

The following are central points for the on-going discussion on the fair and equitable assessment and taxation of managed (agricultural) woodlands in Kentucky.¹

Agricultural land, including woodlands, is defined as land that is being actively managed for crops, pasture, and timber. It is required to be assessed based on the value of its highest agricultural use, resulting in a tax burden that is constitutionally equitable and fair.

The Department of Revenue provides guidance for use by PVA's for the assessment of agricultural lands. The guidance uses annual rent values for a range of productivities of crop and pasture lands to determine the assessed value of agricultural lands including woodlands. For woodlands, the valuation is based on a percentage of the annual rent value for pasture. This is inherently flawed, as the annual rent value of woodlands (i.e. the annual value of timber production) is unrelated to annual pasture rent fees.

Studies by the University of Kentucky found that the majority of woodlands are being taxed on assessed values of \$100 to \$500 per acre.² This was significantly above the range of \$17 to \$60 per acre obtained when the annual rent values of woodlands were determined using timber production figures. As a result, many woodland owners are carrying a higher financial burden than other agriculture users, a situation that is in opposition to the constitutional requirement for "equal burden".

The studies resulted in a proposal in 2012 to the Department of Revenue to modify the existing guidelines to use timber production values to determine woodland assessments for those woods that are being managed for timber production.³ The latter is in accordance with the requirement that landowners are actively engaged in the practice of agriculture, in forestry jargon the practice of silviculture. The modification of the guidelines continues to be the recommended means of addressing the issue.

The use of annual timber production values is the standard technique for establishing assessments of managed woodlands. Other states use this technique. The University of Kentucky provides the crop/pasture rent data used for use in agriculture assessments and could also provide the timber data to the Department of Revenue and the PVA's that can be used for timber land assessment. UK can also provide an efficient methodology for its use by PVAs, as well as how to easily define which woodland owners are engaged in woodland management (i.e. agricultural practice).

Providing proper assessment and equitable taxation ensures that Kentucky's woodland owners are not at a competitive disadvantage and has the benefit of encouraging sound woodland management. This also sustainably improves rural economies by increasing, by as much as 4 times, the long-term value of an acre of timber. The mid-term benefit would result in landowners gaining \$60 to \$100 per acre in increased timber value, \$25 million to landowners statewide, resulting in a down-stream economic return of \$64 million from milling logs and an additional \$179 million in secondary manufacturing.⁴

Estimates by UK indicate that the impact of using timber production values to guide assessments, thus resulting in a reduction in tax payments, while important for individual landowners would have minimal initial impact on county tax revenues with an initial loss of only \$1.1 million statewide as only 350,000 acres of Kentucky's 12 million forested acres are currently being actively managed.⁵ This may increase as more landowners manage their woodlands. However, estimates based on experiences in other states, indicate that family owned managed woodlands would only increase to 10 to 25% of total woodlands.

¹ Updated version of 2014 White Paper produced by UK Department of Forestry and Natural Resources Extension per request of the KWOA. Contact Jeffrey Stringer, Professor and Chair, stringer@uky.edu

² Stainback, A. Kentucky Woodlands Tax Assessment Project. Kentucky Woodlands Magazine 6(1): 20-21.

³ Stringer, J., and A. Stainback. 2012. Plan to Establish Guidance and Tools for Property Value Assessment of Certified Woodlands in Kentucky a pre-proposal requested by Commissioner Tom B. Miller, Kentucky Department of Revenue.

⁴ Stringer, J. 2014. The Role of Woodland Taxation and Economic Opportunities for Kentucky's Forest Industries. White Paper, UK Department of Forestry.

⁵ Stainback, A. and J. Stringer. 2015. Potential Revenue Adjustment Using Accurate Woodlands Assessment Criteria. White Paper, UK Department of Forestry.