change in harvest value over the prior five years. Also in 1981, the small timber harvester option of paying the excise tax based on actual prices received, rather than the state's stumpage values, was established.

In 1982, the excise tax was extended to timber harvested on state and federally owned lands. All of the receipts from public lands went to the state general fund, whereas the tax on timber from private lands continued to be shared with local governments.

A major change occurred in 1984 when a phase-down of the 6.5 percent yield tax was adopted. Starting with harvests during Fiscal Year 1986 through 1988, the rate was phased down to the current 5 percent level. In addition, a new county timber tax of 4 percent was established for harvests on private lands. This tax was intended to protect local taxing districts from reductions in revenues derived from timber. By allowing a credit of the 4 percent tax against the state tax, the state general fund absorbed the impact of lowering the overall tax rate. The 1984 legislation also incorporated lands under the 1931 Reforestation Act. The 12.5 percent yield tax rate for such lands was phased into the 5 percent tax over a ten-year period starting with harvests during the last half of calendar year 1984 (see tax rates listed above). Starting in calendar year 1994 timber harvests on former reforestation lands were treated the same as all other timber harvests.

In 1999, the Legislature established a new program to protect salmon habitat. It includes a credit against the timber excise tax for harvesters who are impacted by enhanced aquatic resource requirements known as the EARR credit, as determined by the Department of Natural Resources. The credit is equal to 0.8 percent of the stumpage value, effectively reducing the tax rate from 5 to 4.2 percent of the taxable stumpage value for harvest on both public and private lands. For small harvesters the credit equals 16 percent of the total timber excise tax otherwise due. The full amount of the credit comes out of the state's share of the timber excise tax.

Another change in the tax rate structure occurred in 2004 when the Legislature instituted a ten-year phase-down of the state tax on timber harvested on public lands and a commensurate transfer of this tax to counties. The change does not impact the amount of tax that is paid by harvesters but will make the state and county tax rates identical for all harvests by the year 2014. This same legislation also exempted all standing timber from property tax. Prior to this legislation, standing timber on non-federal public timber sales was treated as personal property, and timber sale purchasers paid property tax on the standing timber until it was cut.

In 2007, legislation authorized the Governor to enter into an agreement with the Quinault Indian Nation relating to imposition of a tribal timber excise tax. (This is similar to the contracts the state has reached with most tribal entities regarding cigarette taxation.) Under the authority provided by RCW 43.06.480, a tribal timber harvest excise tax must be equivalent to the state timber tax rate. RCW 43.06.475 stipulates that the tribal tax be used for essential tribal government services. The tribal tax is to be credited against the state and county timber excise tax. Such an agreement has yet to be reached with the Quinaults.

Special valuation of timber impacted by the December 2007 floods in Presidential Declared Disaster Area Counties was authorized by the Legislature in 2008. Small harvesters who cut less than 5 million board feet of timber annually from the federally designated impact counties during 2008 or 2009 were able to base their excise tax on actual receipts from the sale, less their expenses, rather than by using the Department's stumpage value tables.

## Discussion/Major Issues

The timber excise tax is in lieu of property tax upon the growing trees. Because of the long period of time before timber produces income, the Legislature decided that it made more sense to levy a yield tax at the time of harvesting, rather than annual property taxes. The land itself, however, remains subject to property taxes, based upon the Department's determination of adjustments to the statutory forest land values.

From the standpoint of forest landowners, the 1971 forest tax law has two primary advantages over the previous property tax system. First, the major portion of the tax burden, the yield tax, can be postponed until harvest income is available to pay the tax. Meanwhile, as the trees are maturing, the landowner is protected from market value assessments that might reflect some non-timber use of the land. Secondly, the new law created uniform tax policy statewide for forest land and timber. Forest landowners no longer needed to be concerned about differences among the counties in property tax assessments.

The 1971 law has also had important public benefits. By centralizing administration in the Department of Revenue, the tax can be collected at relatively less cost than was possible at the county level. By eliminating the threat of escalating property taxes, the tax system can no longer be blamed for premature harvesting of timber. In addition, there is less pressure on the landowner to sell or convert the land to some other use to avoid rising taxes.